Lyle Prunty <pruntyld@gmail.com>

responding to you

1 message

Chuck.Grassley@grassley.senate.gov <Chuck.Grassley@grassley.senate.gov> Tue, May 28, 2013 at 2:39 PM
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May 28, 2013

Dear Mr. Prunty:

Thank you for taking the time to contact me. As your Senator, it is important I hear from you. I apologize that it has taken so long to get back to you; current events have resulted in large numbers of concerned Iowans contacting me and it has been difficult to respond as quickly as I would like.

I appreciate hearing your criticism regarding the delayed release of final regulations by the Internal Revenue Service (IRS), due to the timing of the fiscal cliff bill. I understand that this caused delays and uncertainty for individuals and businesses. Taxpayers should not have to pay for Congress' inaction. I agree that Congress should make every effort to pass legislation in a timely manner. I want you to know that I always try to do what I think is best for Iowa and our nation. If I fail to live up to the expectations of Iowans, I will be held accountable at the ballot box.

You also mentioned your thoughts regarding the taxation of dividends. As a senior member of Committee on Finance, which has jurisdiction over tax policy, I have long been a strong proponent of the lower rates on capital gains and dividends. Money paid out by companies in the form of dividends is taxed once at the corporate rate, unusually 35%, and then again at the individual level. I believe the double taxation of dividends is unfair and discourages investing. The lower rates allow taxpayers to keep more of their hard-earned money to save, invest or spend as they see fit. Further, it helps to reduce the current tax bias favoring debt over equity. As you may know, businesses may generally deduct interest paid on debt, but not money paid out as dividends, which creates a considerable bias for debt financing.

The tax on capital gains and dividends was reduced by the Jobs and Growth Tax Relief Reconciliation Act of 2003. Under this Act, the top dividends rate was reduced to 15%, delinking it from the top rate for ordinary income. For taxpayers in the 10% or 15% tax brackets the rate for capital gains and dividends was reduced to 5% through 2007, then zero percent in 2008 and thereafter. The Tax Increase Prevention and Reconciliation Act of 2005 extended these lower rates on capital gains and dividends through 2010. These rates were again extended in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 through the end of 2012.

Those rates expired at the end of 2012, but investment income tax rates were addressed in H.R. 8, the American Taxpayer Relief Act, also known as "the fiscal cliff agreement", which the House and Senate passed on January 1st, 2013. This legislation was signed into law by President Obama on January 2nd, 2013.

Under this new law, the zero percent tax rate for those in the 10% and 15% brackets will continue, which includes income of up to

$36,250 for individuals and $72,500 for joint filers, and the top rate of 15% will remain in effect for individuals making less than $400,000 annually and joint filers making less than $450,000. Taxpayers above the $400,000/$450,000 threshold will be taxed at a rate of 20%. Moreover, certain individual's rates on capital gains and dividends will go as high as 23.8% due to the 3.8 percent surtax on investment income included in President Obama's health care law. Under the health care law, beginning this year, individuals with income over $200,000 and married couples over $250,000 will have to determine if this additional 3.8% surtax will apply to their investment income. This tax will be on top of the regular tax rates for capital gains and dividends.

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While I supported the extension of many of the provisions in the fiscal cliff agreement, including retaining the lower rates on capital gains and dividends for middle income taxpayers, I voted against the bill because it does not do enough to address the real problem- spending. Far from being the balanced approach the President has long claimed to champion, the final bill increases taxes on families, small businesses, and entrepreneurs to the tune of $617 billion while doing nothing about the spending problem. It'd be one thing to raise taxes to reduce the deficit, but that's not what this deal does. It's a fiscal farce to raise taxes and hurt economic growth only to fuel more government spending with record deficits and debt.

Again, thanks for contacting me. I appreciate hearing from you and urge you to keep in touch.

Sincerely,
Chuck

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