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Commonsense tax policies

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By Scott Garrett - There has been a lot of talk about stimulus packages to spur our nation's economy by putting some money back in the hands of the people who will spend it. This is the people's money and I am all for returning it to them. But, the simple fact of the matter is that the best way to create long-term economic growth and stability and to stave off sluggishness is to reduce our corporate capital-gains rate, lower tax rates on entrepreneurs and give American business the fuel to create and retain jobs.

Tax rebates of $146 million are good when reinvested in the economy. But all indications are that many of those rebate checks will not be spent but will be saved or used to pay down debt. In contrast, it was once estimated that Warren Buffett alone has unrealized gains of $35 billion to $40 billion that could be reinvested if not for the prohibitive capital-gains tax rate.

Earlier this month, I introduced the Economic Growth Act, which has four provisions: (1) full, immediate Section 179 expensing; (2) a cut in the top corporate tax rate to 25 percent; (3) an end to capital-gains taxation on inflation; and (4) the cornerstone of the bill, a simplified capital-gains tax structure in which the corporate rate would be cut down to the individual rate of 15 percent.

Currently, the American corporate capital-gains tax rate is 35 percent, which happens to be the highest rate in its history, with the exception of 1940-41 owing to World War II. Some of our global competitors like Belgium, Hong Kong, Malaysia, New Zealand and Singapore don't tax corporate capital gains.

Other competitors offer far better capital-gains taxation than the United States. For instance, Japan and the United Kingdom have exemptions when capital gains are reinvested. Even France and Germany passed a 95 percent exclusion. And, only the United States, Sweden and the Netherlands still tax corporate income at the corporate level and then again at the individual level when shareholders receive dividends.

The whopping 35 percent U.S. rate creates a "lock-in" effect of investment capital. This means that corporate taxpayers are less likely to sell appreciated assets because the high-burden tax makes it far from beneficial. The potential economic value of the assets is never reached, forcing corporate management to borrow on its appreciated assets, creating a higher debt burden for the company and less flexibility overall. The company's employees bear the burden of this unfortunate alternative and the economy as a whole suffers.

Some estimates put the total amount of locked-in assets at more than $3 trillion. If that

figure holds, and if it were all sold and taxed at the individual capital-gains rate of 15 percent, the government would net $450 billion.

History has shown that every time we have cut the individual capital-gains rate, our economy has benefited — in 1978, 1981, 1997 and 2003. In 2003, the cut literally breathed life back into a flagging stock market. According to the Federal Reserve, the 2001 recession was not due to a decrease in consumer spending; it was "an investment-led downturn." Because of the high risk that comes with a massive corporate capital-gains tax rate, businesses were not making sales or investing in one another. And, there are indications that history is again repeating itself.

Some analyses indicate that full repeal of corporate capital gains would create annual efficiency gains of $20 billion. But even cutting the rate to the individual rate would yield a great benefit to the economy — and is perhaps more politically palatable at this time.

If America wants to obtain long-term economic stability and spur economic growth and job creation, we need commonsense tax policies like the Economic Growth Act and we need to cut the corporate capital-gains tax.

Rep. Scott Garrett, New Jersey Republican, serves on the House Financial Services and the Budget Committees.