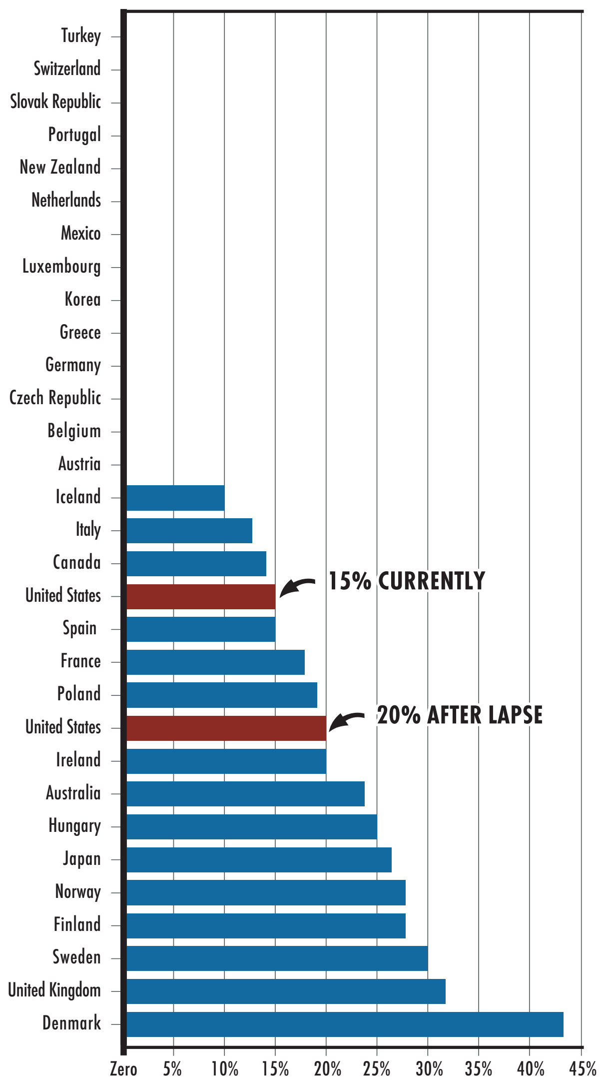
Will Congress Allow the U.S. to Lose Its Competitive Edge by Raising Taxes on Capital Gains?

Individual Long-Term Capital Gains Tax Rates2005-2006



* The rates are based on long-term capital gains tax rates applicable to gains on sales of shares.
Source: Individual Taxes 2004-2005, Worldwide Summaries (PricewaterhouseCoopers), European Tax Handbook 2005 (International Bureau of Fiscal Documentation) and various government web sites.

Congress has a choice to make – extend the current 15% tax rates on capital gains and dividends or allow them to expire at the end of 2008. Does it matter? Yes, because the 2003 tax cuts on capital gains and dividends, by reducing the taxation of saving and investment, have been a boon to the U.S. economy.

A low capital gains tax rate has an important role to play in fostering economic growth. Since the historic reduction in capital gains taxes initiated in 1978 by the late Congressman Bill Steiger, lowering taxes on capital gains has been a crucial element in promoting the entrepreneurial drive on which the U.S. economy thrives. Entrepreneurs are a major force for technological breakthroughs, new start-up companies, and the creation of high paying jobs. Many today believe that the '78 cut in capital gains tax rates not only helped make Silicon Valley the center of technological breakthroughs but has also had a strong, positive, and lasting impact on overall investment, economic growth and job creation in the U.S.

How does the U.S., with its 15% capital gains tax rate, stack up against other increasingly competitive global economies? The U.S. stands in the middle of the pack of the 30 member countries of the Organization for Economic Cooperation and Development (OECD). In fact, 14 OECD countries have no tax at all on capital gains. Failing to extend the current 15% rate on U.S. capital gains risks slowing this country's investment, impairing our competitiveness, and damaging U.S. economic growth and job creation.

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