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Uncertainty for Exempt Organizations Delaying Hatch's Corporate Integration Plan

Senate Finance Committee Chairman Orrin Hatch's (R-Utah) corporate integration plan could have a large impact on tax-exempt organizations, a tax attorney told Bloomberg BNA.

The plan would end double taxation on corporate income by allowing corporations to deduct the dividends they pay to shareholders. But Alexander Reid, a partner at Morgan, Lewis & Bockius LLP, said that because tax-exempt organizations can't be carved out of the plan, ''it's complicated to adjust the proposal without losing too much revenue.'' Reid is a former staffer for the congressional Joint Committee on Taxation.

Hatch has been hinting at the plan's release for months, but he is still waiting on a revenue estimate from the JCT. Reid said the plan would come ''very soon,'' likely before the July 15 congressional recess (96 DTR G-7, 5/18/16).

Hatch's press office didn't immediately return a request for comment. He has touted the plan as a way to curb corporate inversions.

Effect on Exempts. Reid said the dividends-deduction component of Hatch's plan would have a significant impact on tax-exempt organizations, including pension funds. In a June 27 interview after the American Institute of CPAs Not-for Profit Industry Conference, Reid said tax-exempt organizations would face a net tax increase of 35 percent on interest income under the plan.

The plan would convert the corporate entity tax of 35 percent to a shareholder withholding tax, allowing the corporation to pay the tax, which would then be eligible for shareholders to claim as a credit. But the credit ''would be basketed'' to categories of income like taxable interest and dividends—which tax-exempt organizations can't claim, he said.

''So effectively you would get a lower after-withholding return than you would under current law,'' Reid said.

He said the rollout may also have been slowed by last week's release of the House Republicans' plan for tax changes (123 DTR G-6, 6/27/16).

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