RSC Republican Study Committee
Rep. Jeb Hensarling (R-TX), Chairman
Russ Vought, Executive Director
132 Cannon House Office Building
Washington, DC 20515
www.house.gov/hensarling/rsc
ph (202) 226-9717 / fax (202) 226-1633

January 2008

The Economic Growth Act of 2008

Context and Highlights

Financial markets are tumbling worldwide. The Federal Reserve decided it must make large cuts in interest rates. It is clear that more Americans are struggling to make ends meet and that the economy needs a boost. The question is: from where should that boost come, Washington or the private sector? Conservatives believe the answer is the private sector. History shows that the best way to encourage an economic turnaround, help preserve jobs, and spur widespread economic growth is to ensure that job-creators face a lower tax burden. We see how the stock markets have reacted to proposals of "stimulus" that include more government spending and one-time tax rebates *alone*.

That's why the Republican Study Committee (RSC) is introducing the Economic Growth Act of 2008—to provide some much-needed, incentive-based relief to job-creators. The last time our country faced recession, rebates were helpful to consumers but did little to turnaround the economy. History shows us that the best way to provide an economic turnaround, preserve jobs and spur economic growth is to ensure that job creators face a lower tax and regulatory burden. In other words, House conservatives believe that economic stimulus legislation should actually include economic *stimulus.*

The RSC's Economic Growth Act is designed to provide broad, growth-oriented, permanent incentives for economic activity across all sectors and industries, with immediate application and sustained, long-term implications. This will ensure that Washington takes a back seat to Main Street and job creators are empowered to do what they do best—create jobs.

Highlights: The Economic Growth Act contains four main provisions, as follows:

1) Full, Immediate Expensing. The bill would allow all businesses to immediately expense—or fully deduct on their tax returns—the costs of assets (including buildings) they purchase for their business in the year that they buy such assets ("Section 179" expensing). Under current law, businesses can only take limited deductions in pieces, over several years. By uncapping and accelerating the expensing, this provision would encourage the purchase of assets with which to grow a business.

2) Significant Reduction in the Top Corporate Tax Rate. The bill would immediately cut the top corporate income tax rate from 35% to 25%, aligning it with the average rate in the European Union. By allowing businesses to keep more of the money they earn, this provision would encourage the expansion of businesses, the hiring of more workers, and

an acceleration of investment, while making American companies more competitive internationally.

3) <u>End the Capital Gains Tax on Inflation</u>. The bill would index for inflation the cost basis used when calculating the capital gains tax on assets acquired before the end of 2008. Under current law, the capital gains tax is based on the difference in the original purchase price of the asset and the sale price of the asset. However, some of this difference, or "gain," can be attributed to inflation. By effectively reducing the amount of a gain that is taxable, this provision would encourage the movement of capital in 2008 and spur voluminous economic investment.

4) <u>Simplify the Capital Gains Rate Structure</u>. The bill would allow corporations to benefit from the 15% capital gains rate. Under current law, individuals pay a top capital gains rate of 15%, but corporations are subject to a 35% top rate. By encouraging corporations to sell unwanted assets, this provision would unleash funds and materials with which to create jobs and grow the economy.

For more information or to co-sponsor, please contact Paul Teller with the RSC at paul.teller@mail.house.gov.