U.S. House of Representatives
Committee on the Budget
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FACT SHEET: CEO-Employee Pay Fairness Act

What does the bill do?

- The CEO-Employee Pay Fairness Act is designed to incentivize companies to give their rank-and-file employees annual raises that, on average, at least keep pace with increases in living costs and labor productivity. If a company fails that test of pay fairness, the legislation would prevent it from claiming tax deductions for chief executive officer (CEO) bonuses or other compensation exceeding $1 million for other highly-paid executives or employees.

Why is this bill needed?

- Executive compensation has skyrocketed while wages for regular workers have stagnated. Since the 1970s, compensation for regular workers has not kept up with increases in labor productivity. At the same time, executive pay continues to spiral upwards. Fifty years ago, the average CEO in the United States was paid 20 times more than the typical worker. Now that ratio is 300-to-1, far higher than in any other advanced economy [EPI, June 2014]. Adding insult to injury, average taxpayers subsidize excessive executive pay through corporate tax deductions.

How does the tax code subsidize excessive executive compensation?

- The tax code allows corporations to deduct unlimited amounts of "performance-based" pay for executives regardless of whether their employees' wages increase. Corporations wrote off an estimated $66 billion in "performance" pay for CEOs and other top executives between 2007 and 2010 [EPI, August 2014].

Does the bill force employers to give their employees a raise?

- No. But it provides that if employees do not get a raise, then the company cannot clam a tax deduction for executive "performance" bonuses or other pay to highly-paid employees exceeding $1 million.

How much of a raise must employees get for companies to allow for tax deductions for executive "performance pay" and compensation above $1 million?

- To meet the pay fairness requirement for tax deductions, a corporation must raise the average pay of employees earning under $115,000. Average pay must increase by average annual net productivity growth since 2000 (approximately 2 percent), plus inflation.

Why shouldn't a company be able to pay its CEO or others as much as it wants?

- It still can, though without the help of tax deductions. Companies that fail to give their employees a raise will simply be foreclosed from claiming tax deductions for pay above $1 million.

Does the bill apply to small businesses?

- No – it applies only to publicly held companies.