

# U.S. Sen. Baldwin: Backs legislation to incentivize investments in employees, not enrich wealthy shareholders

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WASHINGTON, D.C. – In an effort to restore fairness to the tax code and encourage long-term investments over short-sighted maneuvers to boost wealthy shareholders and executives' pay, U.S. Senator Tammy Baldwin (D-WI) joined U.S. Senators Sherrod Brown (D-OH) and Ron Wyden (D-OR) in introducing the *Stock Buyback Accountability Act of 2023*. This legislation incentivizes corporations to use profits to invest in employees and productive capabilities by quadrupling the new one percent excise tax on corporate stock buybacks.

“In recent years, we’ve seen too many corporations use record profits to buy back stocks, enriching their already wealthy executives and shareholders,” **said Senator Baldwin.** “When a company succeeds, workers who helped create that value should benefit, not just the wealthy investors. With this commonsense legislation, we are making sure corporations pay their fair share, encouraging large corporations to re-invest in and reward their employees, and strengthening the middle-class.”

Until 1982, buybacks were uncommon and generally considered a form of market manipulation. But when the Securities and Exchange Commission (SEC) adopted rule 10b-18 that year, it gave large companies a “safe harbor” to buy back stocks. Senator Baldwin has introduced legislation, the *Reward Work Act*, to rescind the SEC’s safe harbor rule.

The *Stock Buyback Accountability Act of 2023* is being introduced after President

Biden called for it in his State of the Union address on the heels of a record year for stock buybacks, which topped \$1.2 trillion, and recent reports that stock buybacks continue to be a popular option for highly-profitable corporations.

In January of 2023 alone, the value of announced stock buybacks more than tripled to \$132 billion compared with the same period in 2022 – a record for the start of a year, according to data compiled by Birinyi Associates.

Senator Baldwin supported Senators Brown and Wyden’s successful effort to include a version of their *Stock Buyback Accountability Act of 2021* in the *Inflation Reduction Act*, which for the first time, imposed a one percent excise tax on corporate stock buybacks. This excise tax was in response to a 2017 tax law that delivered a massive tax windfall to wealthy corporations, leading to a record number of stock buybacks that enriched shareholders and CEOs instead of creating new jobs, easing prices, or raising workers’ wages. To curb this trend, the bill requires corporations to pay a tax on the total amount they spend on stock buybacks.

The new legislation includes an improvement to rules for when a company buys back stock but then issues new stock and generally reduces the amount of its buyback tax – this is referred to as the “netting rule.” One significant source of new stock issuance is stock compensation for employees, and this netting rule creates a small incentive to share stock with the employees of a company. But some companies may abuse the netting rule by increasing stock-based compensation packages to their wealthy executives, rather than sharing stock with their workers. To minimize this impact, this provision would exclude the stock compensation to the top executives and highest paid employees from the netting rule. A similar rule in the tax code already makes a portion of this compensation non-deductible.

In addition to Brown, Wyden, and Baldwin, the measure is also cosponsored by U.S. Senators Brian Schatz (D-HI), Chris Van Hollen (D-MD), Ben Ray Lujan (D-NM), and Jack Reed (D-RI).

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