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OPINION | REVIEW & OUTLOOK

Biden Wants to Be No. 1—in Taxes

Will the U.S. leapfrog the OECD in individual and corporate rates?

By The Editorial Board Follow
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President Joe Biden makes remarks on the March jobs report at the White House on April 1.
PHOTO: CHRIS KLEPONIS/ZUMA PRESS

Democrats say they're going to make one more major effort to pass President Biden's Build Back Better plan, despite soaring inflation and the end of the Covid emergency. The mooted deal seems to involve a giant tax increase, half-a-trillion dollars in green-energy subsidies, and perhaps more social spending.

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This is a bad idea with especially bad timing given economic uncertainty as interest rates rise. And look no further than Mr. Biden's recent budget to see why. He is proposing $2.5 trillion in new taxes that would give the U.S. the highest or near-highest tax rates in the developed world.

That's the finding of the nonpartisan Tax Foundation, which compares top tax rates across 37 members of the Organization for Economic Cooperation and Development. The review looks at each country's federal and regional taxes on individual and corporate income, plus capital gains. Mr. Biden's proposals would vault the U.S. into first place in all three categories, if he combined his budget with the Build Back Better Act he and Democrats would still like to pass.

The biggest jump is in taxes on capital gains, as the top combined rate would rise to 48.9% from 29.2% today. That's a 67% increase in the government's take on long-term capital investments. The new top rate would be more than 2.5 times the OECD average of 18.9%. Nothing like reducing the U.S. return on capital to get people to invest elsewhere.

Mr. Biden would also lift the top combined tax rate on corporate income to 32.3% from 25.8%. That would leap over Australia and Germany, which have top rates of 30% and 29.9% respectively, and it would crush the 22.8% OECD average. (See the nearby chart.)

Corporate taxes are at the heart of international competition, and the Biden hike would reverse U.S. progress in a global tax-cut trend. Taxes on corporate income have declined world-wide since 1980, and Congress's 2017 tax reform was intended to make U.S. rates competitive again.

U.S. companies had kept earnings overseas, rather than pay punitive tax rates to bring them back home. Lowering the rate prompted an immediate change. In each of the first two years after the top federal rate was slashed to 21%, U.S. companies repatriated $470 billion more than the average from 2010 to 2017, according to the Brookings Institution.

Mr. Biden would also put the U.S. at the top of the noncompetitive list for personal income taxes, with multiple increases that would put the combined American rate at 57.3%. Compare that with 42.9% today and an average of 42.6% across the OECD. To borrow Mr. Biden's favorite tax selling point, is more than half of what someone earns a "fair" enough "share" to pay?

Mr. Biden is also still claiming that "nobody making less than $400,000 a year will pay a penny more in federal taxes." Not true. Corporate taxes are paid by workers, shareholders and consumers of all incomes. Reductions in the after-tax return on capital will reduce the value of companies, which will be reflected in lower 401(k) and retirement account balances for all workers.

The Tax Foundation adds that the tax increases would reduce the size of the economy over time by 0.5%, which is also real money for all Americans. A tax increase that returns the U.S. to the top of the global tax tables should be called the China Empowerment Act.

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