

Due: April 5

Issue: Should Double Taxation of Dividends Be Eliminated?

*Briefly state the main idea that forms the basis of this argument:*

The following issue addresses the pros and cons of the elimination of double taxation on dividends. In the middle of this area of conflict is the government, which needs to implement an efficient and equitable tax system. Even though taxes are inevitable, the displeasure can be minimized if the tax system meets the two basic criteria: equity and efficiency. Whether the tax cut on corporate dividends is more efficient or just leads to more inequalities among tax payers, or whether this tax cut leads to economic growth, and results in positive long-term outcomes concerning job and other economic indicators is controversial.

*List 2 or 3 facts that the author uses to support the idea on the FOR or PRO side:*

Michel's, Goyburu's, and Rector's arguments are based on their dynamic simulation and yield the following conclusion: Double taxation of dividends reduces the after-tax return on capital in the nation's economy and thus discourages investment. Eventually, this reduces investment and weakens economic growth. Moreover, dynamic simulation of the macroeconomic and fiscal effects show that the elimination of the taxation on dividends would result in improved growth in the nation's GDP, add hundreds of thousands of jobs to the economy, increase investment, strengthen growth in disposable income, and add to the nation's capital stock.

*List 2 or 3 facts that the author uses to challenge the idea on the AGAINST or NEGATIVE side:*

The benefits of elimination would be heavily concentrated at the top of the high-income pyramid, and therefore will not affect low-income families, which are more likely to put disposable income into consumption. Moreover, the negative economic effect of double taxation on dividends is fairly overstated by its proponents. Companies make use of available tax preferences and other less scrupulous tax avoidance techniques to lower their tax bill. Furthermore, a tax cut on dividends would reduce state revenues because of the linkages between state and federal tax codes, worsening the state fiscal crisis that is imposing a drag on the economy. Finally, in the short-term this tax cut could have a negative impact on the economy because of its effects on long-term, increasing interest rates.

*List any propaganda, bias or faulty reasoning that you feel exists in either of the articles on this issue?*

Friedman and Greenstein focus their arguments just on the short-term effects on the economy (and Bush's tax proposal) and miss to see the positive implications over the long-run. On the other hand, to mention that the income from the double taxation is needed because of the growing deficits on state and federal level may be true at first sight. However, this argument distracts the fact that structural reforms in regard to expenditures, especially entitlement programs, are necessary. Moreover to fill these financial holes with the tax-income coming from double taxation on dividends is not an appropriate and sustainable solution for the future.

*Which side of the argument seems to make most sense to you and why?*

This issue nicely points out that the elimination of double taxation on dividends is not an appropriate instrument to boost the economy in the short-run. The positive effects arise one to three years after the implementation. However, it is indisputable (from both sides) that in the long-term the elimination of the tax results in higher economic growth and prosperity. Therefore, the arguments against the elimination lose their weight. Moreover, to knowingly have a double taxation in the system is unethical and does not seem to be "just". The argument that the richest will benefit disproportionately more than the lower class may—to some extent—be true, however, the point is that the low-income brackets will not be worse off, at least not in absolute terms. Addressing the issue of the widening gap between the rich and the poor is another political issue and should not be connected with the elimination of double taxation on dividends.