

Support Fair and Simple Capital Gains Taxes

Problem:

The capital gains tax is a fee that the federal government imposes on profits made from the sale of assets such as real estate, stock, the sale of businesses, collectibles, and other assets with increased value—the “gain.” Capital gains taxes become due when one sells an investment. Long-term capital gains are taxed at 0 percent, 15 percent, and 20 percent. Discussions surrounding raising the capital gains tax have gained traction amongst lawmakers, as well as President Joe Biden. A capital gains tax increase could harm investment in start-ups and growth companies, and it could undermine entrepreneurship.

- Senate Committee on Finance Chairman Ron Wyden (D-Oregon) has proposed a plan that would tax the capital gains of the highest-earning taxpayers annually, at ordinary income tax rates. Known as “mark-to-market” taxation, this plan would eliminate the “lock in effect” by eliminating deferral and effectively eliminating the choice over when to pay taxes on capital gains. It would also increase the tax burden on saving and make the tax code more complex.
- Under current law, investors are not required to pay taxes on capital gains which accrue to their assets until they are sold. This ability to defer taxes on capital gains reduces the effective tax rate on capital gains, but also creates a “lock in effect.” Investors have an incentive to hold assets for a long period in order to minimize their tax liability. If investors wait to pass property on until death to heirs, they can escape capital gains taxation completely through a process called “step-up basis.”
- President Biden has proposed raising tax rates on long-term capital gains income for the highest-income investors—those earning more than \$1 million annually--from the current 23.8 percent to 39.6 percent and taxing accrued gains on assets that are held when someone dies.

Solution:

Any proposal to raise the taxes on capital gains must be structured to ensure that small businesses do not bear the burden.

- Smaller firms should be exempt from proposals to increase and change the capital gains tax.
- Congress must ensure American small businesses can secure funding for growth and innovation and changing or increasing capital gains taxes on small businesses will have a stifling effect.