AFF Blocks

Resolved: The United States should abolish the capital gains tax.

Overviews

Income Inequality

Moore of the CATO Institute finds that eliminating the capital gains tax would lead to 877,000 additional jobs because as corporations expand, they need more people to work for them, and $46 billion in additional tax revenue because as the economy grows, more taxes are collected. This solves for inequality for two reasons. **First** Increasing employment solves for the growing inequality. **The Center for Economic and Policy Research** explains that unemployment is a main cause of inequality. This is because when more people get hired it disproportionately benefits those in the bottom half and especially the bottom fifth of the income distribution. And, a tight labor market will create conditions in

which workers at the bottom will have more bargaining power. **Second**, increasing tax revenue increases the amount of money the government can redistribute to the poor in welfare, which on nets help decrease income inequality.

Stephen Moore. "CATO INSTITUTE POLICY ANALYSIS no. 242: The ABCs of the Capital Gains Tax." CATO Institute. October 4 1995. https://object.cato.org/sites/cato.org/files/pubs/pdf/pa242.pdf

The House GOP proposal to reduce the capital gains tax rate to 19.8 percent and index gains for inflation would be a vast improvement over the current tax system. But because the capital gains tax is a form of double taxation, and an economically destructive tax on capital formation, the most equitable and appropriate capital gains tax is zero.[93] Several proposals now before Congress promote the concept of a zero capital gains tax. House Majority Leader Dick Armey's flat-tax legislation would eliminate the capital gains tax.[94] A 1994 analysis by former Treasury economists Gary and Aldona Robbins compared the economic effect of six prominent capital gains tax proposals--including the GOP plan and the zero rate. **The analysis showed that eliminating the capital gains tax would have by far the most positive impact on long-term economic growth in the United States.**[95] As Table 14 indicates, **after five years the zero capital gains option leads to a $300 billion increase in national output ($3,000 per household), 877,000 additional jobs, and $2.5 trillion of additional capital. Additional tax revenues of $46 billion would be raised for the federal government as a result of added growth.** The Robbinses find that that is almost twice the positive impact of the 50 percent exclusion and indexing plan proposed by the GOP. In the long run it appears that **a capital gains tax cut is the fairest and the most economically stimulative tax change Congress could make.**

R/T NEG

R/T Inequality

1. They assume that the capital gains tax has kept income inequality in check, but that hasn't been the case. Even though the capital gains tax has increased in the last 10 years, income inequality levels have skyrocketed in that same period.

2. If anything, the capital gains tax makes income inequality worse for two reasons
    a.

2. Turn Harming the Middle Class - Authors at **Economics 21** explain in **2016** that a higher capital gains tax can incentivize american firms to more overseas, making fewer investments and hiring fewer workers, many of them middle class. This removes the power of the middle class labor, which is pivotal to reducing income inequality. **Hersh of American Progress** noted in **2012** that the strength of the middle class directly affects the level of income inequality and economic growth and stability by promoting the development of human capital as a stable source of demand for goods and services.

3. Weighing/TURN: Increasing employment solves for the growing inequality. **The Center for Economic and Policy Research** explains that unemployment is a main cause of inequality. This is because when more people get hired it disproportionately benefits those in the bottom half and especially the bottom

fifth of the income distribution. And, a tight labor market will create conditions in which workers at the bottom will have more bargaining power.

NA (Inequality.org/Institute for Policy Studies). "Income Inequality in the United States." https://inequality.org/facts/income-inequality/
Income includes the revenue streams from wages, salaries, interest on a savings account, dividends from shares of stock, rent, and profits from selling something for more than you paid for it. Income inequality refers to the extent to which income is distributed in an uneven manner among a population. **In the United States, income inequality, or the gap between the rich and everyone else, has been growing markedly, by every major statistical measure, for some 30 years.** Income disparities have become so pronounced that America's top 10 percent now average more than nine times as much income as the bottom 90 percent. Americans in the top 1 percent tower stunningly higher. They average over 40 times more income than the bottom 90 percent. But that gap pales in comparison to the divide between the nation's top 0.1 percent and everyone else. Americans at this lofty level are taking in over 198 times the income of the bottom 90 percent. The top 1 percent of America's income earners have more than doubled their share of the nation's income since the middle of the 20th century. American top 1 percent incomes peaked in the late 1920s, right before the onset of the Great Depression.

"Did Inequality Rob Middle-Class Households Of $18,000?" Diana Furchtgott-Roth, Economics21, 18 Jan. 2015, economics21.org/html/did-inequality-rob-middle-class-households-18000-101.html
In addition, higher rate would have negative effects on the economy by reducing U.S. investment or driving it overseas. If firms pay more in capital gains taxes in America, they would make fewer investments -- especially in the businesses or projects that most need capital -- and they would hire fewer workers, many of them middle-class. Higher capital gains taxes would reduce economic activity, especially financing for private companies, innovators, and small firms getting off the ground. Taxes on U.S. investment would be higher compared with taxes abroad, so some investment capital is likely to move offshore. There are good reasons for taxing capital gains and dividends at lower rates than earned income."

Adam Hersh. American Progress. "American Middle, Class, Income Inequality, and the Growth of Our Economy." May 17 2012.
Strong empirical evidence in economics and other social sciences suggests that **the strength of the middle class and the level of income inequality have an important role to play for each of these five factors boosting productivity and spurring investment.** The research for this project began with a series of interviews and a national conference with leading U.S. economists to learn their views about the mechanisms through which income inequality and the strength of the middle class affect economic growth and economic stability. This paper summarizes what we have learned from these conversations, alongside our analysis of the economic research in the academic arena. We have identified four areas where literature points to ways that **the strength of the middle class and the level of inequality affect economic growth and stability: A strong middle class promotes the development of human capital** and a well-educated population. A strong middle class creates a stable source of demand for goods and services. A strong middle class incubates the next generation of entrepreneurs. A strong middle class supports inclusive political and economic institutions, which underpin economic growth. We detail the evidence for these four points in the main pages of our paper, but briefly we encapsulate the economic research here. As we will demonstrate, the ways in which a strong middle class is important for economic growth are both interrelated and mutually reinforcing.

NA (Center for Economic and Policy Research). "Ezra Klein Misses the Mark: Inequality and Unemployment Are the Same Problem." December 14, 2013. http://cepr.net/blogs/beat-the-press/ezra-klein-misses-the-mark-inequality-and-unemployment-are-the-same-problem
In any case, the fact that we didn't have solid evidence on this issue should not be as surprising as Ezra suggests. While some of us have long warned of this scenario, leading economists like Paul Krugman and Larry Summers have just recently begun to take seriously the possibility of secular stagnation. For decades the profession has treated it as an article of faith that there could not be sustained shortfalls in demand so inadequate consumption due to the upward redistribution of income could not possibly be a problem. However the other side of the unemployment inequality issue is possibly more important. One of the main points of Jared and my new book is that **unemployment is a main cause of inequality. This is because when more people get hired it disproportionately benefits those in the bottom half and especially the bottom fifth of the income distribution. These are the people who are most likely to get jobs. And those with jobs will also have the opportunity to work longer hours. And, a tight labor market will create conditions in which workers at the bottom will have more bargaining power.** Walmart and McDonalds will be paying workers $15 an hour if that is the only way that they can get people to work for them. For this reason, the high unemployment policy that Congress is pursuing with its current budget policy is a key factor in the upward redistribution of income that we have seen in the last three decades. This means that people concerned about inequality should be very angry over budgets that don't spend enough to bring the economy to full employment (also an over-valued dollar). So Ezra is absolutely right that progressives should be yelling about unemployment, but inequality is a very big part of that picture.

Stephen Moore (Cato Institute). "The ABCs of the Capital Gains Tax." October 4 1995.
https://www.cato.org/publications/policy-analysis/abcs-capital-gains-tax
Opponents of a capital gains tax cut often maintain that the returns on capital accrue primarily to the owners of the capital and that those owners tend to be wealthier than the average American worker or family. **It is** therefore **argued that a capital gains tax cut would mostly**

benefit affluent Americans. But that ignores the critical link between the wage rate paid to working Americans and the amount of capital they have to work with. This is what Nobel laureate Paul Samuelson, a member of John F. Kennedy's Council of Economic Advisers, and William D. Nordhaus had to say about the importance of capital formation to worker well-being: **What happens to the wage rate when each person works with more capital goods? Because each worker has more capital to work with, his or her marginal product [or productivity] rises. Therefore, the competitive real wage rises as workers become worth more to capitalists and meet with spirited bidding up of their market wage rates.[6]**

R/T Tax Revenue

1. Turn: according to the **OECD** an extra dollar raised by the capital gains tax costs $1.55 in output. Concluding that the elimination of the capital gains tax would cause national income to increase—and lead to overall higher tax revenues as people with higher incomes will pay more in taxes. **Grubel of the Fraser Institute** confirms empirically that when Switzerland eliminated the capital gains tax they experienced a 2.2% increase in national income in the short term and a 3.1% increase in the long term.

2. Turn: Gustafson of Vanderbilt University explains in 2013 that the capital gains tax causes a lack of hiring, minimal economic expansion thus, reducing GDP growth. He explains that the reason Capital gains don't collect a lot of revenue is because they limit economic activity and the potential capital gains they can collect.

3. Turn: affirming increases tax revenue by decreasing tax evasion and boosting other revenue streams. Empirically, **Paul of Ohio State University finds in 2009** that for every one percent decrease in the Capital Gains tax rate, there is over a 10% increase in realized capital gains. This means more revenue will flow through other taxes like income and corporate taxes. **Moore of Forbes Magazine explains in 2015**, that the capital gains tax is optional, meaning a high capital gains just makes rich people hold onto the asset, not selling it thus not translating into tax revenue in the first place. That's why lowering the tax can actually increase revenue because **Moore** continues to explain that historically, when the tax increased, revenues fell to 27 billion a year, but after clinton returned the tac to 20%, revenues increased to 99 billion in 1999, lower rates, more revenue.

4. Weighing: Lundeen of the Tax Foundation finds empirically that the best way to maximize tax revenue is to drive economic growth, something that happens with an eliminated capital gains tax.

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Optimal tax theory and capital taxes The economic theory of optimal taxation was developed during the last 25 years and the Oxford economist James Mirrlees received a Nobel Prize for his contributions to this body of knowledge. This theory argues that the economic cost of taxation is higher the more easily the tax can be avoided by those required to pay it. By these standards, the capital gains tax is the worst tax of all. Taxpayers can avoid paying it simply by not realizing their capital gains. They can reduce their level of savings and invest in assets with low probabilities of generating capital gains. Foreigners, especially Americans, keep their assets at home or come to Canada only if the pre-tax returns make up for the taxes they have to pay. All of these tax-induced changes reduce the rate at which gains in labour productivity—and, therefore, living standards—is increased. Capital that is "locked in" earns lower economic returns. Less investment by Canadians and foreigners reduces labour productivity directly and slows the introduction of new technology embodied in capital. Less investment is made in high-risk projects and the engine of innovation and growth is starved. The Canadian Department of Finance has published estimates of the losses in

output resulting from an extra dollar of tax. Unfortunately, the estimates do not include the capital gains tax but the *corporate income tax may stand as a proxy for the capital gains tax since both fall on the capital and create very similar incentives and opportunities to avoid them*. The estimates, published by the OECD (1997), suggest that an extra dollar raised by the corporate income tax costs $1.55 in output. The analogous figures are $.56 for the personal income tax, $.27 for the payroll tax and only $.17 for the sales tax. These data suggest strongly that the elimination of the capital gains tax and a simultaneous increase in other taxes to maintain total revenue would cause national income to increase—and lead to overall higher tax revenues as people with higher incomes paid more taxes.

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Evidence from Switzerland by Kugler and Lenz It is important, therefore, that the chapter by Peter Kugler and Carlos Lenz (p. 55) presents unique, powerful empirical evidence on the effect the elimination of the capital gains tax has had on income in Switzerland. According to the authors, the federal government of Switzerland does not impose a capital gains tax. However, most cantons in that country have had such taxes for some time but, in recent years, some of these cantons have eliminated the capital gains tax and others retained it. These conditions supply us with a rare opportunity in the social sciences, the equivalent of a controlled experiment. One sample of countries changes one policy while the control group of countries does not, all while other policies and external conditions affecting economic conditions in the country as a whole remain unchanged. Kugler and Lenz calculated the trend in the economic growth rates of all cantons before and after the elimination of the capital gains tax. They then calculated average growth rates for two groups of cantons, one in which capital gains taxes remained unchanged and one in which they were eliminated. They found that the cantons that eliminated the capital gains tax enjoyed an average short-run 2.2% jump in the level of national income relative to the other group of cantons. In the longer run, the jump in income is 3.1%. It is possible that the cantons increased their incomes simply as a result of drawing capital and labour from cantons that had retained the capital gains tax. If this is true, the higher output in the gaining countries is matched by lower output in the losing countries and overall Switzerland is no better off. Moreover, if the argument is true, the process involves the inefficient relocation of the resources and, therefore, an actual reduction in output of all cantons. The authors examined their data for evidence on such shifting of capital and labour and found none. What about the effect of the removal of the capital gains tax on economic growth rates rather than levels? The authors note that the time series available to them is too short to estimate such an effect. In spite of the limitations of the study of the Swiss experience, the results are consistent with so-called "supply-side economics" and its hallmark "Laffer curve." According to this theory, it is not surprising that the recent tax cuts of Ireland, the United States and the continued low taxes in Hong Kong and Singapore resulted in more rapid economic growth than that experienced in countries with higher levels of taxation. The incentives to working, investment, risk-taking and innovation activated by lower taxes are almost certain to bring higher economic growth. I believe that the available evidence makes a good case for the elimination of the capital gains tax in Canada. However, many economists and politicians argue against this policy because it is seen to have socially adverse effects on the distribution of income and it results in tax avoidance maneuvers as taxpayers attempt to shift taxable income into non-taxable capital gains.

Andy Gustafson (Gustafson graduated from Vanderbilt University with a Bachelor of Arts in Economics. For 13 years prior to entering the 1031 exchange industry, he worked in the Enterprise Resource Planning (ERP) manufacturing software market helping companies in North, Central and South America improve production efficiencies. Mr. Gustafson qualified and received the professional designation of Certified Exchange Specialist® (CES®) created by the Federation of Exchange Accommodators to set a standard of 1031 accommodator ethics and excellence), Atlas 1031 Exchange Financial Serviices, 4-11-2013, ["Capital Gains Tax Rate Economic Impact," http://www.atlas1031.com/blog/1031-exchange/bid/83533/Capital-Gains-Tax-Rate-Economic-Impact, DOA: 1-16-2018] // ATA
In 2013, the capital gains tax rate increased for those in the upper income brackets. Internal Revenue Code Section 1031 and Treasury Regulations provides a welcome relief for those taxpayers who replace their assets by potentially indefinitely deferring the federal and state capital gain by engaging a Qualified Intermediary to accommodate a 1031 exchange. With the American Taxpayer Relief Act, the capital gain tax rate was increased to about 20% for both individual and married couple taxpayers. The capital gains tax rate goes up even higher when you look at the Medicare surtax on net investment income. Wealthy taxpayers could see their capital gains tax rate rise over more than half their previous rates. Investors owe capital gain taxes on their economic gain according to their income while businesses are also assessed capital gain taxes. Investment or personal property used in a business like aircraft, kidney dialysis machines, oil and gas, heavy road construction equipment sold triggers a 25% tax known as recapture depreciation. Taxpayers should also look at the applicable state, county and municipal capital gain taxes in addition to the federal capital gain taxes. Potential Economic Impact Many people share the opinion that long term capital gain taxes are detrimental to economic growth. Capital gains are taxed when the asset is sold. **When capital income is taxed, the reward for investing in equipment or for appreciation is diminished providing a disincentive to invest in capital assets. The outcome of higher capital gains tax rates is potentially less investment, fewer jobs, lower wages and a deflationary economy.** With the capital gains tax rate going up, there are those taxpayers and businesses who will delay replacing equipment to maximize utilization and possibly not replace given with higher taxes, there is less capital to reinvest. Why invest to pay a higher tax rather, hold as Treasury bills or Certificate of Deposits avoiding the higher capital gains tax rate. To the contrary, there are advocates who suggest that there isn't a lot of capital gains tax collected, so there isn't a lot of damage done; however, the majority of analysts believe that a higher capital gains tax causes a lack of hiring, minimal economic expansion reducing

gross domestic product growth. When the capital gains tax rate is lower, the return on capital is higher, providing an incentive for investment activity. The consensus is that a high capital gains tax rate hurts the poor and society in general because it limits economic expansion. Capital gains taxes are a controversial topic especially for the taxpayers and businesses dependent upon capital assets as a revenue generator. 1031 Tax Deferred Exchange An effective strategy to minimize higher capital gains is to replace the asset in a 1031 exchange. The outcome is that now the taxpayer has an asset with a longer useful life, depreciation that offsets income and interest free operating capital that would otherwise be paid out in taxes. The tax deferred dollars are fully utilized by being invested in assets that are aligned with business strategies to maximize investment return. 1031 Exchange Examples An example is a road construction company that sells their Roadtec milling machine and replaces with a newer more efficient model. Another example is an Original Equipment Manufacturer of agricultural equipment that owns a business aircraft for reasons to reduce travel expenses and flexibility. By exchanging for a more efficient, bank owned aircraft, their cost of business is reduced. Capital gain tax rates impacts every part of our US economy from our competitiveness in the world market to research and development.

Paul D. Evans (Ohio State University/IRET). "THE RELATIONSHIP BETWEEN REALIZED CAPITAL GAINS AND THEIR MARGINAL RATE OF TAXATION, 1976-2004." October 2009. http://iret.org/pub/CapitalGains-2.pdf
Taxpayers continue to exhibit significant sensitivity to the tax rate on capital gains in deciding how much of their gains to realize over time. Behavior in recent years is broadly similar to that found in earlier studies. The sensitivity to the tax rate is not a one-time fluke related to a few large tax changes in the more distant past. # This sensitivity appears to be more than a short-run timing issue (moving gains from this year to next year if the tax rate is scheduled to fall, or from next year to this year if it is scheduled to rise). It also appears to be more than an "unlocking effect" (the sudden taking, after a rate reduction, of accumulated gains that have been pent up over time to avoid the old, higher tax rate). # At current tax rates, **a 1 percentage point reduction in the marginal tax rates on capital gains might trigger a 10.32 percent increase in realized capital gains.** # The capital gains tax rate structure that would have brought in the most capital gains revenue in 2004 appears to be a flat rate of 9.69 percent, or just under 10 percent. More precisely, a flat rate imposed at 9.69 percent on both the first and last dollars of individuals' capital gains (raising rates below that level, and lowering rates above it) would appear to bring in the most capital gains revenue. In 2004, the average tax rate on capital gains was close to the own-tax revenue maximizing rate, but the higher marginal rates applied to incremental gains discouraged realizations and held down revenue. Converting it to a flat rate of 10% (or just under) would raise more revenue than the current structure.

Stephen Moore. "Five Myths About Capital Gains Taxes." Forbes Magazine. August 4 2015.
3. Raising the capital gains tax is a good way to make the rich pay their "fair share" of taxes. Despite Hillary's assurances that her plan is meant to discourage "short termism" in the boardroom, the real agenda here is hardly a secret: she wants to sock it to the rich. But the irony of this is it won't hurt the Warren Buffett's and the Wall Street hedge fund managers much. T**hey might have to pay a higher tax bill - but more likely they will simply hold on to their stock longer to avoid the higher tax penalty. But the people who will get hurt are the middle class, minorities, and young people – the same group that has been clobbered during this so-called recovery. Wages rise when workers can produce more, and they can produce more when they get smarter, better trained, and have more capital to work with.** A tax on capital is thus an invisible tax on wages. When Ronald Reagan and Hillary's husband Bill Clinton cut the capital gains tax, wages and productivity surged.

Stephen Moore. "Five Myths About Capital Gains Taxes." Forbes Magazine. August 4 2015.
2. Raising the capital gains tax will raise billions of dollars for the government. The Hillary plan is almost all pain with no gain. It's highly unlikely the tax hike will raise any money for the Treasury and if history is a guide it will lose revenue. **After the capital gains tax hike in 1986 from 20 percent to 28 percent, capital gains revenues actually fell from $44 billion a year to $27 billion a year by 1991. After Bill Clinton cut the capital gains tax down to 20% again, capital gains revenues surged from $54 billion in 1996 to $99 billion in 1999**. Lower rates, more revenues.

Andrew Lundeen, 14, 10-15-2014, Economic Growth Drives the Level of Tax Revenue, Tax Foundation, https://taxfoundation.org/economic-growth-drives-level-tax-revenue/ , 2-7-2018, (NK)
Tax revenue fell in the early 2000s before and after the 2001 Bush tax cuts, only to rise again after the 2003 Bush tax cut. As *The Economist* writer implies, **economic growth is a major driver of the level of tax revenues. In the times when tax revenues are up, the economy is doing well. When tax revenues are down, it's because the economy is doing poorly**. We see this in each of the times when revenue fluctuates. **From the mid-1980s through the late 1990s the economy grew steadily and tax revenues grew along with it. Conversely, between 2007 and 2009, total tax revenue in the U.S. dropped from 26.9 percent of GDP to 23.3 percent of GDP.** The driver: the financial crisis and great recession. **How Do We Maximize Tax Revenue? The short answer to how we maximize tax revenue: increase economic growth**. We can do this by limiting taxes on economic factors that drive economic growth, namely investment. This means reducing tax rates on businesses, limiting the double taxation of investment created by taxing corporate income at both the entity level (corporate tax) and the shareholder level (capitals gains and dividend taxes), and moving toward full expensing (which would allow businesses to account for all their costs).

R/T CGT Revenue

1. Mitigate: Clemens of the Fraser Institute explains that although CGT may raise revenue for the government, but this comes at the cost of decreasing investment, which harms the economy.

Daniel J. Mitchell, 14, 11-7-2014, The Overwhelming Case Against Capital Gains Taxation, Forbes, https://www.forbes.com/sites/danielmitchell/2014/11/07/the-overwhelming-case-against-capital-gains-taxation/#5cc1dd553b0a , 1-29-2018, (NK)
Jason Clemens, Charles Lammam, and Matthew Lo have produced a thorough study for the Fraser Institute about the economic impact of capital gains taxation. Their study focuses on Canada, but the arguments apply in every nation.
A capital gain (or loss) generally refers to the price of an asset when it is sold compared to its original purchase price. A capital gain occurs if the value of the asset at the time of sale is greater than the initial purchase price. ...**Capital gains taxes, of course, raise revenues for government but they do so with considerable economic costs. Capital gains taxes impose costs on the economy because they reduce returns on investment and thereby distort decision making by individuals and businesses. This can have a substantial impact on the reallocation of capital, the available stock of capital, and the level of entrepreneurship.** It turns out that there are many reasons why the capital gains tax harms economic performance. Clemens, Lammam and Lo explain the "lock-in effect."

R/T Loophole →Income Shifting

1- Delink: Veldhuis of the Fraser Institute explains that after looking at international evidence on the effects of having no capital gains taxes income shifting is very limited. This is for two reasons: 1 - methods for income shifting are complicated and costly for small and wholly owned businesses; and 2 - publicly traded companies face strict accounting rules and market discipline that make it difficult to engage in such activities.

Niels Veldhuis (The Fraser Institute/President). "The Economic Costs of Capital Gains Taxes." February 2017. https://www.fraserinstitute.org/sites/default/files/EconomicCostsCapitalGainsTax.pdf
Would eliminating capital gains taxes lead to "income shifting"? A common objection to the elimination of capital gains taxes is that an incentive would be created for taxpayers to shift taxable income into non-taxable capital gains, a practice often referred to as "income shifting" or "surplus stripping." That is, if there were no capital gains taxes, business owners would attempt to reduce the amount their businesses distribute as dividends and instead reinvest money in the business. The owners could then undertake legal manoeuvres to "strip" the reinvested funds as tax-free capital gains. In addition, an incentive would also be created for professionals and others who operate through a wholly owned corporation to shift ordinary taxable income normally paid as salary into non-taxable capital gains. [39] **Grubel (2001) reviewed the international evidence on the effects of having no capital gains taxes and concludes that income shifting would be limited by two factors: (1) methods for income shifting are complicated and costly for small and wholly owned businesses; and (2) publicly traded companies face strict accounting rules and market discipline that make it difficult to engage in such activities.** [40] Furthermore, several countries do not have capital gains taxes (figure 2). **For example, Hong Kong, which has no capital gains taxes, introduced laws that prohibit tax avoidance through surplusstripping and established a Board of Review to hear appeals of disputes with the tax authorities (Hsu and Yuen, 2001).** While Canada and Hong Kong's tax systems differ greatly, Hong Kong's experience provides Canada with an example of anti-avoidance measures that could be put into place.

R/T PayGo Cuts

1. Delink: Riedl of the Manhattan Institute explains that PayGo is not designed to reduce federal spending. It is not even designed to slow the growth rate of spending. It only limits the creation of new entitlement benefits above the spending growth baseline. Furthermore, discretionary spending programs--which comprise nearly 40 percent of the federal budget--are totally exempt from PayGo

rules. Lastly, PAYGO can do nothing to reduce the growth rate of entitlement programs such as social security and medicaid and medicare.

2. Delink: Riedl continues that PAYGO rules are continuously not enforced as entitlement spending grew at a faster rate after its inaction that before. For this reason, **the Huffington Post reports this December** that Trump was able sign a tax bill after Congress waived PayGo spending cuts.

Brian Riedl (Manhattan Institute/Heritage Institute). "Obama's PAYGO Law Would Not Slow Spending or Budget Deficits." February 26, 2009.
https://www.heritage.org/budget-and-spending/report/obamas-paygo-law-would-not-slow-spending-or-budget-deficits
Creating a PAYGO law and then blocking its enforcement is inconsistent and hypocritical. And given their recent waiving of PAYGO to pass a $1.1 trillion stimulus bill, there is no reason to believe the current Congress and the President are any more likely to enforce PAYGO than their predecessors were. And even if it were enforced, PAYGO applies to only a small fraction of federal spending (new entitlements). Consequently, PAYGO is merely a distraction from real budget reforms that could rein in runaway spending and budget deficits. Six Problems with PAYGO 1. PAYGO Would Not Decrease the Growth of Federal Spending. **PAYGO is not designed to reduce federal spending. It is not even designed to slow the growth rate of spending. It only limits the creation of new entitlement benefits above the spending growth baseline.** In fact, entitlement spending grew faster after statutory PAYGO took effect in 1991.[2] 2. PAYGO Exempts Discretionary Spending. **Discretionary spending programs--which comprise nearly 40 percent of the federal budget--are totally exempt from PAYGO rules. In other words, Congress could provide unlimited budget increases to most defense, education, health research, justice, international, environmental, veterans' health, homeland security, and housing programs without triggering PAYGO.** This loophole is a major flaw that substantially weakens PAYGO. 3. PAYGO Exempts Current Entitlement Benefits. **Under PAYGO, current entitlement programs can continue to grow on autopilot.** Only newly created entitlement benefits must be offset. In short, PAYGO would not prevent: **Social Security** from growing 6 percent annually; **Medicare and Medicaid** from growing 7 percent annually; and N**ominal entitlement** spending from nearly doubling over the next decade. PAYGO could theoretically slow down the creation of any new entitlements. Yet the nation's main budgetary challenges stem from the $44 trillion unfunded obligation from Social Security and Medicare, as well as the growing costs of current entitlements like Medicaid. **PAYGO would do nothing to reduce the growth rate of these programs.** 4. PAYGO Employs a Double Standard That Raises Taxes. Every few years, Congress must review and renew most entitlement programs and many tax cuts. PAYGO sensibly says that renewing an existing entitlement program is not "new" spending and therefore does not need to be offset. However, PAYGO applies a different standard to tax cuts. It classifies tax cut extensions as "new" tax cuts that violate PAYGO and must be offset. This makes no sense. PAYGO was intended to block the creation of new policies that increase the deficit. Simply keeping current tax policies in place should not be treated as "new" tax cuts. Additionally, the blatant double standard of allowing entitlement spending policies but not tax policies to be extended constitutes a major bias towards higher taxes and spending. For instance, PAYGO allows the extension of expiring SCHIP and farm subsidy laws, but it does not allow the extension of the 2001 and 2003 tax cuts or the Alternative Minimum Tax (AMT) to be patched without offsets. Even President Obama has criticized this double standard, and Congress should eliminate this baseline disparity from any PAYGO statute.[3] 5. Previous PAYGO Statutes Were Never Enforced--Even Once. Congress already had a PAYGO statute from 1991 to 2002. But this law was never enforced. **Over the statute's 12 years, Congress enacted more than $700 billion in new entitlement spending and tax cuts--and then enacted legislation cancelling every single sequestration.** Even if Congress had allowed sequestration, they had already enacted legislation exempting 97 percent of all entitlement spending--all but $31 billion--from being part of any sequestration.[4] **The law was practically designed to fail. Entitlement spending actually grew faster during the 12 years of PAYGO (1991-2002) than in the 12 previous years (1980-1991).**[5] The budget did temporarily achieve balance during that period. Yet PAYGO had very little to do with it. The budget was balanced by the combination of the dot com bubble revenue boom, defense savings after the Cold War ended, and declining net interest costs. 6. **Current PAYGO Rules Are Not Enforced. Congress has operated under a PAYGO rule since 2007. In that short period of time, Congress has already bypassed PAYGO** to: Enact a stimulus bill that cost $479 billion in new entitlements and tax cuts; Enact a veterans' education entitlement bill costing $63 billion; Enact a student loan expansion costing $15 billion; Twice patch the AMT; and Enact SCHIP and farm bills that used blatant gimmicks to hide tens of billions of dollars in new entitlement benefits.[6] Congress has bypassed PAYGO every time it has proved even slightly inconvenient to its spending agenda. There is no reason to believe another PAYGO statute would be any more successful. Suggested Improvements

Matt Fuller (Huffington Post). "Congress Passes Another Short-Term Spending Deal." December 21, 2017.
https://www.huffingtonpost.com/entry/house-passes-short-term-spending-bill_us_5a3c2b84e4b0b0e5a7a0ddcf
But with Senate Democrats concerned that Republicans may shut down non-defense programs, Republicans had to accept what is now the third short-term continuing resolution (CR) for a fiscal year that began Oct. 1. As one concession, Democrats did get a six-month supply of money for the Children's Health Insurance Program (CHIP) in the CR. The program has been running out of money since October. **The bill also includes language to waive certain pay-as-you-go rules that the GOP tax bill would trigger because of the new debt in their tax bill, which won't be signed into law until these so-called Paygo rules are nullified with this legislation.** Still, almost all House Democrats were against this bill. House Minority Leader Nancy Pelosi (D-Calif.) wanted a more complete spending deal in this measure, with a sizable portion of the Democratic caucus advocating for agreements on the Deferred Action for Childhood Arrivals (DACA) immigration program as well as the

cost-sharing reductions in Obamacare, which reimburse insurers for offering lower rates to low-income individuals. Ultimately, Republicans didn't need Democratic support in the House, with Republicans supplying 217 votes that would have allowed them to pass the bill on their own.

R/T Impact: Deficit Spending

1. Non-unique: The New York Times reports this February that the new government budget will raise the deficit to $1.2 trillion, levels not seen since the recession and its aftermath.

ALICIA PARLAPIANO (The New York Times). " Budget Deficits Are Projected to Balloon Under the Bipartisan Spending Deal." February 9, 2018. https://www.nytimes.com/interactive/2018/02/08/us/politics/budget-deficits-debt-bipartisan-spending-bill.html
The two-year budget agreement passed by Congress early Friday is projected to contribute hundreds of billions of dollars to federal deficits. The deal increases spending for bipartisan priorities. Republicans have pushed for a boost in military spending, while Democrats have long argued for similar increases for domestic programs. The de al includes more spending for both for the 2018 and 2019 fiscal years. The deal primarily affects discretionary spending, which makes up about one-third of the federal budget and does not include entitlements like Social Security and Medicare. But it will contribute to rising deficits and debt ... **According to a preliminary analysis of the deal, federal deficits are projected surpass $1 trillion by 2019, a level not seen since the recession and its aftermath.** Deficits will grow even more if the policies in the deal are extended beyond 2019. Lawmakers have also promised that individual tax cuts passed in December that are set to expire after 10 years will be extended, which would put even more pressure on the federal debt.

R/T Impact: Healthcare

1. Non-Unique: Bernstein of the Washington Post explains that a recent senate repeal of a mandate in the healthcare policy means that 13 million people are going to be kicked off of their coverage, completely independently of the government's possible loss of revenue. Thus, the drop in access to healthcare happens in either world.

2. Turn: Min Zu of the University Detroit explained in 2016 that healthcare spending and social security are unsustainable as they already exceed their program of tax revenues in the future. Voting for their funding would only encourage throwing money into a pool that would result in a failure, leaving the US in more debt.

Medicare and Medicaid spending is unsustainable. That balloons the deficit, crushes growth, and collapses dollar hegemony.
Min XU ET AL. 16. **Professor of finance, University of Detroit Mercy. **Suk Hi Kim, professor of international finance and international relations, University of Detroit Mercy. **Hassan Moussawi, professor of business, Central Michigan University. The US Government Debt: Consequences, Causes, and Solutions. The Journal of Applied Business and Economics 18(1): 69- 76. Emory Libraries.
.The challenge of dealing with the deficit mandatory spending cuts becomes clearer if we examine this portion of the budget pie in detail. **The US government is obligated under current law to make mandatory payments for programs such as Medicare medicaid, and Social Security . The GAO projects that payouts for these programs will significantly exceed tax revenue over the next 75 years. The Medicare Part A (hospital insurance) payouts already exceed program tax revenues, and social security payouts exceeded payroll taxes in fiscal 2010**. funding from other tax sources or .18 While the immediate impacts of government deficits and debt are a matter of controversy, most economists agree that the long-term fiscal outlook for the United States requires serious consideration. The . One way of measuring the long-term shortfall is to estimate the present value of unfunded obligations, that is, to estimate how much money would be needed, in today's dollars, to pay for future promises in excess of expected tax revenues. these or unfunded obligations is an estimated . This is the amount that would have had to investors abroad might turn away from dollar-denominated assets , thus pushing the into a recession investors debt owned by foreigners makes the vulnerable to pressure from Medicare, Medicaid and Social Security the may be held hostage will exceed tax revenues These deficits require borrowing retirement of the Baby Boom generation19 and a slow rate of growth in the labor force will create a demographic time bomb in which entitlement growth threatens to swamp available recourses $45.8 trillion The present value of deficits be set aside in 2009 in order to pay for the unfunded obligations which, under current law, will have to be raised by the government in the future.

Approximately $7.7 trillion relates to Social Security, while $. In other words, programs . Adding this to the national debt and other federal obligations would bring total obligations to nearly $62 trillion.20 However, these unfunded obligations are not counted in the national debt. These projections are unlikely to actually occur. The trends are unsustainable. Long before reaching such unprecedented level of borrowing, there would surely be a crisis of confidence among US creditors, both domestic and foreign. Current measures of the federal deficit and the national debt, as bad as they might appear, fail to reflect full consequences of current-law fiscal policy. The unfunded future liabilities of government entitlement programs imply rising deficits and a ballooning public debt far larger than today's shortfalls. For these reasons, to the US deficit challenge programs, then set tax rates to generate sufficient revenues over the business cycle to fund government programs. Most importantly, the tax rate should be permanent to alleviate uncertainty and allow individuals and businesses to plan for the future.21

Jared Bernstein, 11-27-17, "How the Republican Tax Cut Plan Goes After Healthcare," WP
https://www.washingtonpost.com/news/posteverything/wp/2017/11/27/how-the-republican-tax-cut-plan-goes-after-health-care/?utm_term=.f19f983ca992; retrieved 8 January 2018]
The Senate added the repeal of the individual health coverage mandate to its version of the big tax-cut plan for at least three reasons. First, because it scores as saving about $320 billion over 10 years, making it a juicy, partial "payfor" for a plan that, even with this change, still will raise deficits by well over $1 trillion over the next decade. Second, because it takes a whack at the structure of Obamacare. And third, because it's politically easy to defend: The Republicans claim they're freeing folks from purchasing something they don't want.But the argument that getting rid of the mandate will improve people's well-being by allowing them to opt out of coverage without a penalty is weaker than it first sounds, as per this analysisby Aviva Aron-Dine. **She draws heavily on the Congressional Budget Office's estimate that repealing the mandate will lead to 13 million fewer people with coverage and a 10 percent increase in premium costs.**

R/T Impact: Education

1. Delink: Turner of NPR explains in 2016 that funding for education comes from 45% local money, 45% state, and 10% federal money that results from the property tax. It has nothing to do with income taxes or capital gains taxes.

Turner, Cory. "Why America's Schools Have A Money Problem." NPR. 4/18/16.
https://www.npr.org/2016/04/18/474256366/why-americas-schools-have-a-money-problem
Today, our school funding system is infinitely more complex, but still based on that one, powerful idea — that education is a public good, and paying for it could be considered a public obligation. In the U.S., school funding comes from a combination of three sources. T**he balance varies from state to state but, on average, looks like this: 45 percent local money, 45 percent from the state and 10 percent federal.** Which brings us back to where we began this story: Why is it that one Chicago-area district has $9,794 to spend on each of its students, while another, nearby district has three times that? **Two words: property tax.**

R/T Impact: Welfare

1. No-solvency: Rector of the Heritage Foundation explains that since Lyndon B Johnson declared War on Poverty, US taxpayers have spent over $22 trillion on welfare programs. Yet, **Tanner of the CATO Institute explains** that the poverty rate is perilously close to where it was 50 years ago. Clearly this approach isn't working, and just throwing money at the problem doesn't reduce poverty. The CON side doesn't have solvency for this issue either, but they are just using more government resources.

2. TURN-ish: Min Zu of the University of Detroit explains in 2016 that healthcare spending and social security are unsustainable as they already exceed their program of tax revenues in the future. Voting for their funding would only encourage throwing money into a pool that would result in a failure, leaving the US in more debt.

3. TURN: Eliminating the capital gains tax break would generate substantial government revenues that could be used for job-creating public investments. **Craig Arnig of the Century Foundation in 2011** explains that the revenues gained from eliminating the capital gains tax could add more than 50% to the resources available for those jobs and income-security programs.

4. TURN: Rather, **Investor's Business Daily Explains** that the only solution to poverty is a strong, expanding economy. This only happens in the PRO world where **Mitchell of Forbes explains** that by abolishing the capital gains tax the economy would expand in the long term by 3% and for real income would also increase by 3%.

Rector, Robert. The Heritage Foundation. 9/23/2014. "The War on Poverty: 50 years of failure."
https://www.heritage.org/marriage-and-family/commentary/the-war-poverty-50-years-failure SC
This year marks the 50th anniversary of President Lyndon B. Johnson's launch of the War on Poverty. In January 1964, Johnson declared "unconditional war on poverty in America." ***Since then, the taxpayers have spent $22 trillion on Johnson's war. Adjusted for inflation, that's three times the cost of all military wars since the American Revolution.***

Tanner, Michael D. "More Welfare, More Poverty." Cato Institute, 12 Sept. 2006,
www.cato.org/publications/commentary/more-welfare-more-poverty. SC
News that the poverty rate remained at 12.6 percent last year, statistically unchanged from the year before, has set off a predictable round of calls for increased government spending on social welfare programs. From the New York Times to the Democratic Leadership, we hear familiar complaints about how George W. Bush and congressional Republicans have "slashed" anti-poverty programs. Yet, last year, the federal government spent more than $477 billion on some 50 different programs to fight poverty. That amounts to $12,892 for every poor man, woman, and child in this country. And it does not even begin to count welfare spending by state and local governments. For all the talk about Republican budget cuts, spending on these social programs has increased an inflation-adjusted 22 percent since President Bush took office. ***Despite this government largesse, 37 million Americans continue to live in poverty.*** In fact, despite nearly $9 trillion in total welfare spending since Lyndon Johnson declared War on Poverty in 1964***, the poverty rate is perilously close to where it was when we began, more than 40 years ago. Clearly we are doing something wrong. Throwing money at the problem has neither reduced poverty nor made the poor self-sufficient.***

Medicare and Medicaid spending is unsustainable. That balloons the deficit, crushes growth, and collapses dollar hegemony.
Min XU ET AL. 16. **Professor of finance, University of Detroit Mercy. **Suk Hi Kim, professor of international finance and international relations, University of Detroit Mercy. **Hassan Moussawi, professor of business, Central Michigan University. The US Government Debt: Consequences, Causes, and Solutions. The Journal of Applied Business and Economics 18(1): 69- 76. Emory Libraries.
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Craig Arnig, 10-21-2011, The Century Foundation
https://tcf.org/content/commentary/10-reasons-to-eliminate-the-tax-break-for-capital-gains/
The fiscal cost of taxing long-term capital gains at a low rate amounts to $38.5 billion in fiscal year 2012 and **$256.3 billion over the five-year period from** fiscal **2012 through 2016,** according to the Office of Management and Budget. **By way of comparison, all federal grants to the states for education, training, employment, and social services combined amount to about $70 billion for fiscal 2012. So the revenues gained from eliminating the capital gains tax exclusion could add more than 50 percent to the resources available for those jobs and income-security programs.**

IBD. Board, Ibd Editorial. "Welfare Increases Poverty Instead Of Ending It | Stock News & Stock Market Analysis - IBD." Investor's Business Daily, Business Daily, 29 Nov. 2013, www.investors.com/politics/editorials/welfare-spending-up-80-percent-10-years/. SC
All told, welfare spending will rocket from roughly $800 billion in the current fiscal year to about $1.4 trillion in fiscal 2022 — a nearly 80% jump. All told, overall welfare spending for the decade will be $11 trillion — "roughly one-quarter of cumulative federal spending," the Budget Committee reports. And that doesn't even include state spending on welfare, which, when added to federal benefits, was more than $1 trillion in fiscal 2011. That's enough, the Budget Committee tells us, "to mail every household in poverty a check for $60,000 each year." How did we get here? In Obama-esque fashion, of course. The committee says the unimaginable spending is in part "driven by a series of controversial recruitment methods that include aggressive outreach to those who say they do not need financial assistance." "Recruitment workers are even instructed on how to 'overcome the word "no"' when individuals resist enrollment," says committee research. "The USDA and Department of Homeland Security also have promotions to increase the number of immigrants on welfare despite legal prohibitions on welfare use among those seeking admittance into the United States.***" The best welfare program is not a government plan. It is a strong, expanding economy, which is, in fact, the only path for overcoming poverty.*** Science fiction writer Robert Heinlein noted that "throughout history, poverty is the normal condition of man." It is only through free enterprise, which is fed by open trade, unfettered capitalism and liberalized markets, that humans have emerged from their natural state in which life was nasty, brutish and short.

Mitchell, Daniel. "The Overwhelming Case Against Capital Gains Taxation." Forbes. N.p., 7 Nov 2014. Web. 8 Jan 2018. <https://www.forbes.com/sites/danielmitchell/2014/11/07/the-overwhelming-case-against-capital-gains-taxation/#71527fa93b0a>. SC
Capital gains taxes reduce the return that entrepreneurs and investors receive from the sale of a business. This diminishes the reward for entrepreneurial risk-taking and reduces the number of entrepreneurs and the investors that support them. The result is lower levels of economic growth and job creation. ...Analysing the stock of venture capital and tax rates on capital gains from 1972 to 1994, Gompers and Lerner found that a **one percentage point increase in the rate of the capital gains tax was associated with a 3.8 percent reduction in venture capital funding.**

NA (Investor's Business Daily). No, GOP Tax Cuts Won't Cause The Economy To Overheat; Here's Why." 12/15/17.
https://www.investors.com/politics/editorials/gop-tax-cuts-economy-overheating/
Wesbury, along with his colleagues Robert Stein and Strider Elass, explain that while population growth is fairly easy to measure, productivity isn't. **In fact, they say, the government is underestimating real productivity growth, because it doesn't know how to measure the impact of new technologies.** "Yes, government sources say it's weak. But anyone who goes outside instead of living in the data knows nearly everything is getting better, faster and cheaper," they write. They note that, among other problems, the government doesn't know how to account for free stuff, like GPS navigation on smartphones, free language translators, Google search results when it measures productivity. Zachary Karabell, writing for Bloomberg View, notes that, as a result, **"there is a growing chasm between what our economic system is and what our numbers are capable of measuring." Wesbury and company point out that, to the extent that overall productivity isn't higher, one big reason is government. Indeed, two of the industries with the worst productivity growth in the past decade have been power generation and banking — both of which are extremely heavily regulated by government. Putting this together, it would seem that there is clearly room for additional growth without sparking inflation,** especially if the Trump administration continues to liberate industries from excessive, productivity-killing, government regulations.

R/T Guided Investment

R/T Charity

1. Mitigate: Mitchell of the Wall Street Journal reports in **2012** that despite various incentives, charitable giving never changes and is only 2% of the US GDP.

2. Minimize: Greenburg of the Tax Foundation wrote in **2015** that donations of investment are only 1.8% of all tax write-offs; there's barely anyone who does this.

3. Non-unique: McQueeney from the LA Times explains in **2017** that the new tax plan will already discourage charitable investments because it only gives you a tax deductible if you itemize your donations. The capital gains tax loophole doesn't even apply anymore.

4. TURN: Mitchell of explains that charity deductions further income inequality because the upper-income households take 81% of the deduction even though its 13.5% of all US tax returns.

5. TURN: Mitchell continues to explain the deductions make charities get lazier that devote more to administrative costs and marketing expenses rather than promote the purpose of the charity, reducing their impact.

Daniel Mitchell. "Should we End the Tax Deduction for Charitable Donations?" Wall Street Journal December 16 2012.
For all the praise it gets, there's just no evidence that the tax break leads people to increase their giving—but it does lead them to make bad choices about giving. What's more, it favors a segment of the public, the very wealthy, that can afford to give without a break. And cutting the deduction does a lot less economic harm than other ways of raising tax revenue. To be clear, I feel strongly that the best way to help charities is to boost economic growth, which leaves people with more money to donate. And I think the best way to do that is to replace our current system with a simple and fair flat tax. But even without that radical change, I don't think there's a compelling argument for the charitable deduction. Let's start with the most basic point: It doesn't do what it promises—that is, to boost charitable giving. Over the decades, there have been major changes in tax rates and thus major changes in the tax treatment of charitable contribution**s. At some points, there has been a big tax advantage to giving, at others much less. Yet charitable giving tends to hover around 2% of U.S. gross domestic product, no matter what the incentive.** Another reason to drop the deduction is that it's exclusive—and it gives a break to people who really don't need one. **Upper-income households are the biggest beneficiaries of the deduction, with those making more than $100,000 per year taking 81% of the deduction even though they account for just 13.5% of all U.S. tax returns.** By focusing on getting a break, donors get sloppy, and they don't carefully monitor nonprofits to make sure their money is being used wisely. If it costs you just 65 cents to give a dollar to charity after taxes are figured in, you're less likely to pay attention to where you put that dollar, or how every cent is being used. **The deduction becomes the tail that wags the charitable dog. Charities, meanwhile, get fatter and lazier because of that dynamic. Think of all the exposés in recent years about charities that devote an overwhelming share of their budgets to administrative costs and marketing expenses**. No system will create perfect nonprofit groups, but cutting back or cutting out the deduction would break the cycle of inefficiency that now exists.

Scott Greenburg. "Investment Donations and the Charitable Deduction." Tax Foundation. June 23 2015.
One of the most important reasons why investments represent such a large portion of deductible noncash contributions is the well-known tax advantage of donating stock to charity. Individuals who contribute "capital gain property" they have held for more than a year to a charitable organization are generally exempt from capital gains taxes on that property. This means that individuals can often avoid substantial taxation on their investments if they donate them to charity and count them as a deduction.
Only a small number of taxpayers take advantage of the opportunity to avoid capital gains taxes by donating investments. **Out of the 7.5 million taxpayers who lled out Form 8283 to report noncash donations greater than $500, only 134,029 returns listed donations of investments, less than 1.8%.**

Bryan Mcqueeney. "The GOP tax reform will devastate charitable giving." *latimes.com*. 27 Dec. 2017. Web. 14 Feb. 2018. <http://www.latimes.com/opinion/op-ed/la-oe-mcqueeney-charitable-giving-under-new-tax-law-20171227-story.html>
The just-signed Tax Cuts and Jobs Act, like all income tax laws, will reward some behaviors and penalize others. Unfortunately for nonprofits, the new rules are going to discourage charitable donations. At a time when discretionary government services are diminishing, and as deeper

cuts are contemplated, the role of nonprofits in filling the holes in the social safety net is becoming more essential. Charities have been stepping up to provide emergency relief and long-term aid for those who lost everything in California's wildfires, and in the floods and hurricanes that decimated the Gulf Coast and Puerto Rico. They've responded to the mass shootings in Las Vegas and Texas. And day in, day out, they work to meet the needs of abused women, hungry children, the homeless, the disabled**. It's never easy to keep social service charities running; they operate on tight margins in the best of times. Now the new tax law, according to estimates from the Council on Foundations, will drain $16 billion to $24 billion a year from the nonprofit sector going forward**. The problem is that while the Tax Cuts and Jobs Act preserves the deductibility of charitable contributions, it restructures the system so that millions will lose incentives to give. Most people donate from their hearts to causes they care about, regardless of taxes. It is undeniable, however, that the reward for giving will go down and the cost of giving will go up. Here in California, the effect of the new law will be particularly painful. The tax reforms limit the deductibility of state and local income and property taxes to $10,000. This is a high-tax state, and many residents' state and local tax bills will far exceed this limit. The loss of this valuable deduction will leave them with less to give to their favorite charity. The Tax Cuts Act simultaneously raises the standard deduction to $24,000 for a married couple. For millions it will no longer make sense to itemize, and that too means fewer charitable gifts: **You can only deduct donations if you itemize.**

R/T Opportunity Zones

1. Delink: Cohen of the Intercept reports that this plan is ineffective since the incentives are too small to actually shift investors, no net jobs are created as it simply creates a relocation to a different part of the city, and it creates complex tax loopholes that let investors walk away with more money at the end of the day.

2. Delink: Opportunity Zones are nothing new, Clinton passed the same thing, only called enterprise zones. Unfortunately, **Bartlett of The Fiscal Times** writes in **2014** writes that high taxes are not a significant reason why businesses don't invest in these areas right now, which is why he reports that even with the tax cuts, there was no change in investment in these low-income communities, even with the tax incentive.

3. No impact: Wimer of Columbia University in 2016 explains that the economic benefits of opportunity zones don't even go to zone. Most of the people employed are from outside of the area. Moreover, the benefits that go to one zone are often offset by losses to other zones

4. Turn: Turner from Skidmore College writes in **2006** that the last time there were opportunity zones, people just ended up labelling non-distressed areas as enterprise zones and funnelled more investment in areas that didn't need it.

5. Turn: Schrader from the Denver Post explains that the most likely outcome of tax free zones the creation of 'investment parking lots' where wealthy people park their money and price the poor people out.

6. Turn: Franz of the Vienna University finds in **2015** that when, federal programs that encouraged these dynamics by providing block grants and enterprise zone, the unregulated form of heavy investment led to the displacement of homeless people and the eviction of vulnerable residents.

7. Turn: Powell of Berkeley Law explains in 2002 that Gentrification is harmful for two reasons. First, is because it leads to displacement of the poor residence of the gentrified communities, who are forced to

move to other areas in which crime and poverty and rampant. Second, is because of the over "whitening" of the gentrified areas, in which previously diverse areas become filled with majority whites, leading to resegregation, in which pockets of the city are filled with majority white or majority black communities.

John Powell, Berkeley Law, 2002, https://scholarship.law.berkeley.edu/cgi/viewcontent.cgi?article=2038&context=facpubs (NK)
Byrne focuses on **two negative outcomes of gentrification: displacement (which we take up later) and the changing essence of a neighborhood,** both of which he discounts.' ° **But there are many other negative consequences associated with gentrification including changes in power structures, institutions, voting power and losses of local businesses, social networks and services**.[...]"great moments of neighborhood vitality may occur at unpredictable points during a transition" as Byrne does.13 Rather, as University of Chicago Policy Analyst John J. Betancur argues in a study of West Town Chicago, **gentrification is really a struggle between community and accumulation for which we must assume responsibility**:14 **[T]here is an aspect of gentrification that mainstream definitions ignore. Descriptions of gentrification as a market process allocating land to its best and most profitable use, or a process of replacing a lower for a higher income group, do not address the highly destructive processes of class, race, ethnicity, and alienation involved in gentrification** .. . . [T]he right to community is a function of a group's economic and political power .... [T]he hidden hand is not so hidden in the process of gentrification and that in fact, it has a face-a set of forces manipulating factors such as class and race to determine a market outcome .... **The most traumatic aspect of this analysis is perhaps the destruction of the elaborate and complex community fabric that is crucial for low-income, immigrant, and minority communities-without any compensation.**1 5 A. Through a Racial Lens Although studies of it often ignore ethnicity and race,'1 6 **gentrification has a very clear racial component. Commonly, higher-income white households replace lower-income minority ones,**1 7 often in the 12. id. at 410. 13. Id. at 431. 14. John J. Betancur, The Politics of Gentrification: The Case of West Town in Chicago, 37 URB. AFF. REv. 780, 807 (2002). 15. Id. 16. Lees, supra note 8, at 399-400. 17. **In Park Slope, Brooklyn, there recently has been a significant 'whitening' of the population**. In the 1970s, the school population was equally divided between white, black, and Hispanic; today it is 52% white. See id. at 400. **This whitening is accompanied by displacement and resegregation.** For example, a study commissioned by the National Center for Poverty Law found that **displaced residents of Chicago's demolished high-rise housing projects were relocated to other city neighborhoods** that are just as segregated and as poor as the ones they left. See Paul Fischer, Where Are the Public Housing Families Going?: An Update, at 1 (Feb. 15, 2003), http://www.povertylaw.org/advocacy/fischer-study.doc. The study tracked more than 3,200 Section 8 families from 1995 to 2002. It found that about 83% of the residents moved to neighborhoods that were at least 90% black, id. at 3, and that nearly 50% of the families moved to neighborhoods of concentrated poverty. Id. at 5-6. **While some families moved to slightly improved housing, their new neighborhoods had high crime, poor schools and substandard housing overall.** See John W. Fountain, Suit Says Chicago Housing Renewal Plan Perpetuates Segregation, N.Y. TIMES, Jan. 24, 2003, at A18; see also, Paul Fischer, Racial and Locational Patterns of Subsidized Housing in the Chicago Suburbs, 1 GEO. J. oN FiGHTING POVERTY 384 (1994). [VOL. 46:433 HeinOnline -- 46 Howard L.J. 436 2002-2003 **Giving Them the Old "One-Two" very same neighborhoods that experienced "white flight" and urban renewal in the 50s and 60s. 8 Where there is displacement then gentrification can be seen as a double insult-a "one-two" knock-out of urban dwellers of color.** White middle class flight initially causes lowincome minority neighborhoods to become isolated and undervalued. Then at some point in the future, and in part because the neighborhood values are depressed, whites move back in and force residents to leave, often to strange neighbors that are in distress.

Franz, Yvonne (Vienna University Press) "Gentrification in Neighbourhood Development" 2015
https://books.google.com/books?id=1ar3CwAAQBAJ&pg=PA76&lpg=PA76&dq=%22enterprise+zones%22+%22gentrification%22&source=bl&ots=na0qbo-sSF&sig=97Ham5pbr7a-M2jD06OnLVMKvio&hl=en&sa=X&ved=0ahUKEwjr_K_3iKzZAhVtoFkKHYJfCM8Q6AEIVDAG#v=onepage&q=%22enterprise%20zones%22%20%22gentrification%22&f=false
Over the course of the next few years, **federal programs even encouraged these dynamics by providing block grants and enterprise zone. The unregulated form of heavy investment led to the displacement of homeless people and the eviction of vulnerable residents.** Especially in New York City these processes found resistance in particular neighbourhoods like SoHo or Lower East Side due to the fact that an existing arts community was not only used as a catalyst, but was also affected by ongoing gentrification. Yet, the gentrification progress could not be hindered: The political will to do so did not exist.

Rachel M. Cohen (The Intercept). "NEW YORK TIMES APPLAUDS DONALD TRUMP FOR A NEW ATTEMPT AT AN OLD CORPORATE BOONDOGGLE." January 30, 2018. https://theintercept.com/2018/01/30/new-york-times-tax-reform-opportunity-zones/
In his attempt to shed light on the "little-noticed section in the $1.5 trillion tax cut," Tankersley spoke to politicians, community development professionals, and venture capitalists like Sean Parker, who expressed enthusiasm for idea. There are a few glaring omissions, though. The article includes no comments from scholars who have actually studied opportunity zones, and it links to none of the many research studies done on their effectiveness. Spoiler: Research shows these schemes rarely ever help cities, and often hurt them. (The article does link to illuminating resources such as a biography of Republican Sen. Tim Scott.) In fact, **"the bottom-line effects of these kinds of tax incentives are often too small to change the locational preferences of investors," explained Rachel Weber, an urban planning professor at the University of**

Illinois at Chicago. "Moreover, they often create complex financial and administrative structures that consume a large portion of the tax benefit as transaction costs paid to industry professionals, leaving less for the bricks and mortar." Dan Immergluck, a professor in the Urban Studies Institute at Georgia State University, offered a similar assessment. "There is not much evidence that marginal tax breaks to incentivize capital investment or hiring by private firms works very well," he said. Immergluck distinguished opportunity zones from what he calls "deeper incentives" like the Low-Income Housing Tax Credit. "The LIHTC clearly creates housing that would not exist otherwise," he said. "But it is not a marginal incentive to move private capital around. It creates fundamentally a new form of capital. This opportunity zone program will not do that." Buried toward the end of Tankersley's article is a brief acknowledgment that past research shows previous revitalization efforts haven't worked out so well, but this history was apparently not sufficient enough to blunt the article's decidedly sunny outlook. "Proponents say the new Opportunity Zones are designed to be more effective than earlier programs," Tankersley wrote, offering no real explanation as to why. He also asserted that the New Markets Tax Credit — a federal tax break to spur revitalization in distressed communities launched in 2000 — has been "more successful" than previous opportunity zone efforts. But he offered no research to support that claim, either. The few studies that do exist on the New Markets Tax Credit paint a mixed picture, at best. **A Government Accountability Office study published in 2014, for example, found that the program has "become more complex and less transparent" over time, and as a result, investors potentially take home a much higher rate of return than is warranted.** Also, due to data limitations, the GAO concluded that "it is not possible to determine, at this time, the NMTC project failure rate with certainty." Last summer, Timothy Weaver, an urban policy and politics professor at the Rockefeller College of Public Affairs & Policy at the University at Albany, published an article on opportunity zones, tracing their effectiveness in both the United States and the United Kingdom — where the concept originated in the early 1980s. **"Enterprise zones do very little to revive urban areas," he concluded. "At best, they divert investment from one part of the city from another, resulting in no net gain for the city as a whole. At worst, they result in tax-giveaways to firms that would have been operating anyway, thereby generating a net loss to city revenues. ... The enterprise zone is a zombie policy that staggers on despite its moribund performance.** It's time to perform the last rites and bury it once and for all." Reached for comment on the New York Times article, Weaver told The Intercept that he "was struck by its slap-dash approach to critical engagement." Put differently, that investors may stand to reap major windfalls does not mean that the communities themselves will be better off. **"There is no question that cities — poor areas in particular — need capital investment," he added. "However, this is a terribly inefficient way of going about it."**

Christopher Wimer (Columbia University) The Power of Place: Evaluating Policies to Transform Distressed Urban Neighborhoods. 2016
http://www.21stcenturyneighborhoods.org/wp-content/uploads/2016/10/21CC-White-Papers-Combined.pdf
Few studies explicitly test mechanisms for how these place-based economic development incentives may produce their desired effects. Taken together, however,the research points to a few factors: 1. Concentrating incentives on distressed geographical areas of small size to not dilute impact 2. Tying incentives explicitly to the creation of new jobs 3. Building in social services 4. Developing a strategic economic plan and providing needed technical assistance to zone administrators and staff in the implementation of the plan **Overall, even when they are effective, the economic gains from place-specific economic development incentive programs are diluted because most employed residents do not work in the zone, and most workers in the zone do not live in the zone. In addition, some benefits that accrue within the zone may be offset by economic losses in adjacent areas not in the designated zone.**

Megan Schrader (Denver Post). "'Opportunity zones' in GOP tax bill ripe for abuse." December 19, 2017.
https://www.denverpost.com/2017/12/19/opportunity-zones-in-gop-tax-bill-ripe-for-abuse/
The goal of "opportunity zones" is a worthy one: spurring much-needed investment into housing, small businesses and infrastructure in depressed areas. Picture entrepreneurs in Pueblo, Delta and Alamosa getting an infusion of cash because of a simple provision in the GOP tax bill. **But the far more likely outcome will be financial institutions setting up qualified opportunity funds to market to their wealthy clients near retirement as a safe place to park their money tax-deferred in a slow-growing market for 10 years. The trade-off being slower growth than the stock market but tax-free gains.** To put the size of this provision into perspective, the Joint Committee on Taxation estimated it would cost $7.7 billion from 2018 to 2022. The proposed repeal of the deduction for moving expenses would save only $4.2 billion over the same time. The likely recipients of such investments in Colorado? Well, if I were in the business of helping wealthy clients abuse the tax code, I'd park their qualified opportunity investment in real estate in the most attractive designated opportunity zones on the Front Range and let it sit for 10 years, not really helping these areas, but qualifying under the law for the tax incentives.

Bruce Bartlett. "Enterprise Zones: A Bipartisan Failure." *The Fiscal Times*. 10 Jan. 2014. Web. 14 Feb. 2018. <http://www.thefiscaltimes.com/Columns/2014/01/10/Enterprise-Zones-Bipartisan-Failure>

The evidence is equally weak regarding the New Markets Tax Credit. **A 2009 article in the Public Finance Review found no change in investment in low-income communities**. A report on the tax credit for the Treasury Department by the Urban Institute in 2013 found that job creation was small and carried a high cost, averaging $53,162 in tax credits for each job created. There are a variety of reasons for why enterprise zones have failed. One is that businesses simply gamed the system and figured out ways to

get the tax cuts without doing much of anything in return, something economists call "rent-seeking." Often, the "job creation" in the zones resulted simply from the relocation of business just outside the zone into the zone. **Another problem is that high taxes are not a significant reason why businesses don't invest in the inner cities now. It's more because they lack an educated labor force, transportation, a local population with purchasing power and other factors that the enterprise zone concept didn't address. Supporters refuse to acknowledge that enterprise zones were a good idea that was worth trying and just didn't work. Instead, they keep beating this dead horse as if it is still an untried idea from which we have no experience of failure. On Dec. 18, Sens. Rand Paul and Mitch McConnell, both of Kentucky, proposed new enterprise zone legislation as if they just came up with the idea for the first time.** It is tempting to members of both parties to come up with a place-oriented policy that targets the problems of poverty and unemployment in high-profile locations where they are especially bad. In theory, a relatively small amount of money can be leveraged to jump-start growth in areas where there may be positive spillover effects. This approach is attractive in an era when government resources are severely limited. Democrats are unable to repeat Lyndon Johnson's "war on poverty," which was launched 50 years ago this month, while the sorts of big tax cuts implemented by Ronald Reagan 33 years ago are also off the table due to the budget deficit.

Robert Turner "Who Benefits When Enterprise Zones are Zoned-out: The Case of the Ohio Enterprise Zone Program" *Skidmore.edu*. 6 Jan. 2006. Web. 15 Feb. 2018. <http://www.skidmore.edu/~bturner/Who%20Benefits%20When%20Enterprise%20Zones%20Are%20Zoned-Out.pdf>
While enterprise zones were originally intended to provide tax incentives to businesses for locating in impoverished neighborhoods, virtually all state programs have changed their zone designation rules to permit the designation of non-distressed areas as enterprise zones (Talanker 2003). No state is better for examining the dynamics and consequences of the expansion, or untargeting, of enterprise zones than Ohio. The Ohio enterprise zone program was created in 1981, making it one of the oldest and most well-established programs in the country. It is also an expansive program, with 381 active enterprise zones in distressed and non-distressed areas. As importantly, Ohio has an excellent statewide database with the cumulative cost of incentives and benefits from investment and employment at the level of both the enterprise zone and individual firm.

R/T Impact: Helping those In Need

1. TURN: The influx of investment caused by opportunity zones leads to detrimental gentrification. **Pethokoukis of the American Enterprise Institute** explains in 2015 that historically these programs fail and make matters worse:

James Pethokoukis (American Enterprise Institute). "Do enterprise zones really work to lift inner cities?" March 11, 2015. http://www.aei.org/publication/do-enterprise-zones-really-work-to-lift-inner-cities/
"Enterprise zones" have an intuitive appeal. Flood a poor area with all sorts of aid to attract business. Create thriving little Hong Kongs in places of despair, particularly urban areas, through the miracle of free enterprise. Some folks, especially on the right, have suggested turning Detroit in a giant, low-tax enterprise zone. And President Obama has proposed his own version, "promise zones." More from the San Francisco Fed: Federal Empowerment Zones consist of relatively poor, high-unemployment Census tracts. They offer businesses tax credits of up to $3,000 per worker for hiring zone residents and (in the original zones) block grants of up to $100 million to be used for business assistance, infrastructure investment, and training programs. Benefits vary across state programs, but many also emphasize hiring credits.But do these enterprise zones actually work? I have been trying to assemble an urban policy agenda. But I don't find these results especially compelling. Again, the SF Fed:
First, even though some research on federal Empowerment Zones finds some evidence of positive employment effects, other research fails to find evidence of reduced poverty, and points to some increases in the share of households falling below other low income thresholds. Second, there is consistent evidence of housing price increases, implying that benefits are received by unintended recipients. Other results not included in the table sometimes point to negative spillover effects on nearby areas, suggesting that enterprise zones largely rearrange the location of jobs rather than

creating more of them. Our overall view of the evidence is that state enterprise zone programs have generally not been effective at creating jobs. The jury is still out on federal programs—Empowerment Zones in particular—and we need more research to understand what features of enterprise zones help spur job creation. Moreover, even if there is job creation, it is hard to make the case that enterprise zones have furthered distributional goals of reducing poverty in the zones, and it is likely that they have generated benefits for real estate owners, who are not the intended beneficiaries.

Table 1
Effects of enterprize zones on poverty and house prices

Program	Study	Findings
		Poverty
Federal Empowerment Zones	Hanson (2009)	Insignificant positive effect (2 percentage points)
	Reynolds and Rohlin (2013)	No significant effect (−1 percentage point)
		Significant increase in proportion of households below one-half the poverty line (1.1 percentage points)
		Significant increase in proportion of households more than twice the poverty line (1.9 percentage points)
		House prices
Texas enterprise zones	Freedman (2013)	Significant positive effect on median home value (10.7%)
Federal Empowerment Zones	Busso et al. (2013)	Large significant positive effects on house values (28–37%)
	Reynolds and Rohlin (2013)	Increases in value for houses valued $100,000 or more, extending above $300,000

Gentrifying governments shift resources from poor

Loic Wacquant. International Journal of Urban and Regional Research. Relocating Gentrification: The Working Class, Science and the State in Recent Urban Research. March 2008. http://www.loicwacquant.net/assets/Papers/RELOCATINGGENTRIFICATION.pdf

The shift from the acidic denunciation to the glib celebration of gentrification, the elision of the displacement of the established residents of the inner city of lower socioeconomic standing, the bland focus on 'social mixing' and euphemistic invocation on 'residentialization' are not isolated developments peculiar to the study of neighborhood upgrading. They partake of a broader pattern of invisibility of the working class in the public sphere and social inquiry over the past two decades. This literal and figurative effacing of the proletariat in the city is reinforced by the growing heteronomy of urban research, as the latter becomes ever more tightly tethered to the concerns and outlook of city rulers, and correspondingly unmoored from self-defined and self-propelled theoretical agendas. And both tendencies in turn reveal, confirm and abet the s**hifting role of the state from provider of social support for lower-income populations to supplier of business services and amenities for middle- and upper-class urbanites — chief among them the cleansing of the built environment and the streets from the physical and human detritus wrought by economic deregulation and welfare retrenchment so as to make the city over into a pleasant site of and for bourgeois consumption.**

[Dedrick Muhammad, Director of the Racial Wealth Divide Initiative, Huffington Post, 01/29/14, http://www.huffingtonpost.com/dedrick-muhammad/must-end-gentrification-t_b_4687167.html]

As President Obama noted in his State of the Union address, **economic inequality** has **reached an epic height** in our nation, shutting the doors of opportunity for millions of Americans. In urban centers **we see this growing inequality through gentrification**. Too often **the "development" of urban centers means the displacement of low and moderate-income long-time residents and new housing and amenities for the rich. A first step in ending the growing economic inequality, which is deeply tied to ongoing racial inequality, is to stop this displacement**. **The corrosive effect of gentrification can be found throughout the nation** even in the

"liberal" whitest city of America Portland, Oregon. Portland is known internationally as a leader in urban design with many boasting of its bike-friendly streets, accessible 20-minute neighborhoods and quaint local business culture. In fact, this year, Portland was named the best U.S. city by the real estate company, Movato. Unbeknownst to many, however, Portland is also a case study in gentrification, a glaring reminder that **urban economic disparities will persist as long as the structural inequalities of our economy remain.**

[Nancy Thompson, n.d., (Gentrification and Displacement: How to Think About Them), http://www.useful-community-development.org/gentrification.html]
Gentrification is what happens when the incomes of people moving into an urban neighborhood are higher--sometimes considerably higher--than those of the current residents. You would think that's a great result, right? But **let's dig deeper about what happens to the lower-income, long-term residents. Rents and home prices increase.** Housing redevelopment or infill housing can become profitable enough that the supply of affordable housing dwindles. **Sometimes mom and pop businesses can't afford rent and upscale neighborhood bistros replace them.** The term comes from the idea of the gentry, or people who can afford to own nice property. **The result of gentrification often is displacement of the previous tenants and home owners. In urban areas, sometimes the same household is displaced repeatedly, as they move to less expensive neighborhood, only to find that neighborhood also overtaken with "progress" and more expensive housing. Or equally unfortunate, they may have to settle for a crime-ridden and ugly neighborhood.**

R/T Infrastructure

1. Probability?

R/T Small Business

1. Johnston of Wealthfront in 2016 explains that Congress has progressively increased exclusions on capital gains to promote small business. In spite of this, **Kelley of Babson University in 2016** finds that in the same year, optimism in small business declined and the entrepreneurial activity shrunk by 2%.

My opponents miss the root cause, as **Velez of the Center for American Progress finds in 2015** that middle class families account for 60% of new small businesses. Problematically, **Che of the Huffington Post** explains that when the middle class continues to shrink, entrepreneurs no longer start small businesses in the fear of economic failure. At this point, small businesses become a reason to vote for us for two reasons.

a. Uniqueness of link: small business is on the decline in their world in spite of increasing tax exclusions. Their advocacy hasn't fixed the problem, and only a shift from the status quo offers a risk of doing so.
b. We solve for the root cause- by reversing the decline of the American middle class, we stop the problem that has contributed to a decline in small business in the first place.

2. Impact mitigation: Investopedia explains that there are 6 broad exclusions that prevent small businesses from benefiting from this tax cut. This is why my opponents will never be able to tell you how much money has been investment and how many startups have been funded through this exception.

Toby **Johnston**; Qualified Small Business Stock Is An Often Overlooked Tax Windfall; **Wealthfront**; 2/17/16;
https://blog.wealthfront.com/qualified-small-business-stock-2016/
It bears mentioning that this post focuses on the federal tax treatment for QSBS. Some states follow the federal tax treatment, while others may have their own set of rules. California, for example, offered preferential treatment for QSBS in prior years, but eliminated the benefit for tax years after 2012. The bottom line: Don't assume your state provides a benefit for QSBS gain. **In recent years Congress wanted to incentivize more investment in small businesses, so it progressively increased the amount of gain exclusion.** Per the table below, there are now several possible treatments for gain exclusion depending on when you purchased your private company stock. Note as well that the gain excluded from capital gains tax is not subject to the 3.8% net investment income tax (NIIT). The table below summarizes the QSBS rules for regular tax (versus alternative minimum tax) depending on the time frame when the QSBS was first acquired:

Donna Kelley; Fewer People Are Starting Their Own Businesses; Babson College; 7/19/16;
http://time.com/money/4413251/small-business-entrepreneurship-decline/
Total entrepreneurial activity in the U.S.—measured by the number of people starting and operating new businesses—**fell to 12% in 2015, from 14% in 2014**, according to a report released Tuesday by Babson College. The drop reverses upward growth in small business activity during the previous four years. The findings could indicate that employees are satisfied with their jobs and unwilling to strike out on their own. But **the research could also show a lack of confidence in the small business environment in the wake of the recession**, Babson professor Donna Kelley told CNBC. The Small Business Optimism Index, a metric from the National Federation of Independent Business, has remained below its 42-year average since the recession.

Camilo Mondragón-**Vélez**; How Does Middle-Class Financial Health Affect Entrepreneurship in America?; **Center for American Progress**; 5/21/15;
https://www.americanprogress.org/issues/economy/reports/2015/05/21/109169/how-does-middle-class-financial-health-affect-entrepreneurship-in-america/
Entrepreneurs play a critical role in the U.S. economy, and America's middle class plays a critical role in nurturing the people and social environment that create successful entrepreneurs. In other words, the dynamics of business creation and consolidation are interlinked with those of overall economic growth and the financial health of middle-class families. To become an entrepreneur, after all, is often a family decision—weighing the potential risks against the probable rewards and dedicating significant portions of a family's income, wealth, human capital, and effort into a business venture. Analysis in this report shows that **middle-class families account for 60 percent of new business ventures.** According to the U.S. Small Business Administration, small firms—defined as those with up to 500 employees—represent more than 99 percent of employer firms, generate half of non-farm private goods and services in the U.S. economy, employ about half of all private-sector workers, and have created around two-thirds of net new jobs in the past two decades.

Jenny **Che**; America's Next Business Leaders Can't Ignore Income Inequality; **HuffPo**; 9/10/15;
https://www.huffingtonpost.com/entry/income-inequality-survey-harvard-business-review_us_55f040a1e4b03784e27740cf?utm_hp_ref=business
All of this has huge implications for businesses. Middle-class families represent 60 percent of new businesses, according to a report from the Center for American Progress. These small firms produce half of non-farm private goods and services in the U.S. and have created two-thirds of net new jobs in the last 20 years. But **as** paychecks get lighter and **middle class costs continue to soar, jobs are becoming more difficult to come by, while potential entrepreneurs are waiting longer to start their ventures in order to avoid economic failure.** A struggling middle class also means there isn't enough consumer demand to generate employment, Josh Bivens, director of research and policy at the Economic Policy Institute, told HuffPost. Further exacerbating the issue is that much of the income gains have been redistributed upwards.

NA (Investopedia). "Section 1202." https://www.investopedia.com/terms/s/section-1202.asp.
However, not all small business stocks are qualified for tax breaks under the IRC which defines a small business stock as qualified if: Issued by a domestic C-corporation other than hotels, restaurants, financial institutions, real estate companies, farms, mining companies, and businesses relating to law, engineering, or architecture Originally issued after August 10, 1993 in exchange for money, property not including stocks, or as compensation for a service rendered The issuing corporation had $50 million or less in assets on the date the stock was issued and immediately after At least 80% of the corporation's assets are used in the active conduct of one or more qualified businesses. Number 1 above lists a number of qualified businesses The issuing corporation does not purchase any of the stock from the taxpayer during a four-year period beginning two years before the issue date The issuing corporation does not significantly redeem its stock within a two-year period beginning one year before the issue date. A significant stock redemption is defined as redeeming an aggregate value of stocks that exceed 5% of the total value of the company's stock State taxes that conform to federal tax will also exclude capital gains of small business stock. Since not all states correlate with federal tax directives, taxpayers should seek guidance from their accountants on how their states treat realized gains from the sale of qualified small business stocks.

R/T CGT Offsets Investors Losses

1. The Tax Policy Center explains that only $3,000 worth of losses can be offset. This is pennies compared the amount of money investors are spending/risking everyday.

NA (Tax Policy Center). "Key Elements of the U.S. Tax System."
http://www.taxpolicycenter.org/briefing-book/what-effect-lower-tax-rate-capital-gains
Capital gains may arise from risky investments, and a lower capital gains tax rate presumably encourages such risk taking. However, taxing gains while allowing deductions for losses on a symmetric basis reduces risk by reducing the after-tax variance of returns. **Under current law, taxpayers can use capital losses to offset capital gains and, for noncorporate taxpayers, up to $3,000 of additional taxable income other than capital gains.** Noncorporate taxpayers also can carry any remaining capital losses forward to future years indefinitely. It is true that part of almost any nominal capital gain is due to inflation. But inflation actually affects the returns on assets that are taxed currently (interest, dividends, rents, and royalties) more than it affects capital gains, which are taxed upon disposition. Meanwhile, the critics are correct that low tax rates on capital gains and dividends accrue disproportionately to the wealthy. The Tax Policy Center estimates that in 2016, three-quarters of the tax benefit of the lower rates were received by taxpayers with incomes over $1 million (table 1).

R/T Overheating

1. Non-unique: The New York Times reports this February that the new government budget will raise the deficit to $1.2 trillion, levels not seen since the recession and its aftermath. **Nelson of the Federal Reserve Bank** explains that high deficits mean that the government will have to increase interests rates to incentivizing buying government bond rather than investmenting.
TURN: We are the only team that solves for the inevitable deficit crisis. **Edwards of the CATO Institute** explains that as the economy grows and becomes more productive the government will see tax revenues from all sources increase.

2. TURN: Voting pro increases the productive capacity in the U.S. which pushes the U.S. capacity for economic growth without causing inflation and hiked interest rates. **Guo of the Washington Post** reports that according to the most recent data multifactor productivity in the US economy declined by 0.2%. This means that although jobs are being created innovation and technological improvement is not occuring. **Sinai of the American Council for Capital Formation** finds empirically abolishing the capital gains tax leads to a 0.5% increase in productivity growth every year. This means that innovative activities such and R&D spending, the number of new businesses, and patents are increasing. Due to the lack in productive growth **Investor's Daily Business** reports that productivity there is clearly room for additional growth without sparking inflation.

3. No impact: Egan of the CNN reports that recent tax cuts have created the recent market volatility, if you buy that it was caused by tax cuts then my opponents impact is at best a short term increase in market instability. However, prefer our argument which is that the short-term instability will just be a precursor to the expansion of the U.S. economy.

4. Uniqueness: The Economist in 2018 explains that the US isn't actually on the brink of overheating because there is still room for more employment. Furthermore, even if employment increases,

tightening the labor market is good because it lifts workers out of poverty and prompts further investment into capital equipment which boosts productivity.

5. No impact: Arthur Delaney and Daniel Marans from the Huffington Post explain that the Federal Reserve will most likely increase interest rates to stop the economy from overheating. The Fed has a dual mandate to maximize employment and keep the rate of price growth stable, pursuing the latter goal by targeting a 2 percent inflation rate. If inflation show signs of exceeding the 2 percent threshold, the Fed could hit the brakes by raising an influential interest rate.

ALICIA PARLAPIANO (The New York Times). " Budget Deficits Are Projected to Balloon Under the Bipartisan Spending Deal." February 9, 2018.
https://www.nytimes.com/interactive/2018/02/08/us/politics/budget-deficits-debt-bipartisan-spending-bill.html
The two-year budget agreement passed by Congress early Friday is projected to contribute hundreds of billions of dollars to federal deficits. The deal increases spending for bipartisan priorities. Republicans have pushed for a boost in military spending, while Democrats have long argued for similar increases for domestic programs. The deal includes more spending for both for the 2018 and 2019 fiscal years. The deal primarily affects discretionary spending, which makes up about one-third of the federal budget and does not include entitlements like Social Security and Medicare. But it will contribute to rising deficits and debt ... **According to a preliminary analysis of the deal, federal deficits are projected surpass $1 trillion by 2019, a level not seen since the recession and its aftermath**

Edward Nelson (Federal Reserve Bank of St. Louis). "Budget Deficits and Interest Rates: What Is the Link?" 2004.
https://www.stlouisfed.org/publications/central-banker/summer-2004/budget-deficits-and-interest-rates-what-is-the-link
This shift is apparent in the market's current expectation that the Federal Reserve will not accommodate deficits with money creation. Since 1982, U.S. inflation has been controlled despite several years of high deficits. Fiscal 1983's $208 billion deficit was approximately 6 percent of GDP; this year's estimated deficit represents 4.5 percent of GDP. This demonstrates that monetary policy is capable of keeping inflation low even in the face of large deficits. **Why might interest rates rise in response to deficit financing? When you rule out monetary accommodation of the deficit, the government needs to create an incentive for the private sector to buy more government bonds. If the private sector's purchase of government bonds does not increase one-for-one with the higher deficit, the government must borrow more money, which leaves less money for financing private projects, such as investment in residences or factory equipment.** This is sometimes referred to as the "crowding-out" effect. Higher interest rates also can reduce the private sector's demand for capital, thereby reducing the demand for commercial and retail borrowing. This underlies what Douglas Holtz-Eakin, the director of the Congressional Budget Office, has summarized as a "modestly negative" effect of long-term budget deficits.

Chris Edwards (The CATO Institute). "Six Reasons to Keep Capital Gains Tax Rates Low." December 27, 2012.
https://www.cato.org/publications/commentary/six-reasons-keep-capital-gains-tax-rates-low
Furthermore, when angels exit their investments, they often use their after-tax returns to fund more young companies in an ongoing virtuous cycle. Higher capital gains taxes would drain cash out of that reinvestment cycle, which has been at the core of Silicon Valley's success since capital gains taxes were slashed in the late 1970s. 6. Government Revenue. **A recent Congressional Budget Office study found that** the longer-term responsiveness of capital gains realizations to the tax rate is quite large. It found a persistent elasticity of -0.79, which means that **a 10% cut in the tax rate would increase ongoing realizations by 7.9%.** This indicates that the government's revenue loss from a capital gains tax cut would be a fraction of what a static score would show, and its gain from a tax hike would also be very small. **Aside from increasing realizations, capital gains tax cuts would boost share prices, increase investment in growth companies and spur greater entrepreneurship. The economy would enjoy more innovation and higher productivity**, which would translate into higher incomes for all workers over time. **As the economy expanded, the government would also win as tax revenues from all sources increased.** These advantages of low capital gains taxes have led many economists over the decades — from Irving Fisher to Alan Greenspan — to call for ending these taxes altogether. Eleven OECD countries today don't tax long-term capital gains. So rather than hiking capital gains taxes, U.S. policymakers should be helping to revive investment and growth by moving toward a zero-tax regime for capital gains.

Jeff Guo (Washington Post). "The U.S. economy just got hit with a disturbing piece of bad news." March 30, 2017.
https://www.washingtonpost.com/news/wonk/wp/2017/03/30/the-u-s-economy-just-got-hit-with-a-disturbing-piece-of-bad-news/?utm_term=.d01feb0b0ae6
Americans actually became less productive in 2016, the first time since 2009, according to government numbers released today. **The data show that multifactor productivity — economist shorthand for overall man and machine efficiency — dipped about 0.2 percent last year. This means that the 1.7 growth in the economy last year was entirely caused by companies hiring more people and buying more machines and software, not by improvements in technology or organization or anything else that allows companies to squeeze more out of the resources they have. In other words, everything has, on average, actually gotten less efficient.** Americans made more stuff in 2016 only because we had

more people working and more tools for them to use, according to Thursday's new report from the Bureau of Labor Statistics. **It's not news any modern economy wants to hear, especially as the United States looks at a future of declining fertility and a shrinking workforce.** If the nation wants more economic growth, it will quickly need to find ways of doing more with fewer people. **"Because of the aging population, we don't have enough workers to have the economic growth we need,"** said Michael Chui, a partner at the McKinsey Global Institute who studies automation and workforce trends. **"To get there, we will need all the people working plus all the robots working." That is why productivity needs to grow, to create more advanced robots and artificial intelligences to underwrite future growth.** Instead, last year, we went backward. The drop is part of a recent worldwide trend of sluggish productivity growth among rich countries, and economists are still not sure why it's happening. Pessimists like Northwestern University's Robert Gordon say that the benefits from computerization petered out in the 2000s, and since then the world has simply come up short on innovative new technologies. Others blame the hangover from the recession, and they argue that some of this malaise will lift eventually. The latest data doesn't look good on that front. The change is small, and this may be a one-year blip, but healthy economies generally should not become less efficient. **Economists have been concerned that productivity hasn't been growing fast enough.** Now, in a non-recession year, productivity has actually gone down. Optimists argue that we are in an incubation period and that the next wave of innovative breakthroughs is yet to come: We might not see the benefits from machine learning or smarter robots yet, but as these technologies start to spread, change could come rapidly. This has happened in the past. Even in first few decades of the Industrial Revolution, the greatest economic change that has ever happened in modern history, productivity growth was slow and some historians believe that living standards temporarily fell. It took nearly half a century until breakthroughs like the steam engine made a real dent in people's lives, when the technology was harnessed to power trains and generate electricity. In the rosiest scenario, the world is on cusp of a similar transformation. "Many of these new technologies are still in transition, I think," said Pascual Restrepo, an economist at Boston University. "Let's think about robots, for instance. To have robots, you need engineers. You need better software. But all those things are in short supply. There are still many bottleneck factors, so maybe you still don't see the full impact on productivity — yet."

Allen Sinai (American Council for Capital Formation: Center for Policy Research by Decision Economics). "Capital Gains Taxes and the Economy." September 2010. *PDF in Google Drive*
For small changes in the capital gains tax rate compared with current law, to 20% or 10%, the effects are relatively small but noticeable. Growth in real GDP is down 0.1% per annum on a capital gains tax rate of 20% and up 0.1% per annum on a lower 10% rate. **A third result of the simulations underscores the effect of capital gains taxes on productivity and potential output.** In the SB Model, **there are certain variables that reflect entrepreneurship and innovative activity, e.g., R&D spending, the number of new businesses, and patents. Generally, the lower is the individual capital gains tax rate, the higher is productivity growth and growth in potential output.** Some of this arises from an increased labor stock and higher -20- potential output, calculated as the sum of growth in the labor force and man hours worked. **The improvement in productivity growth from a zero capital gains tax rate is quite noticeable, 0.5% per annum.** Conversely, with a 28% capital gains tax rate, the decline in productivity growth is 0.2 percent per year. At a 50% capital gains tax rate, the decline is 0.6% per year. These results indicate the negative effect of higher capital gains taxes on the capacity of the U.S. economy. A final empirical result worth noting has to do with the federal budget deficit and the ex-ante cost of capital gains tax reductions, or ex-ante increase in revenues on a hike in the capital gains tax, versus the results, ex-post. After feedback—a stronger economy, improved stock market, more jobs and increased income—higher bases for taxes on personal income, profits, social security and excise taxes with given tax rates and the new capital gains rate raise total tax receipts. The stronger economy leads to reductions in some federal government outlays. These effects reduce the federal budget deficit.

Matt Egan (CNN). "Are Trump's tax cuts backfiring on Wall Street?" February 6, 2018.
http://money.cnn.com/2018/02/06/investing/dow-jones-tax-cut-inflation-trump/index.html
It's too early to say whether the tax cuts really did overheat the economy. It's possible the market is overreacting to early signs of inflation. Perhaps the anemic price increases that have characterized this recovery will return. In that case, the market may be experiencing a healthy pullback before going on to new all-time highs. For its part, the White House is still hyping the tax cuts, Trump's signature legislative achievement. "The President's tax cuts and regulatory reforms will further enhance the U.S. economy and continue to increase prosperity for the American people," the White House said in a statement following Monday's market plunge.

Economist. America's extraordinary economic gamble. 2/8/18
https://www.economist.com/news/leaders/21736513-fiscal-policy-adding-demand-even-economy-running-hot-americas-extraordinary
On balance, hasty tightening is the greater risk. New to his role, Mr Powell may be tempted to establish his inflation-fighting chops—and his independence from the White House—by pushing for higher rates faster. That would be a mistake, for three reasons. First, **it is far from clear that the economy is at full employment. Policymakers tend to consider those who have dropped out of the jobs market as lost to the economy for good. Yet many have been returning to work, and plenty more may yet follow** (see article). Second, the risk of a sudden burst of inflation is limited. Wage growth has picked up only gradually in America. There is little evidence of it in Germany and Japan, which also have low unemployment. The wage-bargaining arrangements behind the explosive wage-price spiral of the early 1970s are long gone. Third, **[second] there are sizeable benefits from letting the labour market tighten further. Wages are growing fastest at the bottom of the earnings scale. That not only helps the blue-collar workers who have been hit disproportionately hard by technological change and globalisation. It also prompts firms to invest more in capital equipment, giving a boost to productivity growth.**

Arthur Delaney and Daniel Marans (Huffington Post) "How The Federal Reserve Could Rain On Trump's Tax Cut Parade" November 30th, 2017
https://www.huffingtonpost.com/entry/donald-trump-federal-reserve-offset-tax-cuts_us_5a2076cae4b03350e0b55f99
WASHINGTON — Republicans say their tax overhaul bill will juice the economy, and most economists agree that cutting corporate taxes could boost growth, at least in the short term. But one reason the boost won't be as strong as Republicans might like is that the Federal Reserve would be expected to move to keep that growth in check. Mark Zandi, chief economist with Moody's economy.com, said that i**f massive tax cuts aren't offset with correspondingly large tax increases or reductions in government spending, the Fed's response could even cause the economy to contract. "If the tax cuts are deficit financed, that is going to juice the economy and it will overheat, significantly raising the odds of a recession early in the next decade,"** Zandi told HuffPost. With the national unemployment rate at or beneath 5 percent for the past two years, many economists consider the economy at or approaching "full employment" — the lowest amount of unemployment possible without spurring higher-than-ideal inflation. In other words, unemployment is low, but not so low that labor scarcity gives workers enough leverage to drive up wages so dramatically that it prompts runaway inflation. **The Fed has a dual mandate to maximize employment and keep the rate of price growth stable, pursuing the latter goal by targeting a 2 percent inflation rate. If inflation show signs of exceeding the 2 percent threshold, the Fed could hit the brakes by raising an influential interest rate. An increase in the benchmark federal funds rate** — the rate banks charge one another for overnight lending — **would dampen economic growth by raising the cost of credit throughout the economy**.

R/T CGT Tax encourages long-term investment

1. Turn: The ATR reports in **2017** the capital gains tax leads to a decrease in long-term investment because it puts investors that a greater risk of being taxed for inflation. Because investors don't want to risk paying taxes on money they don't make, they are more likely to invest in the short term, when they know the amount of money they are making.

"Reforming the Taxation of Capital Gains" *Atr.org*. 1 Mar. 2017. Web. 15 Feb. 2018.
<https://www.atr.org/sites/default/files/assets/ATR%20Paper%20on%20Capital%20Gains.pdf>
The capital gains tax, without an inflation index, discourages long-term investment by exposing long-term investors to greater inflation risk than short-term investors. An investor who makes a capital investment of $1,000 in 1980 and sells that capital for $2,000 in 1996 will be taxed for a $1,000 gain. When adjusted for inflation, the investor realized a gain of just $241 (1,000 in 1980 - $1759 in 1996). Another investor made a capital investment of $1,000 in 1996 and sold for $2,000 just one year later. The short-term investor's real after-tax gain is much higher. Thus, the tax code provides incentive for speculation, as opposed to long-term investment.

R/T Monopolies

1. No impact: Mergers that are meant as a means to monopolize an industry are are fought back, not by the CGT, but by the Justice Department. **The New York Times** reports that the Justice Department's antitrust division has in recent years won nearly every merger challenge it has brought.

2. Non Unique: Monopolies are really bad right now, as **Thompson on the Atlantic reports in 2016** a couple of companies controlling entire industries, and are contributing to low wages, and some of the lowest levels of entrepreneurship and small business creation ever. By affirming you inject money into small business and entrepreneurs, solving back for these dying industries.

3. Delink: Newman of the Street explains that their are good and bad mergers. Good mergers are occur when a company is looking to quickly expand by buying up assets from its competitors. Bad mergers, by

contrast, are when a company is supposedly buying up all of its competition in order to create a monopoly. However, law exists to make sure this doesn't happen and it is the FTC's responsibility to "prevent anticompetitive mergers or acquisitions."

4. Turn: Field in 2016 writes that mergers and acquisitions lead to increased productivity and innovation activity [because they lead to] knowledge spillovers as well as increased management efficiency and discipline and can generally be identified as an important driver of economic development

5. Turn: even if M&As increase when the capital gains tax is abolished, the increase in investment we talk about in case increases small businesses and startups which increase competition on net. getting rid of the CGT would help small businesses because the overall increase in investment in startups and ventures increases competition

6. Turn: There are anti-trust laws in place that prevent monopolization on a large scale. This is why the Aetna-Humana and the Qualcomm-Broadcom mergers are currently being blocked. But, if the capital gains tax was abolished, small and medium sized companies would have more money for mergers and acquisitions which would make them more competitive against large corporations. Ultimately, abolishing the capital gains tax would only help small businesses compete against the giants.

The Editorial Board (NY Times). "The Justice Department's antitrust division has in recent years won nearly every merger challenge it has brought." October 31, 2015. https://www.nytimes.com/2015/11/01/opinion/sunday/how-mergers-damage-the-economy.html
The presence of a few dominant companies in an industry also makes it harder for entrepreneurs to start new businesses in that sector. The rate at which new businesses are created in the economy as a whole has been steadily falling since the 1970s, according to the Census Bureau. In 2013, the growth rate was 10.2 percent, down from 17.1 percent in 1977. More legal challenges could help limit further consolidation and restore more dynamism to the economy. **The Justice Department's antitrust division has in recent years won nearly every merger challenge it has brought.** The division and the Federal Communications Commission prevented Comcast from buying Time Warner Cable and AT&T from acquiring T-Mobile. But the division's record suggests that it could be taking a tougher line. It allowed American Airlines and US Airways to merge after they agreed to sell just a few gates and take off and landing slots to other airlines. It should not have settled so quickly for so little. Congress should also study whether there are ways to strengthen the antitrust laws. It could, for instance, require regulators to consider whether mergers in concentrated industries are in the broader public interest, not just whether they would harm consumers through higher prices. The F.C.C. can already use such a test to evaluate media and telecom deals to determine, for example, whether a merger will limit the diversity of opinions in media. Unfortunately, Congress is unlikely to adopt new antitrust legislation while Republicans are in control of both houses.

Alex Newman (The Street). "Why Mergers and Acquisitions Are Good for the U.S. Economy." MAy 2, 2016.
https://www.thestreet.com/story/13551869/1/why-mergers-and-acquisitions-are-good-for-the-u-s-economy.html
We should start with the fundamental economic basics. Why do mergers happen? Well, let us look at **a** hypothetical **firm which has done very well over the past few quarters**. As a result, it **wants to expand, whether it is its research capabilities, obtaining new plants or factories, or just getting more workers.** Now, that firm can create expansion on its own by say, building more factories. But growth endeavors like that will take a lot of time and money. This means that **it is easier for that firm to just buy up additional capacity without taking to build it on its own.** This is especially so in our era of cheap credit. As Forbes columnist Antoine Gara points out, corporations are using cheap debt financing to buy up competitors. While the Federal Reserve continues to talk about raising interest rates, this just encourages business to acquire assets before the price goes up. So **while mergers are often viewed as this mysterious boogeyman which creates evil monopolies, it really is something absolutely necessary for our economy. In a world without mergers, companies would have a much harder time expanding and acquiring critical resources.** Good vs. Bad Mergers **Good mergers are supposed to be mergers like the one described above: when a company is looking to quickly expand by buying up assets from its competitors. Bad mergers, by contrast, are when a company is supposedly buying up all of its competition in order to create a monopoly. Law exists to make sure this doesn't happen and it is the FTC's responsibility to "prevent anticompetitive mergers or acquisitions."** For an example of a supposed bad merger, New York governor Andrew Cuomo called on the federal

government in February to reject a merger between the First Niagara Financial Group and 1099 etc. Cuomo claimed that "this proposal would reduce retail banking competition, limit consumer access and convenience, and ultimately eliminate jobs throughout the region."

Lars P. Feld. (University of Freiberg) Taxing Away M&A: The Eect of Corporate Capital Gains Taxes on Acquisition Activity. 8/22/16
https://www.sbs.ox.ac.uk/sites/default/files/Business_Taxation/Events/conferences/2016/Doctoral_mtg_2016/todtenhaupt.pdf
Rossi & Volpin (2004) and Erel et al. (2012) identify economic and institutional factors such as international trade integration, quality of accounting disclosure and shareholder protection as important drivers of domestic and cross-border M&As. We argue that corporate capital gains taxation may also be of particular importance for the total number and volume of M&A deals. Consequently, tax reforms that abolish capital gains taxes and increase M&A activity have a potential to generate substantial shareholder gains. Previous studies suggest that **M&As lead to increased productivity** (Devos et al., 2009) **and innovation activity** (Stiebale, 2016), **[because they lead to] knowledge spillovers** (Bresman et al., 1999; Bena & Li, 2014) **as well as increased management efficiency** (Manne, 1965; Wang & Xie, 2009) **and discipline** (Scharfstein, 1988; Sapra et al., 2014) **and can generally be identied as an important driver of economic development** (see Levine, 1991). In our paper, we relate a measure of these gains to the impact of corporate capital gains taxes on M&A activity and thus provide an estimate of the potential shareholder gain resulting from capital gains tax cuts.

Derek Thompson, October 2016, America's Monopoly Problem, Atlantic,
https://www.theatlantic.com/magazine/archive/2016/10/americas-monopoly-problem/497549/ , 2-15-2018, (NK)
How long does it take for her to interact with a market that isn't nearly monopolized? She wakes up to browse the internet, access to which is sold through a local monopoly. She stocks up on food at a superstore such as Walmart, which owns a quarter of the grocery market. **If she gets indigestion, she might go to a pharmacy, likely owned by one of three companies controlling 99 percent of that market**. If she's stressed and wants to relax outside the shadow of an oligopoly, she'll have to stay away from ebooks, music, and beer; two companies control more than half of all sales in each of these markets. There is no escape—literally. She can try boarding an airplane, **but four corporations control 80 percent of the seats on domestic flights. Politicians from both parties publicly worship the solemn dignity of entrepreneurship and small businesses. But by the numbers, America has become the land of the big and the home of the consolidated.** This is a problem. But it is not an accident. The bigness of business is a result of federal policy, which, in the past three decades, has deliberately made it easier for large companies to dominate their markets, provided that they keep prices down. **After years of sluggish wage growth and low levels of entrepreneurship, some people are starting to worry that America's biggest companies are growing at the expense of the economy, even if they offer consumers good deals.** In the late 19th century, when the U.S. was beginning to develop into an industrial powerhouse, it was America's first small-business owners—farmers—who initially pushed the government to intervene against trusts. They protested discriminatory shipping rates along rail lines, which were dominated by a handful of railroad magnates. Congress passed the Sherman Antitrust Act of 1890 to break up the trusts and protect competitive markets, but it took decades for the law to serve this purpose. (In fact, in the 1890s, the railroads used the act's language against their own workers, arguing that a labor-union strike amounted to an illegal "conspiracy to restrict trade.") Several Supreme Court decisions ultimately stiffened U.S. antitrust law. Perhaps the most important decision came in 1911, when the Court ruled that Standard Oil Company of New Jersey's ownership of nearly 90 percent of U.S. oil production violated the law.

R/T Acquisitions More Expensive

1. Delink: Big businesses are willing to pay the tax in order to boost their profits exponentially. This is why **the Economist** reports that since 2008, even with the capital gains tax, American firms have engaged in one of the largest rounds of mergers in history.

2. Delink: Newman of the Street explains that mergers and acquisitions are easy due to our era of cheap credit. Corporations are using cheap debt financing to buy up competitors, they don't need the CGT to expand.

3. Delink: Leefeldt from CBS News reports that in recent years, it has been China and other foreigners that have been buying companies, not American companies. At that point, the capital gains tax makes no difference because it doesn't apply to foreign companies.

"Too much of a good thing." *The Economist*. 26 Mar. 2016. Web. 13 Feb. 2018. <https://www.economist.com/news/briefing/21695385-profits-are-too-high-america-needs-giant-dose-competition-too-much-good-thing>
An intense burst of consolidation will boost their profits more. **Since 2008 American firms have engaged in one of the largest rounds of mergers in their country's history, worth $10 trillion. Unlike earlier acquisitions aimed at building global empires, these mergers were largely aimed at consolidating in America, allowing the merged companies to increase their market shares and cut their costs.** The companies in question usually make no pretence of planning to pass the savings they make this way on to their customers; take their estimates of the synergies involved at face value and profits in America will rise by a further 10% or so.

Alex Newman (The Street). "Why Mergers and Acquisitions Are Good for the U.S. Economy." MAy 2, 2016.
https://www.thestreet.com/story/13551869/1/why-mergers-and-acquisitions-are-good-for-the-u-s-economy.html
We should start with the fundamental economic basics. Why do mergers happen? Well, let us look at a hypothetical firm which has done very well over the past few quarters. As a result, it wants to expand, whether it is its research capabilities, obtaining new plants or factories, or just getting more workers. Now, that firm can create expansion on its own by say, building more factories. **But growth endeavors like that will take a lot of time and money.** This means that it is easier for that firm to just buy up additional capacity without taking to build it on its own. T**his is especially so in our era of cheap credit. As Forbes columnist Antoine Gara points out, corporations are using cheap debt financing to buy up competitors.** While the Federal Reserve continues to talk about raising interest rates, this just encourages business to acquire assets before the price goes up. So while mergers are often viewed as this mysterious boogeyman which creates evil monopolies, it really is something absolutely necessary for our economy. In a world without mergers, companies would have a much harder time expanding and acquiring critical resources. Good vs. Bad Mergers Good mergers are supposed to be mergers like the one described above: when a company is looking to quickly expand by buying up assets from its competitors. Bad mergers, by contrast, are when a company is supposedly buying up all of its competition in order to create a monopoly. Law exists to make sure this doesn't happen and it is the FTC's responsibility to "prevent anticompetitive mergers or acquisitions." For an example of a supposed bad merger, New York governor Andrew Cuomo called on the federal government in February to reject a merger between the First Niagara Financial Group and 1099 etc. Cuomo claimed that "this proposal would reduce retail banking competition, limit consumer access and convenience, and ultimately eliminate jobs throughout the region."

Leefeldt, Ed. "U.S. businesses, now owned by China." *Cbsnews.com*. 10 Feb 2017 Web. 14 Feb. 2018. <https://www.cbsnews.com/news/china-u-s-m-a-its-a-one-way-street/>
While politicians, courts and the media scrutinize every detail in the fight over immigration, another, less-discussed migration is underway: the migration of ownership of American businesses overseas -- many to cash-rich China. **In recent years, the Chinese have regarded America as one big yard sale, snatching up distressed companies and anything else that gives the world's second-largest economy a leg up on U.S. technology at bargain-basement prices**. That giant shopping spree is financed by a currency that -- unlike the dollar -- is controlled by the government.The latest Chinese purchase is little known, but important: life insurance company Genworth Financial. Shareholders will vote whether to sell Genworth to China Oceanwide on March 7. And by midyear, if shareholders and government authorities approve, this "family-owned" foreign firm will own the insurer.

Lars P. Feld. (University of Freiberg) Taxing Away M&A: The Eect of Corporate Capital Gains Taxes on Acquisition Activity. 8/22/16
https://www.sbs.ox.ac.uk/sites/default/files/Business_Taxation/Events/conferences/2016/Doctoral_mtg_2016/todtenhaupt.pdf
Rossi & Volpin (2004) and Erel et al. (2012) identify economic and institutional factors such as international trade integration, quality of accounting disclosure and shareholder protection as important drivers of domestic and cross-border M&As. We argue that corporate capital gains taxation may also be of particular importance for the total number and volume of M&A deals. Consequently, tax reforms that abolish capital gains taxes and increase M&A activity have a potential to generate substantial shareholder gains. Previous studies suggest that **M&As lead to increased productivity** (Devos et al., 2009) **and innovation activity** (Stiebale, 2016), **[because they lead to] knowledge spillovers** (Bresman et al., 1999; Bena & Li, 2014) **as well as increased management efficiency** (Manne, 1965; Wang & Xie, 2009) **and discipline** (Scharfstein, 1988; Sapra et al., 2014) **and can generally be identied as an important driver of economic development** (see Levine, 1991). In our paper, we relate a measure of these gains to the impact of corporate capital gains taxes on M&A activity and thus provide an estimate of the potential shareholder gain resulting from capital gains tax cuts.

R/T Impact: Income Inequality

R/T Impact: Price Hikes

1. Mitigate: Moazed from INC reports in **2016** that most modern monopolies are not supply chains, but technology and social network. Because these platform companies don't own their supply chain, they don't have the same ability as old industrial monopolies to shut out their competitors.

2. Mises of the Mises Institute reports in **2014** It is not always advantageous for a seller to hike up prices, even if they have a monopoly, because if the price becomes too high, there will be less consumerism. This just ends up harming the seller as much as it does the economy, because it means that make less money.

Alex Moazed. "Why Modern Monopolies Are Good." *Inc.com*. 2 Jun. 2016. Web. 14 Feb. 2018. <https://www.inc.com/alex-moazed/why-modern-monopolies-are-good.html>
Yet modern monopolies don't work the same way as their industrial-era forebearers. Now, this isn't because the executives of today's monopolies are better people. Respectfully, not many people would say that Steve Jobs was a nice person. So what's the key difference? **Today's modern monopolies are platform businesses--and they don't own their supply chains. Instead, these businesses create economic and social value by building and managing massive networks of users. Rather than directly producing or selling their own goods or services, these companies simply connect people.** Examples of platform businesses include Facebook, Google, Apple, Alibaba, Uber, and even Snapchat. Driven by network effects, these businesses are capable of growing far beyond the limits of traditional, asset-based businesses. That's why platform businesses are rapidly taking over existing industries and creating entirely new ones. **But other than size and market dominance, today's titans of industry have little in common with the monopolies of the nineteenth and twentieth centuries. Because these platform companies don't own their supply chain, they don't have the same ability as old, industrial monopolies to shut out competitors**.

Ludwig Von Mises, 14, 7-14-2014, Monopoly Prices, Mises Institute, https://mises.org/library/monopoly-prices , 2-15-2018, (NK)
The Greek word monopoly means that there is only one seller of a certain commodity on the market. The usual definition of monopoly is: Control of the supply of a certain commodity on the part of one seller or of a group of sellers operating in concert. However, **not every seller enjoying a monopoly finds it advantageous to deviate from the potential competitive price. If a rise of the price above the potential competitive price results in a more-than-proportional restriction of the quantity bought by the public, the total proceeds of the seller would drop. He would hurt his own selfish interests by deviating from the competitive price**. If at the competitive price of 5 per unit 100 units can be sold, the total proceeds are 500. If a rise in the price to 6 per unit reduces the quantity sold to 80, the total proceeds drop to 480; no "monopoly price" in the technical meaning of this term is more advantageous to the seller than the competitive price. But if at the price of 6 per unit it is possible to sell 90 units, the substitution of the monopoly price of 6 for the competitive price of 5 increases the total proceeds of the seller from 500 to 540.

R/T Asset Bubble

1. Turn: Geoff Simmons of the Morgan Foundation explains in 2016 that an equal amount of crisis is risked because of the lock-in effect. If people are discouraged from selling capital assets, an asset bubble

is still highly possible. **Burman of the Washington Post continues in 2011** that if people are discouraged from selling, then they hold on to assets that they believe may be overvalued. This is historically something that has caused asset bubbles.

Geoff Simmons (Morgan Foundation). Morgan Foundation. Accessed 1/12. Published 14 Jun 2016. http://morganfoundation.org.nz/capital-gains-tax
There is one easy way to avoid paying a capital gains tax – or in fact any other tax based on a financial transaction – simply don't sell. It is well documented overseas that capital gains taxes distort the market by encouraging people not to sell their houses. In other words if you don't make the sale, you don't pay the tax. The trouble is that selling is sometimes the best option – **anything that discourages selling means that expensive assets can end up being used in a less than ideal way. Economists have long singled out capital gains taxes and stamp duties as a handbrake to ensuring assets end up in the right hands.**

Leonard Burman (Washington Post). WP. Accessed 1/13. Published 12 Sep 2011. https://live.washingtonpost.com/capital-gains-tax-rates.html. A lower rate on gains on assets held more than 5 years was actually part of the 1997 capital gains tax cut. (Rates on gains held at least 1 year were 20%, but the rate fell to 18% for assets held at least 5 years.) I didn't think this was a good idea because **you actually want investors to sell if they think assets are overvalued. Otherwise, you may fuel asset bubbles** (which we've seen can work out badly).

R/T Speculation

1. Non-unique: Forbes in September 2017 reports that currently the stock market is overvalued by 21%. At that point, any speculative market would've already arisen.

Hersh Shefrin (Forbes). "Are U.S. Stocks 20% Overvalued?" September 4, 2017.
https://www.forbes.com/sites/hershshefrin/2017/09/04/are-u-s-stocks-20-percent-overvalued/#448c37be1294
The ratio of the two cumulative return series can be interpreted as an overvaluation measure for the market. During the dot.com bubble, the overvaluation ratio crossed 110%, suggesting that during this period, U.S. stocks were overvalued by this amount. The subsequent overvaluation surge during the financial crisis reflected the sharp decline in earnings growth at the time. **At present, the overvaluation ratio is about 21%.** It is true that the market was overvalued by about 20 percent in 2005 and 2007, during the lead up to the financial crisis. However, overvaluation was much higher in the months leading up to the Lehman Brothers bankruptcy, and nowhere near the extreme levels that prevailed at the height of the dot.com bubble. In a stable stock market, in which stocks are fairly priced, the expected earnings yield coincides with expected stock return. The next chart displays the trajectories of cumulative stock returns and cumulative earnings yield, where earnings yield is defined as earnings divided by prior month stock price. Notice that cumulative earnings yield and cumulative stock returns tracked each other quite well until the beginning of the bull market in 1984.

R/T Safety Net of CGT Incentivizes Investment

1. Moore of the Cato Institute finds in **2016** that the tax deduction on losses doesn't go past $3,000, so it's not enough of a safety net to incentivize investment.
Moore, Stephen "The ABCs of the Capital Gains Tax" *Object.cato.org*. 20 Oct. 2016. Web. 17 Feb. 2018. <https://object.cato.org/sites/cato.org/files/pubs/pdf/pa242.pdf>
There are many unfairnesses imbedded in the current tax treatment of capital gains. One is that capital gains are not indexed for inflation: the seller pays tax not only on the real gain in purchasing power but also on the illusory gain attributable to inflation. The inflation penalty is one reason that, historically, capital gains have been taxed at lower rates than ordinary income. In fact, Alan Blinder, now a member of the Federal Reserve Board, noted in 1980 that, up until that time, "most capital gains were not gains of real purchasing power at all, but simply represented the maintenance of principal in an inflationary

world."[12] Another unfairness of the tax is that individuals are permitted to deduct only a portion of the capital losses that they incur, whereas they must pay taxes on all of the gains. That introduces an unfriendly bias in the tax code against risk taking.[13] When taxpayers undertake risky investments, the government taxes fully any gain that they realize if the investment has a positive return. But the government allows only partial tax deduction (of up to $3,000 per year) if the venture goes sour and results in a loss. There is one other large inequity of the capital gains tax. It represents a form of double taxation on capital formation. This is how economists Victor Canto and Harvey Hirschorn explain the situation:

R/T Stock Buybacks

1. **Overall:** Buybacks are used a type of investment when companies have beyond surplus capital. They spend the rest of their money on long run investments before they do buybacks. The only reason they are doing buybacks is because investing in their company is not profitable at the moment. The long run goal of buybacks is to sell the shares after you increase investment in your company to increase its value. Therefore, buybacks are a way to increase the long run productivity and growth of the company.
2. **Turn:** Alex Edmans of the Harvard business review finds that **Firms that buy back stock subsequently beat their peers by 12.1% over the next four years.** There are four reasons this is true:
    a. Rather than eroding long-term firm value, buybacks create value by ensuring that surplus capital is not wasted
    b. buybacks offer firms the flexibility to vary how much they return to shareholders year to year.
        i. The alternative to buybacks is dividends. Repurchases are much more flexible than dividends. While a company can chop and change its repurchase policy depending on its investment requirements, it needs to maintain historic dividend levels since dividend cuts lead to a significant stock price fall. increasing the ordinary dividend implicitly commits the firm to maintaining the higher dividend level in the future. At the expense of long term growth
    c. If a company buys back stock, the CEO now has a greater share in the remaining equity, and so now has stronger incentives to improve firm value.
    d. Repurchasing stocks allows for more concentrated control over the company. This is really good because shareholders don't care about the long run growth of the company, rather, they only care about inflating the value of the shares.

3. Turn: Stock buybacks are also really good for other emerging businesses. Edmans furthers that Repurchases allow shareholders to reallocate funds to young, high-growth firms that are screaming out for a cash injection and these are the companies that need investment the most

Alex Edmans (Harvard Business Review). "The Case for Stock Buybacks." September 15, 2017.
https://hbr.org/2017/09/the-case-for-stock-buybacks

Other studies find that CEOs repurchase more stock when growth opportunities are poor, and when they have excess capital. It is the exhaustion of a firm's investment opportunities that lead to buybacks, rather than buybacks causing investment cuts. Moreover, the claim that buybacks weaken companies long-term isn't borne out by the data. **Firms that buy back stock subsequently beat their peers by 12.1% over the next four years. Rather than eroding long-term firm value, buybacks create value by ensuring that surplus capital is not wasted.** For several years, Yahoo was valued at below the sum of its parts, partially due to concerns that it would waste its cash on poor acquisitions; more broadly, a large-scale study found that, in poorly governed firms, $1 of cash is valued at only $0.42 to $0.88. This highlights the value that can be unlocked simply by not frittering away corporate resources. **In addition, buybacks offer firms the flexibility to vary how much they return to shareholders year to year.** Even if a company repurchased lots of stock last year, it can buy back zero this year. Even after announcing a repurchase program this year, it can decide not to follow through with it with few negative consequences. **Repurchases are much more flexible than dividends, the alternative way in which companies return cash to their investors, which attract less ire. While a company can chop and change its repurchase policy depending on its investment requirements, it needs to maintain historic dividend levels since dividend cuts lead to a significant stock price fall. This means that it is better to return surplus capital in the form of repurchases (or through a special dividend) because increasing the ordinary dividend implicitly commits the firm to maintaining the higher dividend level in the future.** The flexibility of repurchases is attractive for other reasons. Consumers with credit cards, and companies with revolving credit lines, value the option to pay back their debt at any time. They particularly overpay when the interest rate – the rate of return required by the bank – is high, just as firms particularly repurchase when the stock price is low and thus the rate of return required by shareholders is high. If a credit card only allowed consumers to make the minimum payment every month, few would take out the card. Similarly, **if firms were restricted from buying back shares, they may not issue equity to begin with. Fewer companies would go public, instead financing themselves by taking on more debt.** Debt is a useful analogy for a second reason. A borrower who pays back debt is making an investment that pays off in the future, by reducing her future interest obligations. Similarly, **a company that buys back stock has to pay fewer dividends in the future.** The idea that buybacks (or, for that matter, dividends) stifle investment is "partial thinking." It considers investment only in the company in question and ignores the fact that shareholders can reinvest the cash returned elsewhere. And this represents a second advantage of buybacks over dividends. **In a buyback, investors choose whether to sell their shares back. They will likely only do so if they have alternative investment opportunities; no rational investor would sell their stock and just horde the cash. Dividends are paid out to all investors, even those who have no good alternative investment opportunities and who may indeed allow the cash to sit idle. In this way, repurchases are targeted: they return cash to shareholders with the best other uses for it.** Indeed, the fundamental premise implicit in many buyback critiques — that more investment is good and less investment is bad — violates a basic idea in Finance 101. Investment only creates value if its returns are higher than the other projects shareholders could invest in. It takes no skill to simply spend money. Responsible companies don't invest willy-nilly; they invest when opportunities are good, and show restraint when opportunities are bad. A restriction on repurchases could take us back to the 1970s, where CEOs simply wasted free cash on building empires – RJR Nabisco being a prime example – rather than paying it out to be allocated elsewhere. **Repurchases allow shareholders to reallocate funds to young, high-growth firms that are screaming out for a cash injection.** Relatedly, few argue that equity issuance is a definitively value-creating action; indeed, selling shares significantly reduces the stock price if done without shareholder approval – as such issuances are most likely to be motivated by empire building. Yet, repurchases are simply the opposite of equity issues. Yet **another advantage of repurchases over dividends is that they lead to more concentrated ownership. If a company buys back stock, the CEO now has a greater share in the remaining equity, and so now has stronger incentives to improve firm value. Higher CEO ownership stakes typically improve long-term stock returns.** And buybacks concentrate the ownership of not only the CEO, but also of continuing shareholders. A common concern about the public corporation is that it is owned by millions of dispersed shareholders, whose stakes are too small to motivate them to look beyond short-term earnings. By concentrating the ownership of continuing investors, they create blockholders – large shareholders. **Since these shareholders have "skin in the game", they have the incentive to look beyond earnings and instead look to a company's long-term growth opportunities and intangible assets.**