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## Tax shell game

By Richard W. Rahn

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If a politician does not vote to extend or make permanent the 2003 Bush tax cuts that are now set to expire at the end of 2010, is he or she voting for a tax increase? Most Republicans will say "yes" and most Democrats will say "no." When it comes to tax increases, all too many Democrats, sounding like Bill Clinton, basically respond, in essence, by saying, "How do you define tax increase?"

The Democrats, in particular, try to obfuscate their position on taxes, because if they didn't they would lose votes. Months ago, Democrat House leaders, such as Nancy Pelosi and Charles Rangel, were telling us they wanted to repeal all the Bush tax cuts. Now this position seems to have morphed into repealing the tax cuts "on the rich" but not on the "middle class." However, the shell game here is their refusal to define "middle class." Do they define a middle-class taxpayer as one who makes \$50,000 per year, or is it \$80,000 or \$120,000? No one knows because they will not tell us. (In fact, income taxes are taxes on *becoming rich*, not on being rich, like John Kerry, Nancy Pelosi, Harry Reid and Ted Kennedy, who effectively shield much of their wealth from taxes.)

Many people say there is no difference between the two parties. And there is some truth to that on many foreign policy, government spending and even some social issues where the positions between the two parties at times become muddy, with members of both all over the lot. However, there is one issue where the difference between the two parties is quite distinct, and this is the issue of income taxes.

For many years, Americans for Tax Reform (ATR) has asked both elected officials and challengers for federal and state offices to take "a tax pledge" not to "increase marginal income tax rates for individuals or businesses." The current signers of the pledge among House incumbents include 220 Republicans and only three Democrats; and among House challengers 95 Republicans and one Democrat. Among Senate incumbents, 46 Republicans have signed versus one Democrat; for Senate challengers, 15 Republicans as against no Democrats.

The tax pledge seems effective because the ATR folks say they cannot find a "single Republican in Congress voting for an income tax increase since 1990." But, some Republicans have voted for some non-income tax increases. Yet, it is unambiguously clear that Democrats are far more prone to vote for tax increases than Republicans.

The Democrats have no clear position on which of the Bush tax cuts they like or don't like. Some, like Democrat Senate candidate James Webb of Virginia, say they want to retain the lower tax rate on capital gains and dividends, because they realize most middle-class people occasionally have capital gains on homes, farms, small businesses, and more than half of all Americans hold corporate stock.

However, Mr. Webb, unlike his Republican opponent George Allen, refuses to say he will not raise income tax rates for even the lowest-bracket wage earners, despite saying he won't increase taxes on the "middle class" (which he and his staff will not define).

Many Democrats want to increase the capital-gains tax rate, claiming it is a benefit for the rich. They are unable to understand that most people, several times in their lives, have a major capital gain (which makes them appear "rich" for that year, according to Democrat folklore), but are, in fact, not rich at all. By contrast, more than 85 members of Congress (all Republicans) have signed on as co-sponsors of a bill introduced by Republican Reps. Mike Pence of Indiana and Eric Cantor of Virginia to index capital gains for inflation. This would protect taxpayers from paying tax on imaginary gains due solely to inflation. (Assume you sell a stock whose price has doubled in 25 years, but in reality there has been no gain at all because the entire increase in price has been due to inflation. Under current law, you would pay a tax on that imaginary gain, but under the Pence-Cantor proposal you would only pay a tax on the amount above the imaginary inflation gain.)

Finally, many Democrats, including James Webb, want to effectively increase corporate tax rates (failing to recognize the U.S. now has the second-highest corporate tax rate of any major country). They assume we are all too dumb to realize the corporation, only a legal entity, does not pay the tax, but its workers will with lower wages, its stockholders will with lower returns, its suppliers will with fewer orders, and its customers will with higher prices. The Democrats love to play the shell game and pretend none of us will suffer because of their higher taxes, but in the real world, thinking people know better.

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