

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

NEIL L. BRADLEY
EXECUTIVE VICE PRESIDENT &
CHIEF POLICY OFFICER

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July 18, 2019

The Honorable Steven T. Mnuchin
Secretary of the Treasury
Office of the Secretary, Room 3330
U.S Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

RE: Indexing Capital Gains Basis for Inflation

Dear Secretary Mnuchin:

The U.S. Chamber of Commerce strongly supports the policy of indexing the tax basis for calculating taxable capital gains for inflation. Inflation indexing of capital gains basis would encourage savings and investment; indexing would reduce investment barriers and help drive growth.

As you know, over the years the Congress and the President have succeeded in inflation indexing many federal income tax provisions. Inflation indexing has enjoyed broad, bipartisan support because it helps stabilize the tax system against the vagaries of inflation, thereby providing greater certainty for taxpayers. However, the calculation of taxable capital gains is not indexed for inflation though it is the element for which indexing would perhaps be most relevant.

Indexing capital gains basis is especially important because capital assets are often held for many years, during which time inflation's phantom basis compound, thus increasingly overstating the portion of capital gain attributable to real, or inflation-adjusted gains. No tax policy is served by taxing phantom gains.

Taxing phantom capital gains also raises the effective capital gains tax rate on affected assets. For these assets, the capital gains tax rate is an important element in the overall cost of capital calculation influencing the level of productive capital employed in the U.S. economy.

The landmark 2017 tax reform will increase the level of capital employed primarily through the reductions in tax rates, improvements in capital cost recovery, and reform of the international tax system. These changes reduced the cost of capital which is the immediate cause of the most of the anticipated additional economic growth. Inflation-indexing of capital gains is

fully consistent with this approach. While economists will debate at length the extent of the economic benefit from inflation-indexing capital gains, the implications for productive investment and economic growth can only be positive.

Sincerely,

A handwritten signature in blue ink, appearing to read "Neil Bradley". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Neil Bradley