



September 22, 2010

More than 300 Economists Say to Congress: Support Extension of Lower Tax Rates!

Dear Member of Congress:

We, the undersigned economists*, write in support of extending current tax rates on income and investments in order to prevent a devastating blow to America's fragile economic recovery. Robust economic growth is best served by a tax code that levies low and predictable rates. The promise of a tax increase in January 2011 would create significant economic distortions as individuals and businesses conserve capital or stave off hiring.

Failing to extend the reduced tax rates implemented in 2001 and 2003 would constitute a profound and damaging "anti-stimulus" that would harm our prospects for expansion in the near future. The 10 percent bracket would disappear, and the three middle tax brackets would rise by three percentage points, heaping heavier burdens on the working class and wealthy alike. The top marginal income tax rate would rise from 35 percent to 39.6 percent, leading to higher tax bills not just for wealthy individuals but for many small businesses that file their taxes through the individual income tax system. Capital gains and dividend taxes would rise from top rates of 15 percent each to 20 percent and 39.6 percent, respectively, penalizing entrepreneurship and potentially leading to a harmful sell-off of assets in December of this year. Americans would also see the return of the now-defunct estate tax at a top rate of 55 percent, jeopardizing the ability of family businesses to remain intact as they pass to the next generation.

In addition, allowing these tax provisions to expire threatens to increase the already staggering complexity of the code. According to a National Taxpayers Union study, individual taxpayers alone will spend 2.43 billion hours complying with income tax laws this year. This loss of time and associated costs (estimated at more than \$100 billion) would only be made worse if policies such as the estate tax, "Pease limits" on itemized deductions, and the Personal Exemption Phaseout were permitted to return.

Even confining tax hikes to wealthier individuals will have deleterious effects, as households earning more than \$210,000 account for one of every three dollars in consumer outlays. Furthermore, businesses directly impacted by upper-bracket tax increases would slow their activities, thereby diminishing economic opportunities for their subcontractors in lower brackets. Finally, a growing economy and prudent spending restraint – not punitive taxes – comprise the best route to reducing long-term federal budget deficits.

Congress should prevent these new burdens from hitting all American families and businesses, as they threaten to undermine an economy still suffering from 9.6 percent unemployment and anemic growth. If Congress allows heavier taxes on work and investment, we will undoubtedly see less of both at a time when they are needed most.

Sincerely,

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