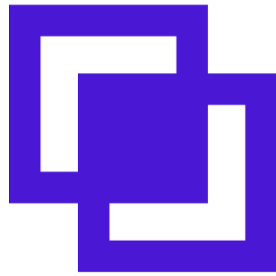

The Center Square

Biden tax hikes would put U.S. at disadvantage against other nations

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A new **report** from the Tax Foundation found that President Joe Biden's proposed tax increases would put the U.S. at much higher rates than many of its economic competitors.

Biden has proposed several tax increases to fund his several trillion dollars in new spending, most of which has not yet passed through Congress. Those include taxing long-term capital gains as normal income for those making more than $1 million plus an increase in the top marginal tax rate from 37% to 39.6%.

The report compared the tax rates of the U.S. with the 37 other countries in the Organisation for Economic Co-operation and Development (OCED). The international cooperative group's mission is to spur economic growth and trade, but the latest report finds the tax hikes may undermine those goals.

"In the U.S, short-term capital gains (held for less than one year) are taxed as ordinary income," the report says. "Long-term capital gains (held for more than one year) are taxed at lower rates, ranging from 0 percent to 20 percent, plus a 3.8 percent NIIT, depending on an investor's income. In addition to these federal taxes, states tax capital gains at an average rate of 5.2 percent, resulting in the 29 percent top combined rate. The top marginal tax rate on long-term capital gains in the OECD is 19.1 percent. Eight OECD countries levy higher rates than the U.S, while Denmark applies the highest top rate of 42 percent."

Currently the U.S. is ranked 9th, just higher than Australia and below Germany.

However, the report found that “the Biden administration’s proposal would make the U.S. top capital gains rate an outlier within the OECD at 48.4 percent, joining only two other countries with rates at or above 40 percent.”

The report goes on to say that additional taxes on top of the capital gains tax can create a large burden for businesses.

“Investment income from corporations can be subject to corporate income tax in addition to capital gains taxes,” the report says. “A business must first pay corporate income tax, and therefore, investors see their gains from after-tax profits. The integrated tax rate on corporate income reflects both the corporate income tax and the dividends or capital gains tax – the total tax levied on corporate income. The integrated tax rate on corporate income distributed as dividends would rise from 47.3 percent to 65.1 percent under Biden’s tax plan, which would be highest in the OECD.”

Critics say this could cause wealthier Americans to flee to other developed nations with lower taxes. They also argue the tax would stifle job opportunities and that other nations would find loopholes, leaving the U.S. bearing the brunt of the economic consequences.

Chris Edwards, a tax expert at the Cato Institute, has warned about the economic impact of these kinds of taxes since Biden was on the campaign trail.

“Why do countries provide low tax rates for capital gains?” Edwards said. “For one thing, they know that capital is mobile in today’s global economy, and it will flow abroad if tax rates are unfavorable compared to foreign trading partners.”

The report also points to reduced investment as a result of the increased tax.

“Higher tax rates on individual shareholders reduce the return to saving and higher taxes on corporations raise the cost of investment, reducing saving and investment,” the report says. “Lower investment levels and reductions in capital stock translate to lower work productivity, reduced wages, and lower economic output.”

Critics also say corporations will simply pass on their increased costs to consumers.

“If the tax rate is increased, many businesses will pass on the costs to consumers through higher prices for products and services,” wrote Matthew Dickerson in a Heritage Foundation report on Biden’s tax plan. “One study found that the price increases after a corporate tax hike “are larger for lower-price items and products purchased by low-income households.”