

Proposed Capital Gains Tax Cut Would Divert Stimulus Funds to the Very Wealthy

Key Backer Indicates Tax Break Would Hurt Stock Market As Well

House Republicans continue to push for a reduction in income taxes on capital gains. The latest proposal, from Ways and Means Committee Chairman Bill Thomas (R-Calif.), would cut the top capital gains rate from the current 20 percent to 18 percent.¹

A distributional analysis of the Thomas proposal finds:

- More than 70 percent of the proposed tax cuts would go to the best-off one percent of all taxpayers. The average tax cut for these taxpayers would be \$5,356 in 2002.
- Ninety-three percent of the tax cuts would go to the top 10 percent.
- In contrast, for the bottom 80 percent of taxpayers, the capital gains tax reduction would be worth virtually nothing.

According to stockbroker Charles Schwab, who is lobbying for a capital gains tax cut, the current 20 percent capital gains tax rate has led to “stock prices that [are] too high”—implying that a lower capital gains tax rate would depress the stock market.²

“Our country is in the middle of a war against terrorism, our economy is staggering, and all these guys can think of is more tax cuts for the rich,” said Robert S. McIntyre, director of Citizens for Tax Justice. “It’s just plain weird.”

Effects of Reducing the Top Capital Gains Tax Rate to 18%

Income Group	Income Range	Average Income	Total tax cut (\$-bill.)	Average tax cut	% of total tax cut
Lowest 20%	Less than \$15,000	\$ 9,600	\$ -0.0	\$ -0	0.0%
Second 20%	\$15,000–28,000	21,500	-0.0	-0	0.1%
Middle 20%	\$28,000–46,000	35,900	-0.0	-1	0.4%
Fourth 20%	\$46,000–75,000	58,800	-0.2	-7	1.9%
Next 15%	\$75,000–153,000	101,000	-1.0	-52	10.2%
Next 4%	\$153,000–384,000	217,000	-1.7	-316	16.7%
Top 1%	\$384,000 or more	1,137,000	-7.0	-5,356	70.7%
ALL		\$ 60,500	\$ -10.0	\$ -75	100.0%
ADDENDUM					
Bottom 60%	Less than \$46,000	\$ 22,300	\$ -0.0	\$ -1	0.5%
Top 10%	\$108,000 or more	263,000	-9.3	-706	93.1%

The table shows the effects in 2002 of reducing the maximum capital gains tax rate from the current 20% top rate to 18% on all long-term gains (and to 8% for 15% bracket taxpayers, compared to about 8.4% under current law). Figures are at 2002 levels.

Source: Institute on Taxation and Economic Policy Tax Model

Citizens for Tax Justice, October 12, 2001

¹The proposal would also lower the capital gains tax rate on the small share of gains going to 15-percent bracket taxpayers to 8 percent. Currently, that rate is 10 percent on assets held for 1-4 years and 8 percent for assets held for 5 years or more, with an average rate of about 8.4 percent.

²“Over the 40 years I have studied investing behaviors, I have seen many people hold stocks far beyond when they should have because of capital gains taxes. . . . The result was . . . too much money chasing too few shares creating stock prices that were too high. . . . [To solve this problem] our capital gains tax should be lowered.” Charles R. Schwab, Chairman, The Charles Schwab Corporation, full page advertisement in the *Washington Post*, October 11, 2001, p. A27.