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BIDEN'S PROPOSED TOP MARGINAL CAPITAL GAINS TAX RATE WOULD SEND U.S. TAXES THROUGH THE ROOF!

If Joe Biden's proposed tax hike on capital gains is passed into law, the U.S. would wind up with the highest top marginal tax rate on capital gains in the Organization for Economic Co-operation and Development (OECD), according to a new report by the nonpartisan Washington-based Tax Foundation.

The marginal tax rate is the amount of additional tax paid for every *additional* dollar earned as income.

The foundation's Clifton Painter writes that when combined with the 3.8 percent net investment income tax (NIIT) and average top state capital gains tax rates, <u>the proposal would lead to a top combined rate of 48.4 percent—significantly higher than the current 29 percent rate</u>.

"Such a brutal tax hike would be a disaster for the U.S. economy," said Jim Tobin, economist and president of Taxpayers United of America (TUA).

The proposal would tax long-term capital gains as ordinary income for taxpayers with taxable income above $1 million and raise the top marginal income tax rate to 39.6 percent.

The report points out that many countries seek to incentivize long-term saving by providing a <u>lower</u> tax rate or a partial exemption on long-term gains.

In the U.S, short-term capital gains (held for less than one year) are taxed as ordinary income. Long-term capital gains (held for more than one year) are taxed at lower rates, ranging from 0 percent to 20 percent, plus a 3.8 percent NIIT, depending on an investor's income. In addition to these federal taxes, states tax capital gains at an average rate of 5.2 percent.

The Biden administration's proposal would make the U.S. top capital gains rate an outlier within the OECD at 48.4 percent, joining only two other countries with rates at or above 40 percent, writes Painter.

A business must first pay corporate income tax, and investors see their gains from after-tax profits. The "integrated tax rate" on corporate income reflects both the corporate income tax and the dividends or capital gains tax—the total tax levied on corporate income. The integrated tax rate on corporate income distributed as dividends would rise from 47.3 percent to 65.1 percent under Biden's tax plan, which would be highest in the OECD.

According to Tobin, the foundation correctly emphasizes that "Higher tax rates on individual shareholders reduce the return to saving, and higher taxes on corporations raise the cost of investment, reducing saving and investment. Lower investment levels and reductions in capital stock translate to lower work productivity, reduced wages, and lower economic output."

Source: https://taxfoundation.org/biden-capital-gains-tax-rate-oecd/