

Senator Battles US Investment Tax Hikes, by Mike Godfrey, Tax-News.com, Washington

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United States Senator Jim DeMint has been praised for his part in attempting to block higher tax rates on capital gains and dividends from taking effect at the start of next year.

In a letter signed by 16 members of the Double Taxation Working Group, which consists of representatives from the country's most influential free-market and taxpayer groups, DeMint, a South Carolina Republican, was applauded for trying to prevent tax increases that would "impede economic growth and undermine competitiveness."

Concerned that higher tax rates on saving and investment will occur automatically on December 31, 2010, Senator DeMint moved to make permanent the 15% rates established as part of the 2003 pro-growth tax bill. Failure to extend this provision will result in capital gains tax rising to 20%, and dividend taxes reverting back to the individual taxpayer's marginal income tax rate. However, an amendment tabled by DeMint in the Senate was voted down last month.

The letter states: "A higher capital gains rate discourages risk-taking and productive capital formation, which would mean less economic growth and job creation. Moreover, it is quite likely that a higher rate actually reduces tax revenue - especially in the long run. Taxes on capital gains also violate basic principles of fairness. It is a form of double taxation since people buy assets with income that already has been taxed. This is why every pro-growth tax reform plan eliminates the tax. Moreover, since the capital gains tax is not indexed to inflation, it often amounts to a tax on imaginary gains."

Duane Parde, President of the National Taxpayers Union, said: "Washington already sent the wrong signal to a fragile economy by enacting a health-care law that will eventually raise the top tax rate on desperately needed investment activity. This is just one more reason why Senator DeMint's efforts to keep capital gains taxes from rising further are so vital to a sustainable recovery."

Grover Norquist, President, Americans for Tax Reform, added: "The capital gains tax should be 'zero'. There should not be any redundant layers of tax on savings. But at the very least, the 15% rate should not go up."