CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
June 22, 2000

Press Release #106-104
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MUTUAL FUND SHAREHOLDERS TAX RELIEF BILL INTRODUCED TODAY

WASHINGTON, D.C. – Legislation to curb the taxation of capital gains distributions of most middle-income shareholders of mutual funds will be introduced today, Vice Chairman Jim Saxton of the Joint Economic Committee announced. Under current law, middle-income savers and investors involuntarily receive these distributions from their mutual funds, and must pay tax on them even though they may not have sold any shares in the fund.

"Our tax code has many features that are economically counterproductive, but few are as destructive as those aimed at personal saving and investment," Saxton said. "The current tax system undermines personal saving and investment in many ways, and one of these is the treatment of mutual fund capital gains distributions. Today I am introducing legislation to provide a partial exclusion limiting the federal taxation of these involuntary distributions.

"Essentially, the current law forces middle-income savers and investors to pay tax on capital gains they have not realized. Even if the value of their shares has declined or they have owned them for only a short time, they can be slammed with a huge tax liability. As a recent Joint Economic Committee study pointed out, this tax can reduce the pre-liquidation rate of return by 10 to 20 percent. Furthermore, due to the complexity of the law, many taxpayers can easily pay this tax twice. This is unfair and undermines incentives to save and invest.

"In recent years, mutual funds have enabled many ordinary Americans to share in the tremendous economic gains that resulted from the technological innovation, productivity gains, and surge in wealth of the 1990s. Tens of millions of ordinary Americans now have substantial investments in the financial markets, many of them through mutual funds. Federal policy should accommodate these efforts of our citizens to provide for their retirement security, education, housing, and other needs. Federal tax policy should not erect excessive tax barriers undermining the incentives and ability of middle-income taxpayers to plan for their own needs.

"Today I am introducing legislation providing a $3,000 income exclusion for individuals, and a $6,000 exclusion for couples, to shield annual capital gains distributions. When taxpayers sell their shares in a mutual fund, they would pay tax on these gains, but these exclusions would shield most middle-income taxpayers from immediate taxation and potential double taxation on capital gains distributions. Other investors generally are not taxed on an accrual basis on their capital gains, and we should do what we can to level the playing field, and end tax discrimination against personal saving and investment. As the eminent economist Irving Fisher once wrote, 'A tax on accretion penalizes those who are rising in the social scale, the builders of the nation…' The current tax bias against thrift should be a major target of reform for the foreseeable future," Saxton concluded.

For more information on personal saving and taxation, please see the JEC website at www.house.gov/jec.

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