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Tax Week: President Obama Plans Tax Increases on Investment Income

This week, millions of Americans will be sending their tax returns to Washington...but no matter how much revenue the government takes in-- one thing is certain -- it won't be enough to cover all the plans for federal spending which will more than double the U.S. debt over the next decade.

Doug Holtz Eakin, a former director of the Congressional Budget Office under Republicans says " the projected debt is enormous, you know the next ten years we see the debt rise to 20 trillion dollars."

No one believes that is sustainable. But to even stay at those levels, the administration's counting on a doubling of federal revenues in the next decade...the first big chunk of which comes at the end of this year...when President Obama will let part of the Bush tax cuts expire, but reinstate others.

Bob Greenstein of the liberal Center on Budget and Policy Priorities says **"**given the serious longer term fiscal problems the country faces we just can't afford to continue the tax cuts for the people at the very top."

And Michael Linden, director for tax policy at the Center for American Progress, a democratic think tank, says, **"**it's equity, equity, but it's also about responsibility. We have a big problem that we are facing in this country in terms of a large budget gap going forward. And I believe that the wealthy in the country have the responsibility to help solve that problem."

In an effort to raise revenues, the president intends to raise the tax rates rise for singles making more than 200 thousand a year, and couples making more than 250 thousand.

Greenstein says this will bring in $826 billion over the next 10 years.

But critics say the only way revenues really increase is by expanding the overall economy. They argue tax increases, especially those on investment income that President Obama wants, will do just the opposite.

Alan Reynolds of the CATO Institute, a libertarian think tank, says "we need to focus more on getting the tax base to grow meaning wages and profits to grow than on trying to punish people for earning too much money."

President Obama plans on pushing the capital gains tax rate from 15 to 20 percent.

The health care reform bill adds on top of that a new 3.8 percent Medicare surtax on all investment income, including dividends.

Brian Riedl of the conservative Heritage Foundation says "anytime the government raises taxes on savings and investments like they are with this new Medicare tax, you're going to have less savings and investment."

And many argue that's the exact opposite of how best to raise revenues...Presidents Jimmy Carter, Ronald Reagan Bill Clinton and George W. Bush all lowered taxes on investment gains...which paid dividends to the government as well as investors.

And Richard Vigilante, co-author of "Panic: The betrayal of Capitalism by Wall Street and Washington" says the record is clear. "Every single time we've cut capital gains taxes, the revenue from capital gains taxes has gone up, not down. Because you get more investment, stock prices go up, bond prices go up, and as those things go up, the government collects more capital gains tax revenue."

Analysts cite numerous examples. Brian Riedl of the Heritage Foundation points to the 2003 cuts under President Bush at a time when the economy was struggling.

"In the six quarters after those tax cuts, he says, investment surged the economic growth rate doubled and the stock market jumped 33 percent. When we cut tax rates on working, saving and investing we get more working, saving and investing."

Nevertheless, those who favor some increases even on investment income, say the wealthy can afford it.... and the middle class and below cannot.

Bob Greenstein of the Center on Budget and Policy Priorities says "when you give a tax cut to someone who lives paycheck to paycheck they spend most of it. But when you give a tax cut to somebody who has extremely high income who already has more income than they can spend, then most of the tax cut is saved."

Critics of such increases respond by saying the rich don't just leave their money lying around to gather dust -- they put it to good use.

Donald Rehr, a professor at George Washington University argues “the wealthy invest that money in publicly held companies in private firms in entrepreneurs, which create more jobs create more products and create more service and create more wealthy."

"So it's not like they go home to their big mansion every day, he says, and look at their pile of money on the floor and say 'hey let's count it again just for fun.' They don't do that. They invest it."

And author Richard Vigilante makes an even broader case for low capital gains taxes, saying they expand the economy in unforeseen ways, such as capital gains reductions under Presidents Carter and Reagan, which gave a boost to the tech sector in the early days of the computer chip.

"The microprocessor was seven years old when Jimmy Carter cut the capital gains taxes radically for the first time, and the tech sector, all our high tech productivity exploded as a result. Here's a really great fact of history. Jimmy Carter's and Ronald Reagan's cuts in capital gains taxes drove the soviets out of Afghanistan. Because what drove the soviets out of Afghanistan was stinger missiles, and without the tech sector, the stinger missile wouldn't have been possible," said Vigilante.

Everyone acknowledges there is a limit to how high capital gains can be pushed without slowing economic growth.

But supporters of the increases President Obama is proposing say he isn't even close.

Bob Greenstein notes Obama is proposing rates that are "actually lower, much lower than the capital gains rate under Ronald Reagan's tax reform proposals."

And Michael Linden says "**the top marginal rate on capital gains is at the lowest point it's been since 1933.**

I don't see any real argument, he says, that that rate could not stand to go a little higher especially for people making 200 or 250 thousand dollars."

This has been one of the most enduring political debates in American politics--how much can the rich be taxed without hurting the economy, and therefore the non-rich as well.

President Obama is going to open a new chapter in that debate as he raises taxes on investment just as the economy struggles to recover from a nasty economic downturn.