

**PRESS RELEASE**

**U. S. Senate Permanent Subcommittee on Investigations**  
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS COMMITTEE

Carl Levin, Chairman



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## Levin Introduces Legislation to End Tax Loophole that Subsidizes Short-term Speculation in Derivatives

WASHINGTON – Sen. Carl Levin, D-Mich., chairman of the Senate Permanent Subcommittee on Investigations, on Monday introduced legislation to end a tax loophole that subsidizes short-term speculation in derivatives.

The Closing the Derivatives Blended Rate Loophole Act would end a tax loophole that allows traders in complex derivatives to buy and sell these instruments in days or even seconds, yet claim a large portion of the resulting income as a long-term capital gain. It is one of a series of bills from Levin to implement a seven-point deficit reduction plan he rolled out in September.

“The blended rate loophole showers benefits on short-term traders of certain financial instruments while doing nothing to promote economic growth and raising the tax burden on ordinary American families,” Levin said. “It epitomizes how our tax code too often rewards financial games over job growth. It adds to our budget deficit. It is exactly the kind of policy we need to reverse if we’re going to achieve serious deficit reduction and restore fairness to the economy.”

The bill would end a tax subsidy that allows people who make short-term investments in certain derivatives to treat much of their earnings as long-term capital gains. Generally speaking, taxpayers are allowed to claim the lower capital gains tax rate on earnings only if those earnings come from the sale of assets that they have held for more than a year. That’s the way the tax code encourages the long-term investment that helps our economy grow.

But under Section 1256 of the Internal Revenue Code, traders in covered derivatives can claim 60 percent of their income as long-term capital gains, no matter how briefly they hold the asset.

In December, the American Bar Association Tax Section called for ending the loophole, telling lawmakers in a letter: “Whatever the merits of extending preferential rates to derivative

financial instruments generally, we do not believe that there is a policy basis for providing those preferential rates to taxpayers who have not made such long-term investments.”

Levin has repeatedly called for ending tax breaks and loopholes that benefit Wall Street and high-income tax payers, and has pointed out that a range of budget experts across the ideological spectrum say that addressing revenue, along with spending cuts, is essential to achieving real deficit reduction while avoiding damaging cuts in important federal programs such as education, alternative energy and defense. In September, he outlined a plan that would reduce the deficit by hundreds of billions of dollars. In addition to ending the blended-rate loophole, that plan would:

- End the carried interest loophole that subsidizes the pay of hedge-fund managers.
- End abusive offshore tax shelters.
- End a tax loophole that subsidizes lucrative stock options given by corporations to their executives.
- Replace the wasteful and inefficient paper tax lien system with a publicly available electronic database that is more efficient and increases scrutiny on those who have failed to pay what they owe.
- Restore capital gains tax rates to those in place under President Reagan.
- Restore Clinton-era income tax rates on incomes of \$250,000 or more.

Levin’s Stop Offshore Tax Haven Abuse Act, introduced last year, would address the offshore tax loophole issue. He and Sen. Sherrod Brown, D-Ohio, last year introduced the Ending Excessive Corporate Deductions for Stock Options Act to end tax subsidies for stock-option pay. And with Sen. Mark Begich, D-Alaska, he introduced the legislation to modernize the tax lien system and improve enforcement.

“This is an agenda for ending wasteful policies that add to our deficit, raise the tax burden on hardworking Americans and make it harder for them to provide for their families,” Levin said. “By closing loopholes and ending tax breaks that overwhelmingly benefit wealthy taxpayers and corporations, we can reduce our budget deficit without crippling our ability to care for our seniors, educate our children and defend our nation.”

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