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RSC Stimulus Proposal Would Be a Move in the Right Direction

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The Republican Study Committee (RSC) has introduced the Economic Growth Act of 2008 (H.R. 5109). The legislation, which aims to stimulate the economy by lowering the tax and regulatory burden on businesses, takes steps in the right direction. The legislation offers a solid alternative to proposals—such as tax rebates and federalizing mortgage contracts—that would fail to stimulate, or do serious harm to, the economy.

Congress should focus on creating long-term, pro-growth economic policies in the areas of taxes, spending, and regulation.[1]

What the Bill Would Do

- *Expand and Accelerate Section 179 Expensing.* H.R. 5109 would allow all businesses to fully expense the costs of assets they purchase in any given year. In general, the tax code forces businesses to treat a portion of their investment expenses as if they were taxable income. Section 179 allows small businesses to deduct—or "expense"—their investment costs when calculating taxable income. However, businesses can only take limited deductions spread out over many years. Experience shows that one-year expensing of business purchases that otherwise would be depreciated over a longer period of time for tax purposes can help during periods of slow growth.[2]
- *Reduce the Top Corporate Tax Rate.* The bill would cut the top corporate income tax rate from 35 percent to 25 percent. The current corporate tax rate puts U.S. companies at a significant disadvantage in the global marketplace. Lowering taxes on corporations would improve U.S. competitiveness while encouraging job creation and investment.
- *End the Capital Gains Tax on Inflation.* The bill would index for inflation the cost basis used when calculating the capital gains tax on assets acquired before the end of 2008. Under current law, capital gains are not adjusted for inflation. This counterproductive and unfair policy raises effective capital gains tax rates, forcing investors to retain assets and inhibiting new investments.[3]
- *Simplify the Capital Gains Rate Structure.* The bill would cut the top capital gains rate from 35 percent to 15 percent. This provision would lead to increased business investment by reducing the cost of capital and encourage the selling of unwanted assets to those who could make better use of them.

Congress Can Do More. The RSC recognizes that the source of economic activity is the private market, not Washington. But Congress can do much more to remove the obstacles that inhibit economic growth. Specifically, Congress needs to change the policies that unnecessarily increase the

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risk of starting new businesses and expanding existing enterprises.

Conclusion. Congress is not the best policymaking body for addressing the short-term challenges of the economy. A stimulus focused on tax rebates would be a largely symbolic action that would do little to prevent a recession or encourage economic growth.[4]

Instead, Congress should use the current period of slow growth to tackle the long-term economic problems in the economy through tax, regulatory, and spending reforms. The RSC recognizes this, and the Economic Growth Act of 2008 would take positive steps in this direction by lowering the tax and regulatory burden on businesses.

—Tom Finnigan is a Senior Web Editor at The Heritage Foundation.

1. See William W. Beach, "Congressional Hearing on What Should Congress Do to Avoid a Recession," testimony before the Joint Economic Committee of the House and the Senate of the United States, January 18, 2008, at *www.heritage.org/Research/Economy/tst011808a.cfm.*
2. *Ibid.*
3. "Capital Gains Tax Cuts: Myths and Facts," Heritage Foundation *WebMemo* No. 47, October 11, 2001, at *www.heritage.org/Research/Taxes/wm47.cfm.*
4. See Brian M. Riedl, "Why Tax Rate Reductions Are More Stimulative Than Rebates: Lessons from 2001 and 2003," Heritage Foundation *WebMemo* No. 1776, January 18, 2008, at *www.heritage.org/Research/Economy/wm1776.cfm.*