Would economy be helped or hurt?

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The White House is proposing an increase on what taxpayers in top tax brackets would pay on corporate dividends -- a hike to 20 percent from the current 15 percent. Should the federal tax rate on corporate dividends be raised?

Yes

Sally Wallace, Professor of Economics and Chair, Andrew Young School of Policy Studies, Georgia State University

The federal government imposes income tax on business income, labor income and capital income, such as dividends. Currently, the tax rate on most dividends is capped at 15 percent. As a result, wage income is taxed at a higher tax rate than capital income for many individuals. The administration is considering increasing the tax rate on dividends to 20 percent. Some believe this increase will reduce investment, thereby creating a drag on the economy.

Based on past experience, it is unlikely an increase from 15 percent to 20 percent will have much impact on investment levels. In addition, an increase in the tax on dividends levels the playing field from two perspectives. First, it is more equitable to tax dividends at a rate closer to the tax rate on labor. Second, more closely aligned tax rates reduce incentives for investors to shift among different types of investments, which can have negative impacts on the economy.

No

Pamela Villarreal, Senior Policy Analyst, National Center for Policy Analysis

The Bush tax cuts of 2001 are set to expire at the end of 2010. If Congress does not act, the tax on corporate dividends, currently at 15 percent for the two top tax brackets, will be taxed as ordinary income -- as much as 39.6 percent. President Barack Obama's alternative proposal to raise the dividends tax rate to 20 percent still means the dividends tax would increase by more than one-third for high-income earners. Add the new Medicare tax on those earning more than $200,000 a year, effective in 2013, and the dividends tax rate would be 23.8 percent.

Such an increase would reduce investment and consumption by those most likely to have disposable income. The after-tax rate of return on a typical stock would fall almost a full percentage point. Thus, investments would be less attractive, and there would be less after-tax income for high-income earners to spend in other areas of the economy.