Mitt Romney and the Burden of Double Taxation

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When Mitt Romney releases his tax returns, as he is expected to do on Tuesday, thousands of green eyeshades will pore over every line. One of the most important revelations, however, may be overlooked. When double taxation of investment income is taken into account, Mr. Romney most likely underestimated his effective tax rate on the campaign trail.

The former Bain Capital CEO and Massachusetts governor caused a brouhaha last week when he estimated the tax rate on his investment income at 15%. "How unfair!" pundits exclaimed, noting that the top marginal rate for wage income is more than 30%.

The tax rate on investors is unfair, but for the opposite reason. Our tax code layers taxation of dividends and capital gains on top of a top corporate tax rate of 35%—which even President Obama acknowledges is one of the highest in the world.

This is ironically the embodiment of the "corporate personhood" legal doctrine otherwise so decried by the left. The law taxes corporations as if they were separate beings from the shareholders who own them and then levies a separate tax on shareholder payouts and gains. This double taxation brings the effective tax rate on investment income to as much as 44.75%.

In other words, after the combined top tax rates hit $100 of corporate income, $55.25 remains for the investor. And this figure doesn't even include various state and local taxes, or the death tax. Moreover, like the rest of us, Mr. Romney paid income taxes before investing, except on pretax contributions such as an IRA or 401(k).

Though Mr. Romney is by far the richest candidate in the race, he is not the only one with investments. Ron Paul, according to his House financial disclosure form, has a portfolio between $2.5 million and $5.5 million. His

investment choices of numerous gold and silver mining stocks seem to mirror his views on monetary policy.

Dr. Paul, Mr. Romney and other presidential candidates should use the opportunity of releasing their tax returns to make an important policy statement. They should include not only their individual returns, but information about the taxes their corporations pay.

They should also present the amount that will be paid through the death tax, the 35% rate of which, according to the American Family Business Institute, is fifth-highest among advanced economies. Then they should calculate what their taxes will be should the dividend, capital-gains and death-tax rates increase as scheduled at the end of 2012.

In this way the candidates can help explode the myth of the U.S. as a low-tax nation. As Cato Institute tax experts Chris Edwards and Daniel J. Mitchell write in their book, "Global Tax Revolution," while the U.S.'s "overall tax burden . . . is lower than in many other nations," the country "imposes more punishing taxes on savings and investment than many advanced economies."

The most popular tax reforms—from the "9-9-9 plan" of former candidate Herman Cain to flat tax proposals—all have in common the reduction or elimination of double taxation on investment. Research suggests that as they build their portfolios, middle-class savers become more sympathetic to tax reductions on dividends and capital gains.

In his 1999 Cato study "The Rise of Worker Capitalism," the late researcher and conservative activist Richard Nadler found that middle-income members of the growing investor class had "internalized their new role as capitalists." The new shareholders, he wrote, "display favorable attitudes toward programs that reduce taxes on savings and investment."

Nadler's longtime colleague Tom Donelson, research associate at Americas Majority Foundation, says that unpublished data he collected in 2010 shows

that this pattern still holds among middle-class investors. According to Mr. Donelson, voters at various income levels with $25,000 or more in a portfolio, including retirement accounts such as 401(k)s, were against raising taxes to reduce the deficit and favored further cuts in capital gains and business taxes.

It is also important to point out that capital formation is essential for wage growth. The late New York Congressman Jack Kemp, known for connecting with blue-collar and minority constituencies, showed how to turn this data into a populist point. "You can't have capitalism without capital," he would often say.

If the traditional disclosure of tax returns is elevated into a "teachable moment" about the burdens of double taxation, all Americans could be winners.

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