JOINT ECONOMIC COMMITTEE
SENATOR DAN COATS, CHAIRMAN

EIGHT REASONS THE BUFFETT TAX IS A BAD WAY TO PAY FOR UNIVERSAL PRE-K

1. **Bad for jobs.** According to the Obama Treasury Department, four out of five Americans who earn more than a million dollars – the group targeted by the Buffett Rule's 30% minimum tax – are business owners.[1] Hiking taxes on entrepreneurs will leave them with fewer funds for hiring and growing the business.

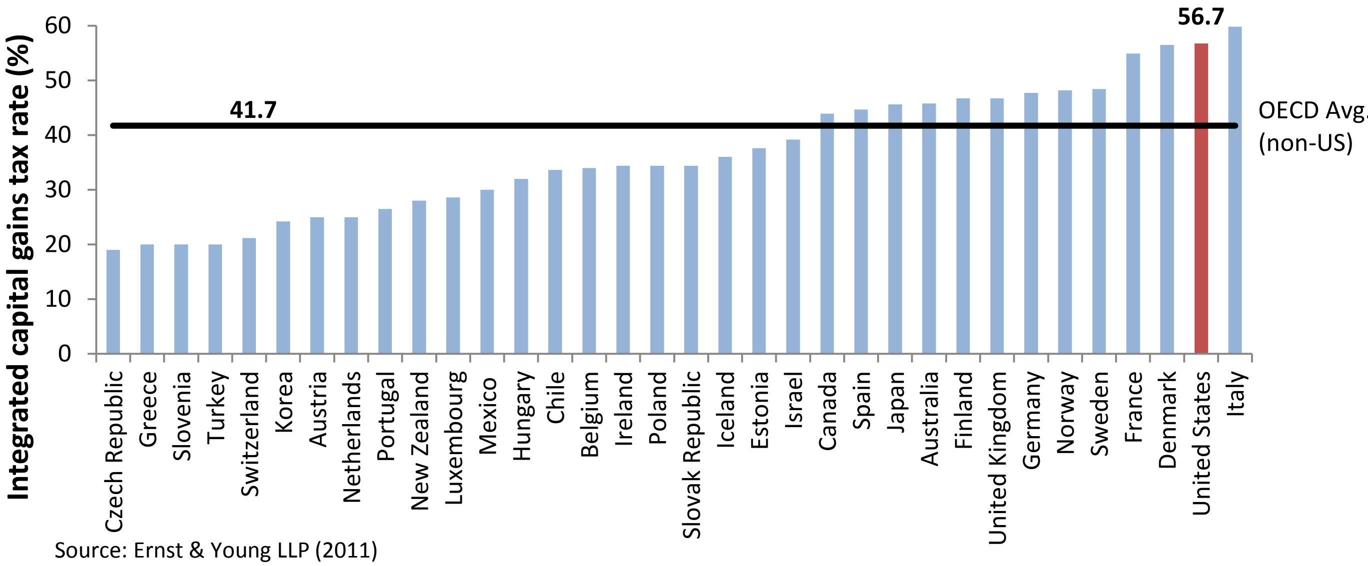
2. **Bad for economic growth.** The nonpartisan Joint Committee on Taxation assumes that the Buffett Rule will largely hit capital gains and dividend income, and taxpayers will respond by not selling stock, property, or other capital assets. In order for an economy to flourish, capital should be mobile and available for its highest uses. Economics 101 teaches that increasing the cost of capital is bad for economic growth. Real GDP shrank by 0.2% in the first quarter of 2015, bringing the recovery average down to about a 2% anemic pace since the recession ended. We can ill afford anti-growth gimmicks like the Buffett Rule.

3. **Hurts workers more than millionaires.** Millionaires can afford tax advice and use tax shelters to avoid the Buffett tax, but workers would have fewer tools to cope with the depressed wages and diminished job prospects caused by the Buffett Rule. According to a study by the Institute for Research on the Economics of Taxation, workers are the group that would be hurt most by the Buffett tax.[2]

4. **Affluent Americans already do pay more**. FactCheck.org examined the premise of the Buffett Rule that millionaires face lower tax rates than the middle class and found it to be false.[3] The Congressional Budget Office (CBO) projects that as a result of President Obama's tax hikes on upper-income Americans, the highest 1% of earners pay an effective federal tax rate of 33.3%, nearly triple the middle-income rate of 12.3%.[4] And even before the Obama tax increases, the Organization for Economic Cooperation and Development (OECD) found that the United States already had the most "progressive" tax system in the developed world, demanding more from the top 10% of earners than any other industrialized country.[5]

5. **Uncompetitive triple tax on capital gains.** Under President Obama, the top tax rate on capital gains has already spiked by almost 60%, rising from 15% to 23.8% (including Obamacare's 3.8% tax on investment income). This doesn't even tell the whole story, because income from shares of stock is also taxed at the corporate level. Including both corporate and individual taxes, President Obama's tax hikes have given America the second highest integrated capital gains rate in the developed world at 56.7%.[6] The Buffett Rule would add yet another layer of tax on capital gains. Having the highest corporate tax rate in the industrialized world is apparently not enough for some Members of Congress, since they seem eager for us to be #1 in taxing capital gains, too.

America is already #2 in taxing capital gains…



Source: Ernst & Young LLP (2011)

6. **Capital gains rates are lower for a reason**. First and foremost, lowering the cost of capital is good for economic growth. As discussed above, capital gains are already subject to multiple layers of taxation. In addition, a lower rate on capital gains mitigates the effects of inflation, which erodes the actual economic gain from selling an asset. We have experimented with high capital gains rates before, and it was a failure. After the capital gains tax rose to 28% in 1987, sales of capital assets sank and remained depressed until Congress lowered the capital gains rate to 20% in 1997.[7] Following this cut, capital gains revenues ballooned and helped balance the budget.[8]

7. **Marching toward $2 trillion in Obama tax hikes**. Obamacare raised taxes by over $1 trillion.[9] President Obama's insistence on tax increases in the January 2013 "fiscal cliff" compromise added hundreds of billions more. The Buffett Rule would pile another $45.2 billion[10] tax drag on our economy.

8. **Mr. Buffett can pay more whenever he wants.** If Warren Buffett feels guilty about not paying enough in taxes, there are ways for him to contribute more without dragging down the economy. Any American can make out a check to the Bureau of Public Debt, but few choose to do so.[11]

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[1] http://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/OTA-T2011-04-Small-Business-Methodology-Aug-8-2011.pdf (Table 14)

[2] http://online.wsj.com/news/articles/SB10001424052970203806504577183250095478594

[3] http://www.factcheck.org/2012/04/the-facts-about-fat-cats/

[4] https://www.cbo.gov/sites/default/files/cbofiles/attachments/49440-Distribution-of-Income-and-Taxes.pdf

[5] http://www.aei.org/article/economics/fiscal-policy/the-progressive-us-tax-code/

[6] http://images.politico.com/global/2012/02/120208_asidividend.html

[7] http://online.wsj.com/news/articles/SB10001424052702304259304576375951025762400

[8] http://online.wsj.com/news/articles/SB10001424052970203806504577183250095478594

[9] http://waysandmeans.house.gov/news/documentsingle.aspx?DocumentID=322006

[10] https://www.jct.gov/publications.html?func=startdown&id=4739

[11] http://money.cnn.com/2012/11/20/news/economy/national-debt-donations/