

**Your on the
Street Reporter**



Uyless Black

Capital Gains: Give Back

Capital Gains: Give Back

April 29, 2017

Where is much of America's economic prowess and associated wealth going? Some of it is not finding its way into America's economy. It remains overseas.

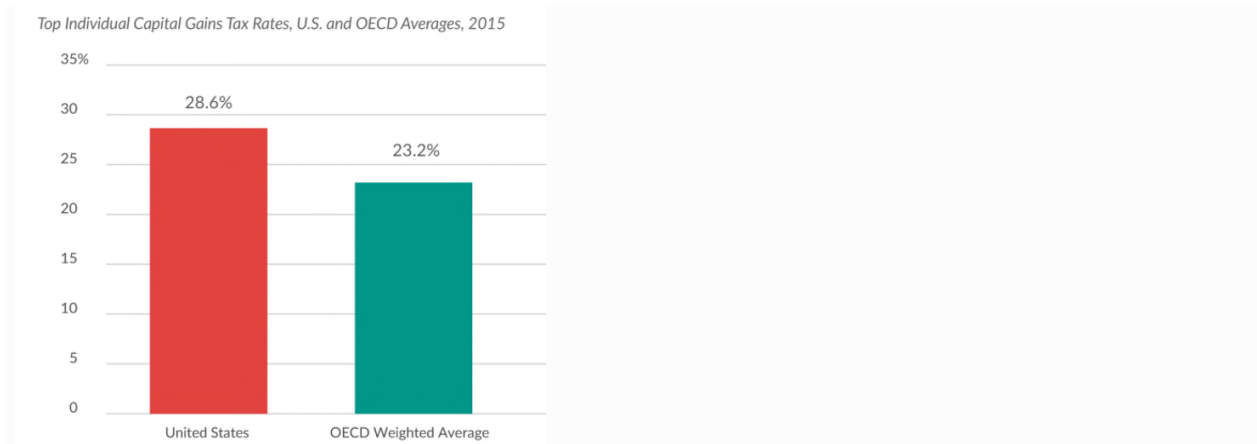
It should be coming back to America's shores. But the U.S. companies doing business overseas are handicapped for bringing their income back to these shores. Their capital gains are heavily taxed, considerably more than most other countries tax their own companies.

Apple and other large American-based companies are vilified in the main-stream media for "stashing" their income in foreign banks. They are accused of not being patriotic.

As a retired private business owner, one that conducted business in 15 countries, I was going to do exactly what Apple has done: leave the company's income in the countries where I did the business. My intentions did not come about, a story for another time, but I was motivated to do so because of Uncle Sam's capital gains tax.

How America's financial system is so distorted as to penalize innovative and profit-making companies has been a subject of contention for years. Past administrations have vowed to right this distortion, to reduce the capital gains tax rate. None succeeded. I believe President Trump will succeed. He has a Republican Congress behind him, and for what it's worth, this writer.

To frame this discussion, refer to the figure below. It compares the capital gains tax rates of the United States with other countries. It is evident that Uncle Sam has his business industry operating at a handicap.



OECD: Organization for Economic Co-operation and Development

Yet, many institutions in the United States, notably those who do not have to meet a payroll, are against reducing the capital gains tax. They lament that business is getting a break that ordinary citizens do not have. I believe America's high capital gains tax does considerable harm to America's businesses and ultimately, its citizens.

A capital gains tax is a double tax on income. First, the tax on retained earnings of a company in one year. Second, the tax levied on the company's owners/stockholders in payouts that might come in subsequent years.

Some proponents of reducing or eliminating the capital gains tax state: Just deplete the company's monetary reserves each year in a distribution to the owners/stockholders and end-up with zero profit, which means: no taxes.

A fairy tale. No company can operate on such a thin margin.

A more realistic and effective solution is to reduce America's capital gains tax. Mr. Trump's actions on capital gains, if implemented, will bring back capital to America, without unduly penalizing America's companies.

With the present arrangement, we are punishing America's companies for their being successful.