



CEO Bonus Loophole

Under current law, the more corporations pay their executives, the less they pay in federal taxes. This is the result of a loophole that allows corporations to deduct unlimited amounts of executive compensation from their taxable income—as long as the pay is “performance-based.”

This perverse loophole stems from a reform enacted in 1993 that was meant to address widespread public outrage over runaway CEO pay. Section 162(m) of the tax code placed a \$1 million cap on the deductibility of executive compensation. But by exempting “performance pay,” the reform led instead to an explosion of executive compensation in the form of deductible stock options, performance shares, and other bonuses.

This loophole allows CEOs to get rich while boosting Wall Street profits, and is, in fact, particularly abused by financial firms. Wall Street executives routinely rank at the top of highest-paid lists and this industry’s reckless “bonus culture” continues to thrive. Wells Fargo CEO John Stumpf, for example, was one of the largest beneficiaries of the CEO Bonus Loophole in 2014. He raked in fully deductible bonuses and stock options gains worth more than \$40 million, which translates into a \$14 million tax break for the bank.

Why we should eliminate the CEO Bonus Loophole:

- **Eliminate taxpayer subsidies for excessive compensation.** Small businesses and working families have to pick up the tab when large corporations and banks are allowed to deduct massive sums from their federal taxes for the expense of CEO bonuses.
- **Curb reckless “short-termism.”** The 2008 financial crisis is only the most severe example of how huge performance bonuses can encourage risky activities that endanger individual companies and the broader economy. Executive compensation experts have found that pay arrangements relying heavily on “performance pay” encourage managers to focus on boosting share prices in the short-term at the expense of long-term value.
- **Raise significant revenue.** The [Joint Committee on Taxation estimates](#) that eliminating this loophole for all companies would generate \$50 billion in revenue over 10 years.
- **Address public concerns about CEO pay.** [Sixty-three percent](#) of Americans want to eliminate this loophole.

Proposed legislation:

The [Stop Subsidizing Multimillion Dollar Corporate Bonuses Act](#) (S. 1127 and H.R. 2103) would eliminate the CEO bonus loophole. CWA urges Members of Congress to cosponsor this important legislation to bring some fairness back to our tax code and stop the subsidizing of massive CEO pay packages.

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