

Political Talk About A Capital Gains Tax Cut

By Charles Clar

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This feature deals with USA tax laws and how you can use them to your advantage. It is made available on a more or less weekly basis.

Will Political Talk About A Capital Gains Tax Cut Turn Into Action?

In the past few issues of Terrific Tax Tips, we've been discussing capital gains tax rates and ways to use this part of the tax law to your benefit. While it's too soon to assess the impact, if any, of last week's atrocities on U.S. tax policy, it seems logical that improved economic health will be a political necessity while the war on terrorism is waged.

Republican leaders in Congress have proposed that the rates be lowered to help the ailing economy and to assist with the federal budget revenue shortfall. President Bush is currently weighing the if and when of supporting the proposal.

Here's what the President said: 'I'm open minded. I agree with the assessment that capital gains tax relief would pile up some revenues early in the process. What I'd like us to do is take a look-see to make sure that the stimulus package that we're now implementing works.'

Basically he wants to see if the recently enacted tax rebate program stimulates the ailing economy. President Bush noted that only half the tax rebate checks have been delivered and that most other provisions of the \$1.35 trillion tax reduction plan have not taken effect.

Mr. Bush's press spokesman, Ari Fleischer, indicated that the earliest the administration would address this rate cut issue would probably be in the fiscal 2003 budget (the fiscal year that begins in October 2002).

Trent Lott, the Senate Republican leader, has proposed a two year cut in the top capital gains rate from 20 to 15 percent for investments held more than one year. He said such a cut would help stimulate the economy and boost federal tax revenues in the short term as investors move to take

advantage of the rate reduction. The Speaker of the House also wants a decreased rate.

Democrats have generally been against reducing capital gains rates because they say the cuts disproportionately benefit higher income individuals and cost the Treasury in the long term. Budget experts say that cutting the capital gains rate results in an increase in federal tax revenues in the short term but reduces tax money collected in the long term.

So be aware that this debate is ongoing and consider paying attention to it, particularly if you're thinking of selling assets like stocks or mutual funds or other appreciated investments like undeveloped land. While tax factors should almost never be the determining factor in making investment buy-sell decisions, capital gain rates should certainly be one of the factors considered.

As always, PLEASE make sure you read and understand the fine print. It wouldn't be taxes in America otherwise!

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