The Washington Times

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Tuesday, May 11, 2010

RAHN: Taxaholics

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When people are addicted to something, there are usually two alternative treatments. One is to attempt to educate them about the dangers of whatever they are addicted to, and the other is to remove them from the addictive substance so they cannot get their hands on it. All too many in Washington, particularly Democrats, but also some Republicans, are addicted to taxes. This addiction is particularly common among policymakers and elected officials, not only in the United States, but also worldwide, and is most prevalent in Europe.

Many in the Tea Party movement believe the best solution for the taxaholic problem is to remove the taxaholics from political office where they do the most damage. A number of those in economic public policy organizations, believing in redemption, are trying to educate the taxaholics with the hope of weaning them from their destructive ways. Both approaches have much merit.

The majority of taxaholics are particularly addicted to the most destructive taxes, being the taxes on capital. Up to a point, perfectly sound arguments can be made for taxing tobacco, alcohol, gasoline, etc. However, taxing capital at high rates or double or triple taxing is nothing more than self-destruction. Capital is what business people use to hire workers and purchase new plants and equipment. Taxes on corporations, capital gains, dividends and interest are primarily taxes on capital - and the heavier the tax, the fewer new jobs.

In a new report published by the Cato Institute, international tax experts Duanjie Chen and Jack Mintz at the University of Calgary in Canada state that the U.S. "statutory corporate income tax rate is one of the highest in the world ... which harms the economy and encourages companies to shift investment and profits abroad to lower-tax jurisdictions." (See attached chart.)The authors estimated effective tax rates for 80 countries. (Effective tax rates take into account statutory tax rates plus tax base items that affect taxes paid on new investment, such as depreciation allowances.) They found that the "U.S. effective corporate rate is 35.0 percent, which is much higher than the 80-nation average of just 18.2 percent."

Given that the United States is in great need of new investment and companies that will provide jobs for American workers, other things being equal, does it make sense to tax companies, particularly those that have global markets and production, at a higher rate than Canada, Germany, Sweden and Switzerland, for example? Of course not, but the U.S. is in the process of increasing a number of taxes and reducing allowances, which will have the effect of making the U.S. corporate tax burden even more noncompetitive. One proposal that the administration is pushing is a new tax on banks and other financial institutions, which is supposed to recover some of the TARP losses but exempts the two institutions that had the biggest losses - Fannie Mae and Freddie Mac. The IMF (whose staff is composed of international bureaucrats who do not pay taxes) and some European leaders, such as the United Kingdom's Gordon Brown, want an international bank tax. But fortunately, more sensible leaders, such as the Canadian finance minister, have indicated they want no part of this nonsense.

A particularly destructive tax is the capital-gains tax. Yet, Congress just voted to increase the capital-gains tax (as part of the health care bill), and the administration and many members of Congress are proposing a further increase at the end of this year by allowing the Bush tax cuts to expire.

A number of Washington-based public policy organizations are working together to try to educate members of Congress and their media allies as to the foolishness of increasing capital gains tax rates. In October and November, the tax research group IRET, led by Stephen Entin, a former senior U.S. Treasury economist, released three first-rate studies by noted economists, clearly demonstrating that if capital gains tax rates are raised, the U.S. government would receive less revenue and there would be fewer jobs, lower wages and less productivity growth than there would be in the absence of the tax increase.

These studies, along with the proposals to increase the capital-gains tax rate, spurred the formation of a capital gains working group early this year, with the goal of stopping any capital-gains tax increase. The well-known tax economist Dan Mitchell, a senior fellow of the Cato Institute, wrote and narrated a very informative short video on the capital gains tax issue. The video was produced and distributed by the Center for Freedom and Prosperity, the founding member of the capital gains working group.

The effort to try to educate the taxaholics in Congress on the capital-gains issue is growing, and recently the American Council for Capital Formation, which was behind the first successful capital-gains tax reduction back in 1978, announced it was also joining the effort to fight any increase in the tax. It is expected that, as the tax-writing committees in Congress meet to consider the capital-gains issue, many other business and public policy organizations

will join in the effort to prevent this act of economic suicide by Congress.

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