Senate Committee on Finance
U.S. Senator Orrin Hatch (R-UT), Ranking Member
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HATCH STATEMENT AT JOINT COMMITTEE HEARING ON TAX REFORM & THE TREATMENT OF CAPITAL GAINS

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following remarks during a joint Senate Finance and House Ways and Means Committee hearing on tax reform and the tax treatment of capital gains:

From 1921 through 1987, and then again after 1990, capital gains have been taxed at a lower rate than ordinary income. A number of justifications have been given as to why we have preferential treatment for capital gains.

For example, the lock-in effect is usually given as a reason for having preferential treatment for capital gains. Since capital gains are only taken into account when realized by a sale or exchange, investors can avoid paying the capital gains tax by simply holding on to their capital asset. As a result, the capital gains tax has a lock-in effect, which reduces the liquidity of assets and discourages taxpayers from switching from one investment to another.

Other important reasons given for preferential treatment for capital gains are that a low capital gains tax increases savings and investment, counteracts the two levels of taxation of corporate income, and corrects the income tax law's bias against savings.

Next year, an additional tax on capital gains is scheduled to go into effect. As part of the President's health care law, a new 3.8 percent tax on the net investment income of single taxpayers earning more than $200,000 and married couples earning more than $250,000 goes into effect. These amounts are not indexed for inflation. With the scheduled expiration of the 2001, 2003, and 2010 tax relief at the end of this year, capital gains will be subject to a 23.8 percent tax beginning in 2013 – a whopping 59 percent increase from current law.

According to the OECD, the United States has the most progressive tax system in the industrialized world. Should we make it even more progressive by raising the tax rate on capital gains? The top ten percent of households already pay 70 percent of all Federal income taxes. So when is enough progressivity achieved?

Over 50 years ago, a leading tax scholar wrote that *everything there now is to say on the problem of capital gains has already been said.* I disagree. I think the issue of preferential treatment of capital gains is critically important today with new evidence being generated, as witnessed by the joint report of the staff of the Joint Committee on Taxation and the Congressional Budget Office issued in June.

We have a very distinguished panel here with us today, and I look forward to hearing what our witnesses have to say.

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