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The Right Capital Gains Tax Rate Is Zero

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President Obama is proposing to increase the capital gains tax rate from 15 percent to 20 percent. And this is in addition to the 3.8 percentage point payroll tax that will be imposed on capital gains (and other forms of investment income) as part of the new government-run healthcare system.

A harsher capital gains tax burden is a big mistake. Every economic theory agrees that a key determinant of long-run growth and higher living standards is saving and investment (a.k.a., capital formation). Yet the tax code is biased against those who are willing to forgo current consumption to finance future prosperity. An ideal tax system would have no double taxation of income that is saved and invested, which is why this new Center for Freedom and Prosperity video explains that the capital gains tax should be abolished.

In a competitive global economy, jobs and investment migrate to the jurisdictions that reward productive economic activity. America already has one of the worst corporate tax regimes of any developed nation. Increasing the burden of double taxation on individuals will make a bad situation even worse. Policy makers instead should junk the current tax system and adopt a single-rate, consumption-base system like the flat tax.

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