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Video: Six reasons to repeal the capital-gain tax

posted at 12:15 pm on May 3, 2010 by Ed Morrissey
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If nothing else, pay attention to one line in this video by my friend Dan Mitchell of the [Center for Freedom and Prosperity](#): “No wonder Americans don’t save enough.” As Dan explains in this video proposing a repeal of the capital-gains tax, it simply doesn’t pay to save any more. Income from savings derives from monies already subjected to an income tax, which means that a capital-gains tax is a form of double taxation. The system rewards consumerism and consumption rather than savings and investment — exactly the criticism many have of Americans today:

The correct capital gains tax rate is zero because there should be no double taxation of income that is saved and invested. This is why all pro-growth tax reform plans, such as the flat tax and national sales tax, eliminate the capital gains tax. Unfortunately, the President wants to boost the official capital gains tax rate to 20 percent, and that is in addition to the higher tax rate on capital gains included in the government-run healthcare legislation.

Instead of lowering or eliminating the capital-gains tax, the Obama administration has proposed increasing it. With the economy flat on its back, we need capital to flow back into the markets. The best way to do this is to remove the disincentives on investment instead of increasing them. As investments succeed, more people will find jobs, which will boost tax revenues accordingly. Increasing the penalties will keep investors on the sidelines.

One other critical takeaway is Dan's warning on inflation. The capital-gains tax applies to the nominal value of the initial investment, not the true value after adjusting for inflation. That puts pressure on investors to seek short-term gains in inflationary periods rather than invest for the long term. As our debt skyrockets, one option open to the government would be to allow inflation to run wild for a while to lower the true value of our debt. That will also create a massive handicap against investors, as their paper gains will look enormous while their actual gains remain small or nonexistent — and will allow the government to take larger amounts of capital out of the private sector without actually increasing cap-gains tax rates any further.



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Instead of lowering or eliminating the capital-gains tax, the Obama administration has proposed increasing it.

You know if I didn't know better, I would say Obama is actually trying to destroy the economy or something.

Johnnyreb on May 3, 2010 at [12:20 PM](#)

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Johnnyreb on May 3, 2010 at 12:20 PM

I don't see any real evidence upon which to think anything *but* this.

Midas on May 3, 2010 at [12:20 PM](#)

“As our debt skyrockets, one option open to the government would be to allow inflation to run wild for a while to lower the true value of our debt.”

Don't forget those printing presses over at Treasury working day and night...

... How is that warm and fuzzy feeling in your stomach doing?

Seven Percent Solution on May 3, 2010 at [12:23 PM](#)

You know if I didn't know better, I would say Obama is actually trying to destroy the economy or something.

Johnnyreb on May 3, 2010 at 12:20 PM

Naaaaahhhhhhhh... ya think?

[Daggett](#) on May 3, 2010 at [12:23 PM](#)

The correct capital gains tax rate is zero because there should be no double taxation of income that is saved and invested.

Problem: you then have the circumstance where people who make their money playing the stock market for a living pay no taxes on their income.

I'd go with putting all investments into a single account, in which all transactions are free of tax, and then tax net withdraws from that account as normal income. Like being an employee of your very own investment bank.

Count to 10 on May 3, 2010 at [12:23 PM](#)

Leave a 10-15% capital gains tax in effect, so we can do a major corporate rate cut which is revenue neutral at worst... Getting the marginal corporate tax rate to 25% or lower would create the incentive for multi-nationals to recognize profits in the US, and manufacturers to invest in domestic production (and jobs) instead of continuing to ship them over-seas.

phreshone on May 3, 2010 at [12:24 PM](#)

You know if I didn't know better, I would say Obama is actually trying to destroy the economy or something.

Johnnyreb on May 3, 2010 at 12:20 PM

Absolutely necessary to implement global government.

jimmy2shoes on May 3, 2010 at [12:26 PM](#)

Problem: you then have the circumstance where people who make their money playing the stock market for a living pay no taxes on their income.

Oh well! The feds would just have to cut spending then. In addition, the people on the losing end of trades would be forced to put more earned money in the market if they want to continue investing.

Could you imagine how high this market would go without the feds taking their large cut on every winning trade.

Chubbs65 on May 3, 2010 at [12:27 PM](#)

Leave a 10-15% capital gains tax in effect, so we can do a major corporate rate cut which is revenue neutral at worst... Getting the marginal corporate tax rate to 25% or lower would create

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the incentive for multi-nationals to recognize profits in the US, and manufacturers to invest in domestic production (and jobs) instead of continuing to ship them over-seas.

phreshone on May 3, 2010 at 12:24 PM

Now, the corporate profit tax rate: *that* should be zero. There is no reason to be taxing that other than as a string with which to control companies with deductions.

Count to 10 on May 3, 2010 at [12:27 PM](#)

Could you imagine how high this market would go without the feds taking their large cut on every winning trade.

Chubbs65 on May 3, 2010 at 12:27 PM

The market going “high” isn’t in itself a good thing. ‘Rational’ is what it is supposed to do, not ‘boom’.

Do you really want there to be a class of people that gets a free ride from taxes because they make their money off investments? Can you imagine the kind of twisted distortions to behavior that would encourage?

Count to 10 on May 3, 2010 at [12:31 PM](#)

Only a very tiny percentage of “evil rich people” who make over \$500,000 a year get that way from a salary. The vast majority of “evil rich people” make their money from INVESTMENT.

A few of the people in that first group are celebrities, sports stars, tort lawyers and other people who could be described as “filthy rich,” who each have (literally) a thousand people waiting for their “jobs.” And if your only goal in life is to screw over successful people, that goal could be accomplished by increasing income taxes (although bear in mind you’ll also screw over a lot of doctors and other professionals whose contributions to society you may value — and they will produce less.)

But the only rational reason for increasing capital gains is to harm the economy. It takes money out of the hands of the people who have a proven ability to create wealth, and it REDUCES net government revenue.

logis on May 3, 2010 at [12:37 PM](#)

If you think of taxes like fines (e.g., a fine for speeding on a highway), then it becomes clear that you do NOT want to tax capital gains.

[WashJeff](#) on May 3, 2010 at [12:39 PM](#)

It would be rational that it would go up or into savings.

As far as the ‘class of people who make their living investing without paying any substantial federal taxes’, you should remind yourself that we live in a free society and it isn’t our business what people do. As far as the argument about no taxes will come from them, that is true, but indirectly they will be supporting entities through their investments that pay plenty of taxes.

Chubbs65 on May 3, 2010 at [12:41 PM](#)

Capital gains... tax on wages... death tax... corporate tax...

We could run the fedgovt on duties and imposts if it were only the size it was meant to be *constitutionally*.

Akzed on May 3, 2010 at [12:42 PM](#)

You know if I didn't know better, I would say Obama is actually trying to destroy the economy or something.

Johnnyreb on May 3, 2010 at 12:20 PM

It's called the Cloward-Piven strategy.

shick on May 3, 2010 at [12:45 PM](#)

We could run the fedgovt on duties and imposts if it were only the size it was meant to be constitutionally.

Akzed on May 3, 2010 at 12:42 PM

Do you realize how much damage 'duties and imposts' do to trade and the economy?

Count to 10 on May 3, 2010 at [12:46 PM](#)

You know if I didn't know better, I would say Obama is actually trying to destroy the economy or something.

Johnnyreb on May 3, 2010 at 12:20 PM

It's called the Cloward-Piven strategy.

shick on May 3, 2010 at 12:45 PM

Nah. I'm pretty sure Obama actually believes he is helping. It's just that the people that came up with the paradigm he is following *did* intend for it to destroy the country.

Count to 10 on May 3, 2010 at [12:48 PM](#)

[The Cross of St. George and the Star of David waving over Mosque in Great Britain.](#)

MB4 on May 3, 2010 at [12:49 PM](#)

Problem: you then have the circumstance where people who make their money playing the stock market for a living pay no taxes on their income.

Count to 10 on May 3, 2010 at 12:23 PM

I have no problem with that. Unless you want to pay capital gains tax when you sell your house, or a car, etc., there is no justification to treat stocks differently.

I also want to see dividends tax-free. The money was already taxed as earnings to the corporation, and now is taxed again as income to the investor.

[Vashta.Nerada](#) on May 3, 2010 at [12:50 PM](#)

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another thing to like about the Big Dawg, by lowering cap gains he encouraged middle class folks like me to enter the markets...

now that the Critters are talking 40% dividend taxes I am out...but maybe that's a feature of their plan and not a bug...easier to demonize investors if they dont include middle class and all our 401ks and trading accounts...

[ginaswo](#) on May 3, 2010 at [12:53 PM](#)

Income from savings derives from monies already subjected to an income tax, which means that a capital-gains tax is a form of double taxation.

Here we go again.

Income from almost everything derives from monies already subjected to an income tax, which means that almost everything is a form of ~~double~~ **multiple** taxation.

Basic fairness and equal protection under the law requires that all income be taxed the same.

MB4 on May 3, 2010 at [12:54 PM](#)

but I do think carried interest should be taxed as income not cap gains... of course if the Dems keep raising cap gains maybe they will get more capital killing revenue by leaving that alone...lol

[ginaswo](#) on May 3, 2010 at [12:55 PM](#)

Do you realize how much damage 'duties and imposts' do to trade and the economy? Count to 10 on May 3, 2010 at 12:46 PM

The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States...

What were those craaaazy founding fathers thinking?

Are you telling me that we're better off the way we are?!

Akzed on May 3, 2010 at [12:59 PM](#)

What were those craaaazy founding fathers thinking?

Are you telling me that we're better off the way we are?!

Akzed on May 3, 2010 at 12:59 PM

They were somewhat ignorant about how tariffs affect trade, and how trade affects economies.

Count to 10 on May 3, 2010 at [1:02 PM](#)

Good sensible stuff--so our government will certainly not embrace it.

jeanie on May 3, 2010 at [1:04 PM](#)

The Bush capital gains tax cut is due to expire in 2011. The CBO projections on the deficit include the expiration

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of this cut. The cut was from 20% to 15%; the dividend tax cut was from 39.6% to 15% and will also expire in January 2011. So the administration just has to do nothing and the rates will rise.

Slightly OT, but the [inflation rate for March was 2%](#)...the article is not clear if this is an annualized rate. It says that food and energy prices are up 18% over March 2009. Oh happy days of stagflation may be on their way.

[GnuBreed](#) on May 3, 2010 at [1:04 PM](#)

This illustrates the despicable lie told by Warren Buffet with his *"I pay more taxes than my secretary who only makes \$60,000 a year meme"*

First of all, the secretary mostlikely had an "effective" tax rate of around 23% after she took all her deductions and tax credits. So, yeah, she paid more than the (at the time) 15% "tax rate" on capital gains that Buffet paid.

And that was the ruse. He never stated he made his income solely off investments and that his "taxes" were capital gains taxes. His statement eluded that he was paying a lower *income tax*.

I was furious when he went around telling the sad "secretary story" without disclosing the vital difference in the taxes paid. He can easily pay more, by the way. He just has to check a box and "donate" more dough to the IRS. We're waiting.....

And he can wax on about the "low" capital gains tax all he wants. he can afford to. He's a MULTI-BILLIONAIRE. The guy with a 50K portfolio trying to save for his kid's college fund can get killed by the CP tax if his ROI is decent and it can affect his overall ROI quite significantly to the point of producing a "why bother" attitude when it comes to investing.

This double taxation is a vile thing made up by bureaucrats greedy to take more of our hard earned money and stifle growth in the process.

Opposite Day on May 3, 2010 at [1:05 PM](#)

"No wonder Americans don't save enough." As Dan explains in this video proposing a repeal of the capital-gains tax, it simply doesn't pay to save any more.

So Dan, how about this -

No wonder Americans don't earn enough. It simply doesn't pay to earn any more. How about a repeal of the income tax?

Our tax system already disincentives earning much more than it disincentives saving as income tax rates are already much higher than capital gains rates, plus there is social security and medicare tax on earnings and none at all on savings.

MB4 on May 3, 2010 at [1:07 PM](#)

Any proposal to abolish the capital gains tax is crazy.

You say,

With the economy flat on its back, we need capital to flow back into the markets.

But what's capital? You probably mean real savings. But Wall Street doesn't look at it that way. The croupiers

in the financial markets not only accept money, they accept borrowed money too—in other words, credit. In fact, a share of stock doesn't know if it's been bought by money or credit. Therefore, it's insane not to tax the capital gains profits of reckless borrowers, who created those tremendous and unsustainable bubbles in stocks and in housing recently. They're not investors so much as they are gamblers.

The economy is flat on its back because the loose money policy of the Greenspan and Bernanke Fed effectively unleashed way too much credit into the investment world. They just printed imaginary dollars to play with.

The economy *deserves* to be flat on its back. Allowing creepy speculators to suck more money out of the real US economy, and into the "FIRE" sector of the economy, is nutty.

Abolish the Fed, then get back to me.

Emperor Norton on May 3, 2010 at [1:07 PM](#)

I have no problem with that. Unless you want to pay capital gains tax when you sell your house, or a car, etc., there is no justification to treat stocks differently.

I also want to see dividends tax-free. The money was already taxed as earnings to the corporation, and now is taxed again as income to the investor.

Vashta.Nerada on May 3, 2010 at 12:50 PM

That goes the wrong way, really — it is the corporate profit tax that should be eliminated, because of the power it gives government to distort with deductions. Additionally, only dividends are double-taxed in the way you describe; capital gains don't really have the same mechanism.

However, if you call a house an investment, and have things set up like I described in a previous comment, with all investment transactions being tax-free until you withdraw a net amount from that 'investment account', selling your house wouldn't be taxed if you put the proceeds back into another house, or some other investment.

Count to 10 on May 3, 2010 at [1:08 PM](#)

They were somewhat ignorant about how tariffs affect trade, and how trade affects economies.

Count to 10 on May 3, 2010 at 1:02 PM

All trade is taxed! Taxes must be raised somehow. Along with everything else we're burdened with, sure, taxes on imports seems like a bad idea. But as practiced early on, constitutional taxes kinda worked.

You didn't answer my question as to what you'd prefer.

Akzed on May 3, 2010 at [1:10 PM](#)

I think all taxes on corps, companies, and businesses should be repealed. If they pay income taxes, that is passed on to the customer to pay. If they do not pay income taxes, the savings is passed on to the customer. To me that is a win-win.

Mirimichi on May 3, 2010 at [1:11 PM](#)

Emperor Norton on May 3, 2010 at 1:07 PM

The monetary policy really only effects the timing and trigger for these corrections: the actual economic damage is

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done by the public policy that tries to resist the correction. Yes, there are some problems created by inflationary monetary policy, but those are not the reason the economy is doing lousy.

That said, I think it would be a good idea to question whether we want the branch of the government that prints money to be able to loan money to anyone.

Count to 10 on May 3, 2010 at [1:12 PM](#)

Yes, absolutely brilliant. Lets make no tax whatsoever on capital gains the main rallying cry of the Republican Party and then kiss November goodbye. Nancy Pelosi thanks you in advance.

MB4 on May 3, 2010 at [1:13 PM](#)

Didn't this come up in one of the Presidential debates? I seem to recall Brit Hume asking the candidates if they would raise cap gains taxes, despite proof that government revenues actually increase when they are lower.

Obama said plainly that, despite the fact that government would actually collect more revenue, he **would** support raising cap gains taxes because "it's the right thing to do."

He has a very warped definition of "the right thing to do."

UltimateBob on May 3, 2010 at [1:15 PM](#)

You didn't answer my question as to what you'd prefer.

Akzed on May 3, 2010 at 1:10 PM

You mean overtaxed/corruptly taxed in the information age, verses import taxes in a pre-industrial society? Are you really sure you want to consider that?

Count to 10 on May 3, 2010 at [1:15 PM](#)

Yes, absolutely brilliant. Lets make no tax whatsoever on capital gains the main rallying cry of the Republican Party and then kiss November goodbye. Nancy Pelosi thanks you in advance.

MB4 on May 3, 2010 at 1:13 PM

Then there is that.

Say, doesn't Pelosi already make most of her money off of capital gains and dividends?

Count to 10 on May 3, 2010 at [1:17 PM](#)

He has a very warped definition of "the right thing to do."

UltimateBob on May 3, 2010 at 1:15 PM

It's more or less limited to the idea of having the % of your income payed to government increase as your income increases. 'Progressive'.

Count to 10 on May 3, 2010 at [1:20 PM](#)

Then there is that.

Say, doesn't Pelosi already make most of her money off of capital gains and dividends?

Count to 10 on May 3, 2010 at 1:17 PM

I don't know for certain but I think that is very likely correct. Ditto the Kennedy Klan. Ditto Al Gore also as I am pretty sure that I read someplace that he took most of the loot from his carbon credit scams as capital gains rather than earned income.

Of course these folks would be very happy to have capital gains tax reduced to zero which would benefit them immensely and all the while rail against Republicans as the party of the Landed Gentry. Win-win for them. The Republican Party – the party of stupid again?

MB4 on May 3, 2010 at [1:26 PM](#)

The Republican Party – the party of stupid again?

MB4 on May 3, 2010 at 1:26 PM

Not so much stupid as socially inept.

Count to 10 on May 3, 2010 at [1:29 PM](#)

I wonder, not that it matters much, what Ron Paul's view on the capital gains tax is. Does anyone know off the top of their head? I would guess he wants to reduce it or eliminate it too and most here consider him to be an idiot.

MB4 on May 3, 2010 at [1:32 PM](#)

Listen, Dan – seriously.

Get a hot chick to read your lines.

I love your work, but your voice ... it's not so good man.

apollyonbob on May 3, 2010 at [1:41 PM](#)

Big Government Taxers and spenders faced each other, through their mirrored unbridled increases they continued to shoot each other, although capitalist economy was headed for a disastrous end, a compliant media heard this noise, but decided to not write, or speak about it because Paul Krugman and his mentor John Maynard Keynes assured them that the people imposing such catastrophic fiscal policies were going to die in the long run anyway. FDR's history revisionist writers were not available for comment.

Americannodash on May 3, 2010 at [1:44 PM](#)

I wonder, not that it matters much, what Ron Paul's view on the capital gains tax is. Does anyone know off the top of their head? I would guess he wants to reduce it or eliminate it too and most here consider him to be an idiot.

MB4 on May 3, 2010 at 1:32 PM

I've stopped assuming Paul had any coherent ideology when I heard him give a speech where he promoted the idea of cutting military spending in order to increase domestic spending.

Count to 10 on May 3, 2010 at [1:46 PM](#)

Count to 10 on May 3, 2010 at 1:15 PM

Then I assume you have a third idea?

Why's this like pulling teeth?

Akzed on May 3, 2010 at [1:48 PM](#)

it simply doesn't pay to save *any more*

That makes me laugh. What is this any more stuff? A couple of personal examples.

I had a couple of very good years in the stock market about 1960. Although I have never been outside of the middle class, I got into the 33% marginal income tax rate one year only because of my stock sales. At that time the highest marginal tax rate was about 92%.

I held some stocks through the inflation of the seventies. In dollar terms I had a modest gain. In real value I had a substantial loss do to inflation. Then I was hit with a capital gains tax on my loss.

burt on May 3, 2010 at [1:48 PM](#)

Then I assume you have a third idea?

Why's this like pulling teeth?

Akzed on May 3, 2010 at 1:48 PM

You mean like a flat income tax with no deductions (plus handling investments as I mentioned above)?

Seriously: Tariffs are bad. You want to get away from them as soon as your infrastructure development allows effective taxation of income.

Count to 10 on May 3, 2010 at [1:52 PM](#)

Then I was hit with a capital gains tax on my loss.

burt on May 3, 2010 at 1:48 PM

Inflation and an un-indexed capital gains tax don't mix well.

Count to 10 on May 3, 2010 at [1:54 PM](#)

Basic fairness and equal protection under the law requires that all income be taxed the same.

MB4 on May 3, 2010 at 12:54 PM

But long-term capital gains are largely illusory paper gains resulting from inflation, and are not really income at all.

At a minimum, we should all agree that the "profit" on any asset held long enough to warrant doing the calculation should be indexed for inflation.

The Monster on May 3, 2010 at [1:59 PM](#)

Tariffs are bad. You want to get away from them as soon as your infrastructure development allows effective taxation of income.

Count to 10 on May 3, 2010 at 1:52 PM

Far better to tax consumption than income. It also would eliminate the punishment of savers.

[Vashta.Nerada](#) on May 3, 2010 at [2:08 PM](#)

A few of the people in that first group are celebrities, sports stars, tort lawyers and other people who could be described as “filthy rich,” who each have (literally) a thousand people waiting for their “jobs.” And if your only goal in life is to screw over successful people, that goal could be accomplished by increasing income taxes (although bear in mind you’ll also screw over a lot of doctors and other professionals whose contributions to society you may value — and they will produce less.)

Actually, I know many people in Wall Street careers who earn a significant amount of annual income from investment capital gains. Even though some of them are close friends, I’d never agree that they should pay zero taxes on those gains. Joe the plumber isn’t really in the picture here.

Individuals with high net worth know how to play the game and would never consider ‘spending’ money that’s invested in the stock market and other investment vehicles that generate serious returns.

How some on the right can be so naive about the real nature of wealth in this country is unbelievable. Your little fairy tales about the merits of cutting capital gains taxes lead Bush to cut those taxes with one end result- an economy based on a massive housing bubble. And of course, those cuts are a big reason why Bush added \$4 tril to the national debt in years when the economy was booming and the deficit should have been non-existent.

bayam on May 3, 2010 at [2:20 PM](#)

bayam on May 3, 2010 at 2:20 PM

once again someone who confuses deficits with revenues... the tax cuts increased government revenue, unfortunately unchecked statism and rapidly increasing spending created deficits and increased national debt.

phreshone on May 3, 2010 at [2:32 PM](#)

How some on the right can be so naive about the real nature of wealth in this country is unbelievable. Your little fairy tales about the merits of cutting capital gains taxes lead Bush to cut those taxes with one end result- an economy based on a massive housing bubble.

So tell us, braniac. What is the “real nature of wealth?”

And you also think the capital gains tax cut caused the housing bubble? You are delusional dude. Go back to school and learn how to think critically.

BierManVA on May 3, 2010 at [2:35 PM](#)

I’m somewhat torn on the cap-gains tax. (I know, I know, go ahead and throw me up on a rail to escort me out of the conservative club.)

But here's the thing. Folks who must work for a salary "get" to pay wage taxes *and* income taxes on the same earnings. On the other hand, the *actual* wealthy (defined as those with great *wealth*, not as those with a high pre-tax *income*) create more wealth by investing capital, which is subject only to the cap-gains tax.~

Let's set aside the wage taxes for now, since in theory those who pay in get something back.*

How does it make any sense, if indeed our system of taxation is "regressive," to tax middle class income earners at a higher percentage than upper class investors? Can we really distinguish between income from labor and income from investment in this way?

Folks, y'all don't realize this, but the *truly* wealthy have it made, and laugh at us middle class folk when they fool us into thinking high-income earners are the "rich."^ They're not, for the most part. Meanwhile, those on the extremes (poor enough not to pay income taxes, or wealthy enough not to need wages at all) ride on the backs of the middle class.

I'm all for debating the appropriate level of cap-gains taxation. But it sure ain't zero. And there are arguments to be made that it should be set higher than it is already. I've got no particular opinion on it one way or the other, but let's be more honest in this debate.

~The burden for corporate taxation, on the other hand, is arguably borne by consumers and employees as much as by investors.

*The problem is magnified for the high-income earners who see their fair share of Social Security, etc., taken from them because they earned "too much."

^This includes enemies of the cap-gains tax as well as champions of taxing high income earners (see President "There's such a thing as having enough money" Obama)

[cackcon](#) on May 3, 2010 at [2:37 PM](#)

We should be thanking him!!

[tommer74](#) on May 3, 2010 at [3:20 PM](#)

"You know if I didn't know better, I would say Obama is actually trying to destroy the economy or something."

Precisely. Greater widespread misery equates to an ever increasing reliance on government. The more dependent people become on government the greater power the government holds over those now beholden voters. The dismantling of our economy is no accident. Surreal, actually.

[SMB](#) on May 3, 2010 at [3:45 PM](#)

The issue of capital gains tax will no doubt be an issue in 2012.

In the 2008 election, Mitt Romney said this about the capital gains tax:

I believe it's critical for our economy going forward that we lower taxes for the middle class. And so I've proposed a special savings plan for people in middle incomes: Any interest income, or dividend income, or capital gains earned by people earning less than \$200,000 a year should be taxed at the new rate of zero. Let people save their money for whatever purpose they'd like to save. I believe that will help stimulate our economy, and make it easier for middle-income folks to make ends meet.

Source: 2008 Fox News NH Republican primary debate Jan 6, 2008

As proof of his dedication to erasing the capital gains tax, as the Governor of Massachusetts, Mitt “passed a bill abolishing a retroactive capital gains tax in Massachusetts that would have forced nearly 50,000 taxpayers to pay an additional \$250 million in state taxes and fees. In addition, the new law authorized tax refunds totaling between \$225 million and \$275 million over four years to an estimated 157,000 taxpayers who had already paid portions of the retroactive tax.” ([Source](#).)

[Conservative Samizdat](#) on May 3, 2010 at [4:47 PM](#)

That will also create a massive handicap against investors, as their paper gains will look enormous while their actual gains remain small or nonexistent — and will allow the government to take larger amounts of capital out of the private sector without actually increasing cap-gains tax rates any further.

Historically this has never worked to stimulate the economy, but why look to history for guidance? Obama doesn't even have his staff research Presidential protocol so that he might be able to avoid the numerous chintzy gaffes he's made on the international political circuit!

Too bad Obama's more interested in -being- historical than in actually learning from history what works and what doesn't when governing. The type of history he's creating will marginalize him into the 'failed' presidential policies category, and he's too full of himself to even realize that.

KendraWilder on May 3, 2010 at [4:48 PM](#)

(Disclaimer: This comment is a bit hastily written...)

One other critical takeaway is Dan's warning on **inflation**. The capital-gains tax applies to the nominal value of the initial investment, not the true value after adjusting for inflation. That puts pressure on investors to seek short-term gains in inflationary periods rather than invest for the long term. As our debt skyrockets, one option open to the government would be to allow inflation to run wild for a while to lower the true value of our debt. That will also create a massive handicap against investors, as their paper gains will look enormous while their actual gains remain small or nonexistent — and will allow the government to take larger amounts of capital out of the private sector without actually increasing cap-gains tax rates any further.

The problem I have with the capital gains tax is that, over time,

Inflation + Capital Gains Tax = Wealth Tax

In other words, when a capital gains tax is levied on amounts measured in an inflationary unit of currency like the current dollar, which over time is running to zero, then over longer time periods it becomes a **wealth tax** as the cost basis shrinks to zero and the capital gain applies to virtually the entire dollar value of the underlying asset.

Inflation itself is a form of taxation on holding wealth in currency. A long-term capital gains tax OTOH is a tax on holding wealth *outside* of a nominal currency. Together they form the wealth tax. One without the other would allow some of us to escape the wealth tax; together, they make it impossible to avoid, legally.

This is one reason why I believe, in this day & age, 'buy-and hold' does not work long term and, in order to become wealthy, one *must* have cash flow-producing assets, whose nominal cash flow (one would hope) would tend to rise along with rising inflation as prices are adjusted accordingly.

If one truly wanted to impose a tax only on the capital gain, one would allow the seller of an asset to adjust the cost basis for the cumulative inflation since the asset was purchased, and pay only the real capital gain (excluding currency devaluation).

Whether all this meets everyone's definition of "wealth tax" is debatable, since some want to go even further — taxing someone *every year* on the total portion of their outstanding wealth — and claim that any tax that is less punitive is somehow not a "wealth tax". I humbly disagree. :)

At least this wealth tax "only" applies when a given chunk of wealth is sold or converted, etc., giving the owner some nominal control over when it is applied, and at least it doesn't multiple-tax one's cost basis like the other proposals appear to do.

[RD](#) on May 3, 2010 at [5:38 PM](#)

RD on May 3, 2010 at 5:38 PM

IOW, though the cap-gains tax is a component of a *de facto* wealth tax, at least it is not compounded yearly as some want a new "wealth tax" to be. However, depending on how bad inflation is and how often you turn over your assets, the cap-gains tax can still lead to multiple taxation on wealth.

Technically, by never selling an asset you can avoid a cap-gains tax (though death/inheritance or other events may cloud the picture), but who wants to live in a society where you're forced not to sell merely to avoid getting ripped off? This pressure may well cause its own distortionary behavior and 'malinvestment', which we're always being told is a bad thing. Well?

[RD](#) on May 3, 2010 at [6:12 PM](#)

One other critical takeaway is Dan's warning on inflation. The capital-gains tax applies to the nominal value of the initial investment, not the true value after adjusting for inflation. **That puts pressure on investors to seek short-term gains in inflationary periods rather than invest for the long term.**

As long as the U.S. dollar is a currency, and not hard money — and as long as it is designed to go to zero eventually — the pressure is on even in "good" times, as the entire underlying time is inflationary.

The only difference is how much inflation, and how fast the currency decays. But it always decays.

A simple calculation using a 'typical' 'healthy' inflation rate of 2.5% per year shows that, over 100 years, a **\$1000** investment with no real capital gain is "worth" **\$11,814**, requiring the owner to pay capital gains tax on \$10,814 of it, or over 90% of the nominal value. At a 20% tax rate, that leaves the owner with a residual amount of **\$9651.20**, or 81.7% of his original investment, on a portfolio that should have required zero tax be paid on it. *And this is the so-called "non-inflationary" scenario!*

Of course, classic inflation is more like the compounded wealth tax that some members of Congress have hinted at in the past, and is certainly worse. Over 100 years, if that \$1000 had been stuffed in the mattress, at 2.5% annual inflation it would be worth **\$84.64** 1910 dollars today. Ouch.

[RD](#) on May 3, 2010 at [6:34 PM](#)

If you wanted to conduct a 'War on Savers', you could hardly do any better than current policy:

- (a) set interest rates artificially low (one actually does not have to use central planning to 'set' interest rates; central planning works no better at setting the price of money than in other areas of the economy)
- (b) encourage, even 'target', inflation so as to tax savings, and transfer money from savers to borrowers
- (c) tax interest on savings as regular income — sorry, that money has already been earned and taxed. JFK was an idiot on this one
- (d) tax 'capital gains' on the change in value of investments.

Dan Mitchell has it exactly right. This economy — ANY economy — ultimately needs savings and investing to grow (brain-dead neo-Keynesian's wet dream that one can borrow and spend one's way to prosperity notwithstanding).

Taxing and penalizing savings and investing is harmful to our country's economic well-being, and thus, ultimately, to us all.

'Fairness' is a pound-the-chest, pound-the-table, feel-good phrase that is irrelevant here.

Make no mistake — the deliberate intent here is redistribution of wealth from savers to borrowers (with the Federal Government included in the latter category).

Tell me again how that is 'fair'.

Derailleur on May 3, 2010 at [10:50 PM](#)

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