

## Under the Sheltering Lie

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### [MARKETPLACE]

**ANCHOR:** There are billions in budget cuts being bandied about on Capitol Hill. But don't lose sight of the other cuts some in Congress are fond of--tax cuts. Lawmakers will be taking up capital gains and dividend tax breaks right after the New Year. The White House says lowering those taxes will create jobs and create opportunity. Tax analyst and commentator Len Burman says it's anything but.

**SCRIPT:** If the capital gains tax cuts really were the elixir for the economy, you'd expect to see evidence in the data.

But historically, there is no relationship between the taxation of capital gains and economic growth.

Here's why.

Yes, businesses have more money they can put into productive activity.

But at the same time, it also creates lots of incentives for unproductive tax shelters that hurt the economy.

Right now, the top tax rate on capital gains and dividends stands at 15 percent ... and the Congressional leadership wants to make sure it stays that way through the rest of this decade.

Meanwhile, the top tax rate on ordinary income is a much higher 35 percent.

When tax rates on investment gains are much lower than rates on ordinary business income, tax lawyers find ways to dress that ordinary income to look like those capital gains.

The IRS knows this trick and has shut the door on the most obvious abuses. But that just makes the challenge more fun and lucrative for the legal and financial wizards in the tax shelter industry.

Here's how it works. You make an investment that produces tax deductions--say lease payments for something you may or may not need.

Right away, your current taxable income drops. Down the road, you get your money back in the form of a capital gain, which is taxed at less than half the rate of your other income.

You can save up to \$200,000 in taxes on every million you launder this way.

Thanks to these tax shelters, some very rich people can wiggle out of most of their tax bills.

Besides that, shelter investments are invariably lousy, unproductive ventures that would never exist but for tax benefits. And money poured down these sinkholes isn't available for more productive activities.

What's more, the creative energy devoted to cooking up tax shelters could otherwise be channeled into something productive. Wouldn't it be a shame if the next Bill Gates wasted her talents inventing tax shelters instead of inventing a new industry?

Bottom line: low tax rates on capital gains are as likely to depress the economy as to stimulate it.

**ANCHOR:** Len Burman is the author of "The Labyrinth of Capital Gains Tax Policy: A Guide for the Perplexed."

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