



# Joint Economic Committee

## Republicans

Senator Sam Brownback *Ranking Member*  
Representative Kevin Brady *Senior House Republican*

## Daily Econ Digest

Special Edition: Tax Rates

### Research, Reports & Studies

#### [The High-Income Rate Reductions](#)

A common argument is that the high-income rate reductions lower taxes on small business. ...rate reductions lower marginal tax rates on investment by all firms, including small businesses. Unfortunately, the more common forms of the argument adopt an exclusive focus on small business and obscure the growth implications.

#### [Obama Tax Hikes Defended by Myths and Straw Man Arguments](#)

Raising taxes now or in the future is the wrong course. Projected deficits are due to excessive spending, not a dearth of revenues. The arguments for defeating the tax increase are sound. Proponents of raising taxes have offered many straw man arguments and myths to support their case.

#### [The Three Biggest Myths About Tax Cuts and the Budget Deficit](#)

[The] dramatic increase in the federal deficit will be exclusively the result of increasing spending, not declining revenues (or the 2001 and 2003 tax cuts).

#### [Tax Cuts Are Still Not Driving the Budget Deficit: The Critics Fall Short](#)

...[the conclusion remains that] the tax cuts play a relatively minor role in past budget deficits, and that future deficits are driven by soaring mandatory spending.

#### [Obama's Tax Plan: Bad for Economic Growth](#)

The 2001 and 2003 tax relief packages expire at the end of 2010. All taxpayers will see a steep tax hike in 2011 unless Congress acts soon.

#### [Should We Raise Taxes on the Middle Class? We Already Are](#)

...by 2020, income tax receipts are projected to rise to 9.5 percent of GDP, even if all of President Bush's tax cuts are made permanent. By 2030, income tax receipts will rise to 10 percent of GDP, 22 percent higher than the historical level.

#### [The Economic Case Against the Death Tax](#)

The death tax slows economic growth, destroys jobs, and suppresses wages because it is a tax on capital and on entrepreneurship.

#### [Game of Chicken over Bush Tax Cuts Is Near](#)

Either way, there will be a shock to an economy still reeling and teetering at the abyss of deflation and deeper downturn.

#### [How the Death Tax Kills Small Businesses, Communities—and Civil Society](#)

What does the death tax kill? ...The death tax is simply antithetical to the core of the American dream.

### Quote of the Day

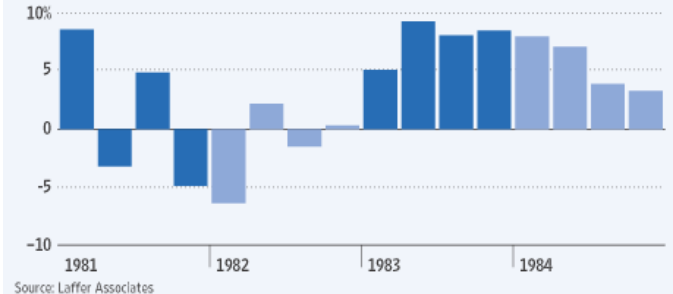
"Tax reduction thus sets off a process that can bring gains for everyone, gains won by marshalling resources that would otherwise stand idle—workers without jobs and farm and factory capacity without markets. Yet many taxpayers seemed prepared to deny the nation the fruits of tax reduction because they question the financial soundness of reducing taxes when the federal budget is already in deficit. ...fiscal prudence and responsibility call for tax reduction even if it temporarily enlarged the federal deficit—why reducing taxes is the best way open to us to increase revenues."

—Pres. John F. Kennedy, [Economic Report of the President](#), 1963

### Graphic of the Day

#### Incentives Matter

Real quarterly GDP growth, 1981-1984. The economy took off when the Reagan tax cuts kicked in.



[See: Supplying the argument for tax cuts to enhance revenue](#)

[See also: The Obama Tax Future](#)

### News

#### [Taxing Times for U.S. Investors](#)

One constituency apparently rushing to avoid higher capital-gains rates: longtime owners of private businesses. Midmarket bankers, including veteran Beatrice Mitchell of Sperry Mitchell, say they are seeing a significant rise in deal flow as clients that might have sold in the next few years race to get deals done.

#### [Higher taxes for the rich: What they'll pay](#)

...once taxable income exceeds about \$240,000, you could end up owing anywhere from an additional few hundred dollars to hundreds of thousands of dollars in extra taxes depending on how much you make ...people making more than \$300,000 are going to owe additional amounts in the thousands.

#### [Ending Bush Tax Cuts Will Hurt Economy: Goldman Analyst](#)

Extending the Bush tax cuts for all income levels beyond year-end would add a "couple tenths" to US economic growth, while allowing the tax cuts to expire would result in "well over a percentage point" hit, Jan Hatzius, chief U.S. economist at Goldman Sachs told CNBC.

#### [CBO: Tax Cut Extensions Will Yield Mixed Results](#)

CBO estimated that the initial higher GDP growth rate fueled by the extended tax cuts would prompt lower unemployment in the next few years. For example, CBO projected that the unemployment rate would fall by 0.3 percentage points to 0.8 percentage points at the end of 2011 and eventually to as low as 8 percent.

#### [As Tax Cuts' Expiration Date Nears, Little Consensus](#)

President Barack Obama wants to extend the Bush-era tax cuts for the middle class only. Many House Democrats want to extend them for that group, too, but perhaps only for a year or two. Republicans, and a handful of centrist Democrats, are talking about extending all the tax cuts.

#### [Tax hikes for the rich: Can the economy afford them?](#)

The debate over what Congress should do, which has been playing out for months in policy circles, is now receiving more prominent attention.

## Blogs

### [Morning Bell: The Obama Tax and Spend Hikes](#)

Our economy is not on the wrong track because we spent too little. According to Keynesian theory, a \$1.4 trillion budget deficit should have already stimulated our economy into full recovery. Our economy is struggling because of uncertainty caused by the tax and spend policies in Washington. The President's \$921 billion tax hike is not helping matters. A sound, responsible budget policy absent tax hikes does not demand radically lower levels of spending but only reversing Obama's radical spending. Congress should make current tax policy permanent and then get about the business of paring government spending to sustainable levels.

### [The Obama Tax Hikes: It's Not Their Money!](#)

It doesn't cost our government *anything* to allow us to keep the money we have earned. When a tax is not raised, the people get to keep their money, and that's it.

### [NABE Survey: Most Economists Favor Extending Bush Tax Cuts](#)

Fifty-four percent of those surveyed by NABE favored extending the current rates, while 33% favor Obama's plan to let rates rise on the wealthy.

### [A Failure to Tax Is Not a 'Corrupt' Government Giveaway](#)

[Krugman] consistently references money flowing from the government to individuals, when in fact money obviously flows in the other direction. He sees individuals' incomes as government's to give back, not something they have an implicit right to keep.

### [Economic Effects of 2011 Tax Hikes: Killing One Bird with Two Stones](#)

According to Laffer, the deleterious effects that President Obama's tax increases would have on the economy will add to the fiscal obligations of the federal government.

### [Higher Taxes On The Wealthy Mean 3.4 Million Spenders May Cut Back](#)

Even a 100% tax hike on the richest 2% of the population will make nary a dent in the federal deficit that ballooned under the spending of the last two years.

### [The Truth About the 2001-2003 Tax Cuts](#)

The majority of those filing in the upper income brackets have small business income or investments. Increasing taxes on business could cost the economy dearly. Former Congressional Budget Office director Douglas Holtz-Eakin calculates that an increase in the top rate could reduce small business hiring by 18 percent. The majority of economists agree that raising taxes at this time is the worst possible policy. Myths aside, the Bush tax cuts should be extended in full, even for "the rich."

### [Tax Cuts vs. Deficits](#)

According to MA economists, the expiration of any of the tax cuts will depress economic growth, but the effects are more pronounced if the reductions run out for everyone. "Full sunsets would shave 0.9 and 0.3 percentage point off real GDP growth in 2011 and 2012, respectively," the report says.

### [Tax Cuts Battle Royale: Obama vs. Boehner vs. McConnell vs. Reid vs. Senate Democrats...](#)

Whatever happens, don't hold your breath for anything to go down before the November mid-terms. As Democrat Jack Reed of Rhode Island pointed out last week, the chances of anything getting done before then are "very limited."

## "Did You Know"

["Had his life ended three months earlier, billionaire Dan L. Duncan's riches — Forbes magazine estimated his worth at \\$9 billion... would have been subject to a federal tax of at least 45 percent. If he had lived past Jan. 1, 2011, the rate would be even higher — 55 percent. Instead, because Congress allowed the tax to lapse for one year and gave all estates a free pass in 2010, Mr. Duncan's four children and four grandchildren stand to collect billions that in any other year would have gone to the Treasury."](#)

## Economists' Comments & Opinions

### [Tax Cuts vs. 'Stimulus': The Evidence Is In](#)

A review of over 200 fiscal adjustments in 21 countries shows that spending discipline and tax cuts are the best ways to spur economic growth.

### [The Soak the Rich Catch-22](#)

During this era of ubiquitous tax cuts, income tax receipts from the top 1% of income earners rose to 3.3% of GDP in 2007 (the latest year for which we have data) from 1.5% of GDP in 1978. Income tax receipts from the bottom 95% of income earners fell to 3.2% of GDP from 5.4% of GDP over the same time period.

### [Don't Tax — Cut!](#)

The phrase used to be "tax and spend." But now it's "spend and tax" -- spend money before you raise it, and then tax later to pay off the bills. That's not only irresponsible; it doesn't work.

### [Fairness and the Capital Tax Fetish](#)

The fairness advocates in effect claim that low tax rates on dividends and capital gains increase the share of the pie that goes to high-income savers. But the low tax rates increase the absolute size of the workers' slice by making the entire pie bigger. That's because low tax rates encourage capital accumulation, productivity & wage growth.

### [Make the '03 Tax Cuts Permanent, But Curb the Enthusiasm](#)

Considering taxes on the rich, when politicians seek to increase them what they're really doing is reducing the wages of the non-rich. All companies and all jobs are the certain result of individuals delaying consumption in favor of saving and investment, and with the rich by definition possessing the most wealth, to confiscate their earnings is to once again decrease the opportunities and pay of those who would someday like to be rich.

### [Soaking the Rich](#)

...higher tax rates — particularly steeper penalties on investors and entrepreneurs — are likely to slow economic growth... Even if growth only slows a bit, perhaps from 2.7 percent to 2.5 percent, the long-term impact can be big. After 25 years, a worker making \$50,000 will make about \$5,000 more a year if economic growth is at the slightly higher rate.

### [Why the Bush Tax Cuts Worked](#)

...lower tax rates on the high income earners are obviously beneficial for those earners. Yet this is only part of the story. To stimulate work, saving, and investment, tax cuts have no choice but to favor the taxpayers who respond most to taxes, as well as those likely to save and invest. That means high income earners.

### [Keep the Bush Tax Cuts](#)

...folks who currently pay the 35 percent rate generate roughly 66 cents of every dollar in taxable, small-company profits. When these same small-business people see their taxes rise 13 percent to the pre-Bush 39.6 percent rate, they will be less likely, not more, to hire people, expand their operations, or unleash brand-new enterprises.

### [Keep all the Bush tax cuts](#)

Economists recognize highly productive people, if taxed punitively, create less wealth in the United States through arcane tax planning or simply move investments offshore. Higher taxes for high-income families would raise rates on fully half of the income earned by proprietorships and leave those small and medium-sized businesses with less to invest in creating new jobs.

### [DWYER: Bush tax cuts boosted federal revenue](#)

...[Bush] cut the dividend and capital gains rates to 15 percent each, and the economy responded. In two years, stocks rose 20 percent. In three years, \$15 trillion of new wealth was created. The U.S. economy added 8 million new jobs from mid-2003 to early 2007, and the median household increased its wealth by \$20,000 in real terms.

### [Why hiking taxes on the 'rich' doesn't work](#)

The real reason to oppose increasing tax rates on the wealthy is that it's a good bet they could do more to help the economy if they keep their money rather than have their earnings confiscated by the government and spent on another round of stimulus.