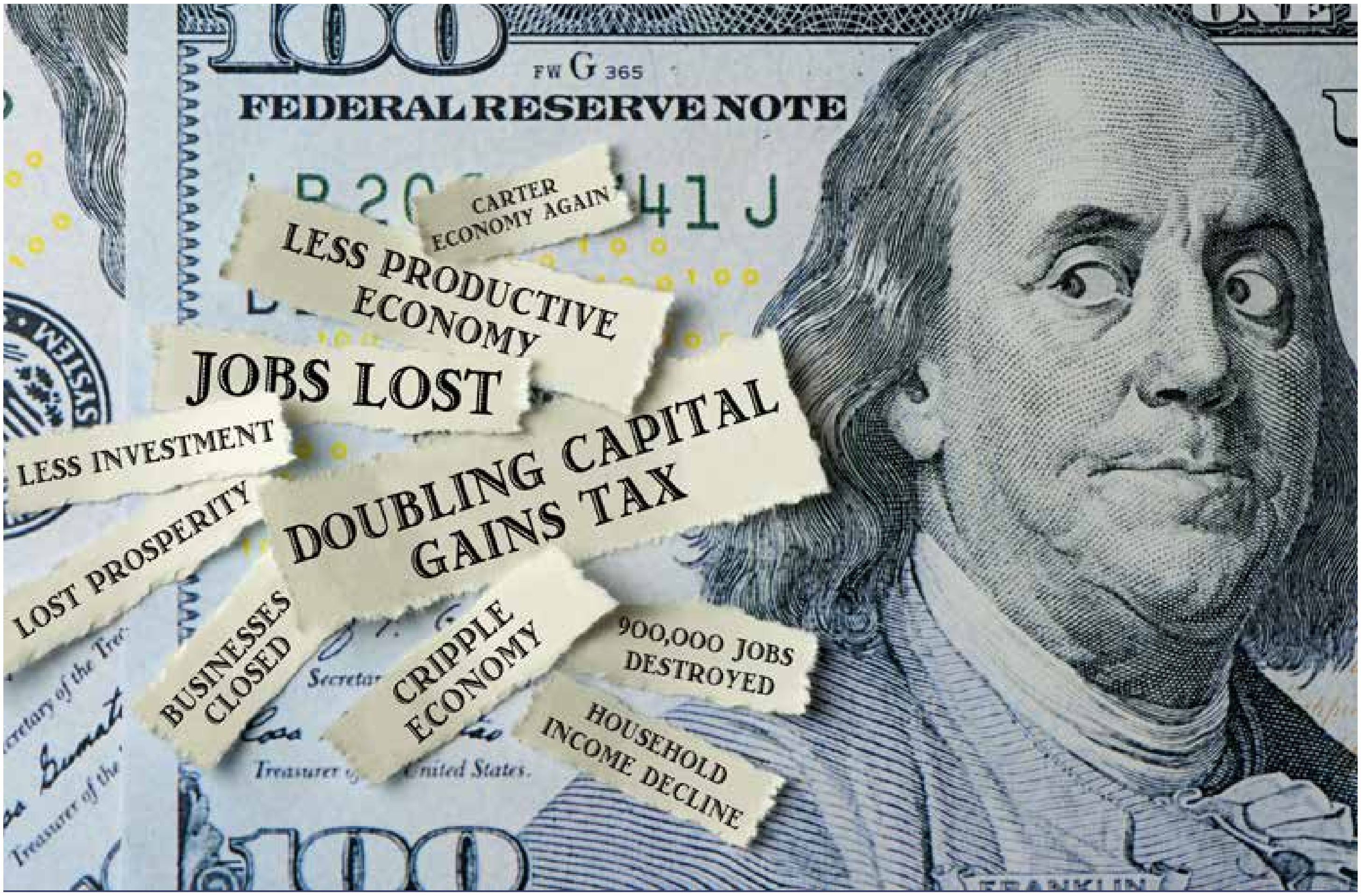

ECONOMIC IMPLICATIONS OF THE BIDEN PROPOSED DOUBLING OF THE CAPITAL GAINS TAX

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The Biden administration proposes to impose a top capital gains tax rate of 43.4%, the highest among member countries of the Organization for Economic Cooperation and Development, made up of the world's wealthiest nations. Additionally the administration proposes to eliminate the step-up in basis tax treatment for assets willed to heirs. It proposes to make that tax payable at death.

HOW CAPITAL GAINS IS TAXED TODAY

Under current law, if John Doe bought stock for $100,000 in 1980 and sells it for $200,000 today, he pays capital gains taxes on the difference. But if Doe dies, his heirs only pay capital gains tax on the gain in the value of the stock from the day of Doe's death and only when they sell it. This is called the step-up in basis tax treatment, meanwhile families also pay the confiscatory Estate Tax of 40%.

Biden would not only increase the tax imposed on capital gains to 43.4%, but it would be due and payable at death -- not when heirs sell an asset.

The step-up in basis treatment reduces the portion of the value of the asset that is subject to the capital gains tax, limiting the tax burden on heirs. And crucial to the economic impact, this lowers the tax burden on such investments thus increasing the capital stock of the nation by lowering the tax penalty on such investments.

An example might be helpful: Let's say a business buys an office building for $1 million and uses that building for ten years. The officers determine that they need a newer, bigger building and they sell the old building for $2 million. The increase of $1 million over the original purchase price is currently taxed at 20% or $200,000. But if the Biden tax hikes go forward, the top capital gains tax would be 43.4%. The business' leaders may determine that the new building no longer makes sense and cancel the project. They make do with the old building and rent some added space and do not add staff as planned. Construction jobs are lost. New office equipment isn't purchased and the federal government doesn't get the tax revenue. The economy is just a little bit smaller that it would have otherwise been.

THE WORLD'S INVESTORS LOOK AT THE U.S. TAX CODE

It is important to consider the international implications of such a tax hike on investments. We live in a world in which investors are shopping not only for solid economic proposals, but they shop for how any gains from their investment will be taxed. International bureaucrats (and many at home) decry the practice. The thought that a government taxing agency should seek to attract investment, entrepreneurship and innovation by rewarding such things via lower taxes is distasteful to those favoring higher taxes. Thus it is not surprising that more prosperous nations tend to have lower levels of taxation.

And, internationally, it should be noted that politicians often seem to be decrying "balance of trade deficits." In other words when one nation doesn't export as much as it imports there is a trade deficit. In the case of the U.S. it can amount to hundreds of billions of dollars per year. In June of this year alone the deficit in goods traded totaled $93 billion -- the U.S. bought from abroad $93 billion more in good than we sold. The fact usually missing from the reports on trade deficits is that tautologically, a trade deficit equals a capital surplus. In other words, for every billion of imported goods and services not equaled by U.S. exports, there is an equal billion invested in the U.S. Nations like Japan and China with surplus dollars must invest in the U.S. Often they buy U.S. Treasury bonds, helping to finance our federal government debt. They often build Kawasaki or Honda or Kia plants or invest in other businesses in the U.S. that create jobs for Americans.

But, should the U.S. actively try to reduce the amount of the trade deficit (capital inflow surplus), policy change which would be needed is a simple one: Make the U.S. a poor place to invest. That would result in fewer billions flowing into the U.S., less capital in the U.S., less investment and a smaller GDP.

THE IMPACT OF HIGHER CAPITAL GAINS TAXES

There is a movement to negotiate tax rates among nations so as to reduce tax competition. The Biden administration has given lip service to such an international agreement, but there are obstacles. Nations such as Ireland have made it clear that they will not raise taxes and sacrifice their economic growth. In addition, such a tax treaty would have to be ratified by the U.S. Senate, and it is unlikely that such a commitment to adopt tax hikes could pass the Senate.

Tax changes affect real behavior. A higher capital gains tax and elimination of step-up in basis would mean less productive economic activity. That would lead to reduced tax revenue: less investment, less risk, less enterprise.

A recent groundbreaking study by the Committee to Unleash Prosperity has found that the tax hikes would cripple the economy. Our example is a small example of what would happen economy-wide. The Committee's report shows that 900,000 jobs would be destroyed and the average American household would see their income decline by about $10,000 over ten years. Individual states would take proportionate hits. California alone would lose 125,000 jobs. Even states with relatively small populations like West Virginia and Montana would be hit. They would lose 4,000 jobs each (think of the enticements offered by states to get a corporation to build a plant with just 1,000 or 2,000 jobs!)

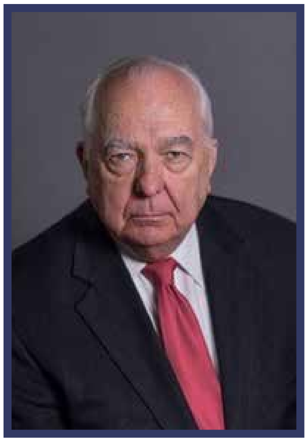
A sad irony of the proposed tax hike and the Biden $3.5 trillion spending bill is that the spending and the tax hikes to partially pay for it will not bring prosperity. The Keynesian argument rests on the idea that government spending boosts economic activity but sadly, that thesis has been proved false many times. Such policies lead to inflation and stagnation. Those who can look at the record can see what Jimmy Carter did. We don't have to go through that again.

DON'T REPEAT PAST MISTAKES

Not only does the study by the Committee to Unleash Prosperity show that the Biden proposal would handicap the economy at a time when the economic ill-effects of the Covid pandemic seem to be abating, the Democratic-dominated Joint Committee on Taxation of Congress has found that capital gains taxes above 28% start to reduce federal tax revenues. And the Biden proposal is to impose a 43.4% capital gains tax.

The Biden proposal with its effective doubling of capital gains tax paid on assets of those who pass way (a doubled death tax), it would impose great hardships on family farms, family owned businesses, and those who service or work for those enterprises.

While claiming to promote prosperity and help the middle class, the Biden spend and tax schemes would do the opposite.



Author Howard Segermark's experience and influence as a seasoned policy professional have landed him on the pages of The National Review and the Wall Street Journal, among other publications. He is the author of numerous articles including "The Citizen Lobbyist", a handbook for the average concerned citizen to be effective in lobbying Congress or the state legislature, and is author and developer of "The Government Relations Audit." In his initial years on Capitol Hill, he was Legislative Assistant to the Ranking Republican on the House Health Subcommittee and Chief of Staff for a member of Congress from Idaho. He later would go on to serve as Tax Counsel for a Democratic Member of the Senate Finance Committee and as Economic Counsel to Republican Senator Jesse Helms of North Carolina. In that post he aided in the passage of the Gold Clause Contract Freedom Act and legislation which established the U.S. Gold Eagle coins and the U.S. Gold Commission. In addition to engineering numerous legislative successes, he also directed the Presidential Transition Team on Multilateral Financial Institutions for President-Elect Ronald Reagan. Recent years have seen Howard testify before state legislative committees and regulatory commissions in over twenty states, and represent clients before the Federal Communications Commission, the Federal Trade Commission, the Internal Revenue Service and other agencies. In March of 2012, he testified before the House Subcommittee on National Parks and Public Lands on the controversy over the Dwight Eisenhower Memorial. He currently serves as the senior Trustee on the American Motorcyclists Association Political Action Committee and is a founding director and past Chairman of the National Civic Art Society. He also is a director of the Committee for Monetary Research and Education, and is a past Trustee of the Philadelphia Society. In addition, he is a founding member of the Committee for Western Civilization, a founder of the Motorcyclists Riders Foundation and past Vice-Chairman of the Institute on Religion and Public Policy. Howard is Co-Chairman of the Churchill Society Cigar Exchange Dinner which hosts dinner colloquies featuring prominent political leaders, authors and academics. Since his time serving as Co-Chairman and host, these gatherings have quickly become one of the most sought after invitations in Washington D.C. He serves on the Board of Advisors of the Columbus Society of Milan, Italy and presented a paper there in May of 2013. In recent years he has spoken on economic growth, monetary policy and Washington politics in Milan, Italy; Buenos Aries, Argentina; Hang Czhou, China; San Jose, Costa Rica; and Recife, Brazil. He has been a participant at the annual Monetary Roundtables which were hosted by Nobel Laureate Robert Mundell in Sienna, Italy.

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