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House Passes Bonus Tax Bill —

90% Hit Would Affect Major Banks; Senate Mulls Similar Action Amid AIG Furor



Getty Images - Protesters demonstrated outside an AIG office in Washington on Thursday.

By [GREG HITT](#) and [AARON LUCCHETTI](#) Business - Friday, March 20, 2009

WASHINGTON -- The House passed legislation Thursday that would significantly curb Wall Street bonuses this year, as lawmakers from both parties echoed popular outrage over big payouts to employees of [American International Group](#) Inc. after the ailing insurance giant took billions of dollars in taxpayer money.

The House measure was approved on a 328-93 vote and would impose a 90% surtax on bonuses granted to employees who earn more than \$250,000 at companies that have received at least \$5 billion from the government's financial rescue program. The bonus tax, if approved by the Senate and signed into law, would be retroactive to Dec. 31, 2008. Wall Street firms last year paid more than \$18.4 billion in bonuses in New York City, according to the New York state comptroller, and pay experts estimated that thousands of employees would likely be affected. Eight banks -- [Citigroup](#) Inc., [J.P. Morgan Chase & Co.](#), [Wells Fargo & Co.](#), [Bank of America](#) Corp., [Goldman Sachs Group](#) Inc., [Morgan Stanley](#), [PNC Financial Services Group](#) Inc. and [U.S. Bancorp](#) -- have each received more than \$5 billion from the government's Troubled Asset Relief Plan, known as TARP.

For individuals, congressional aides stressed the new levy would be in addition to the existing tax system, both the regular income tax and the alternative minimum tax. The so-called AMT is designed to ensure wealthy individuals don't avoid federal tax liability. The House bill would also apply to the troubled mortgage giants Fannie Mae and Freddie Mac, which have received federal funds from a different program. Congressional aides said auto makers could be snared in the future if they receive government capital infusions.

The Senate will take up a similar measure, as early as next week, that is less punitive but would tax a larger number of employees and firms. That bill, jointly crafted by Democratic and Republican leaders of the Senate Finance Committee, would impose a 70% surtax on most bonuses -- half paid by employees and half by firms. In both the House and Senate bills, companies could escape the tax by repaying enough government aid. Some Wall Street firms have formally applied to repay the government ahead of schedule, and the new tax is spurring talk among others. But regulators have been leery of allowing firms to repay, in part because it could complicate efforts to promote stability in the financial system. Some Republicans pleaded to slow down the unusually rapid legislative action. Lawmakers had returned to work bristling on Monday, after the weekend's revelation that AIG paid big bonuses to employees of the very units that got the firm into financial trouble. "We need to have hearings," said Senate Minority Whip Jon Kyl (R., Ariz.). "Why the rush?"

But the sponsorship of Iowa Republican Sen. Charles Grassley, the ranking minority member of the Senate Finance Committee, gives the measure strong momentum. "Using bailout dollars for bonuses after companies have been run into the ground adds insult to injury against taxpayers," Mr. Grassley said when introducing his bill, co-written with Senate Finance Chairman Max Baucus of Montana. While the attacks on Wall Street bonuses were seen in Washington this week as good politics, many financial analysts -- and some Obama administration officials -- worried the rush to pass the measures may prove to be bad policy and undermine the government's financial rescue plans.

The bills would kill Wall Street's ability to bounce back, said Gustavo Dolfino, who runs recruiting firm WhiteRock Group. "It's like they're throwing a grenade at the problem, hitting the good and the bad at the same time."

Responding to public outrage over AIG's bonuses, Washington lawmakers are weighing a tax as high as 90%. Fox News reports.

President Barack Obama issued a statement that aides said was intentionally lukewarm. In it, he said the House vote "rightly reflects the outrage that so many feel" over the bonuses, but it didn't mention the substance of the bill. In an appearance later on "The Tonight Show with Jay Leno," Mr. Obama said he understands the frustration. "Everybody's angry," he said. "But I think that the best way to handle this is to make sure that you close the door before the horse gets out of the barn. And what happened here was the money's already gone out, and people are scrambling to try to find ways to get back at them."

But privately, there's concern within the Obama administration that the angry political atmosphere now surrounding the federal bailout program will scare away private participants the government needs to help bolster the financial system. Treasury Secretary Timothy Geithner's financial rescue plan is heavily reliant on hedge funds and private-equity funds, for example, to buy up the toxic assets at the heart of the financial crisis. Mr. Geithner is expected to soon unveil details of the so-called Public-Private Investment Fund, which will rely on private capital to buy bad loans and other assets.

Members of the administration question whether the appearance of unpredictability by Congress gives potential investors the idea the government program is too risky. Already, many banks are wary of participating in the government's voluntary \$250 billion capital-injection program. More than 200 banks have withdrawn their applications to receive government cash.

The government, which has already pumped \$198.5 billion from the Treasury's capital-injection program into more than 500 financial institutions, is expected to spend even more after a series of "stress tests" to determine firms' financial health.

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Union-backed protesters gather outside AIG offices Thursday in Washington.





Administration officials are worried banks won't participate in the program or won't be able to attract talented managers to run the firms because of the bonus restrictions. Officials are looking for ways to blunt the bill's impact if it becomes law, this person said.

Some Wall Street firms said the bonus tax could drive away top talent. At one large U.S. financial firm, an executive complained that headhunters representing foreign banks had already been calling the firm's employees.

George Pataki, the former New York governor, warned that New York could lose ground as a financial center if the bill passed. "It's very disappointing that it passed the House," he said, "and I hope it doesn't pass the Senate."

During congressional debate Tuesday, some Republicans opposed the Democratic-led effort. "This is a bad bill with bad consequences," said House Minority Leader John Boehner of Ohio. He warned of the potential damage from using the federal tax code to punish companies.

But unlike earlier efforts this year, where congressional Republicans were largely unified in their efforts to oppose Democratic action, House Republicans split, with 85 Republicans voting in favor of the bill and 87 opposed. Two top House Republicans -- Eric Cantor of Virginia and Dave Camp of Michigan -- split with Mr. Boehner. Just six Democrats opposed the bill while 243 supported it.

—Naftali Bendavid, Peter Lattman, Deborah Solomon contributed to this article.