CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
July 6, 2000

Press Release #106-107
Contact: Christopher Frenze
Chief Economist to the V.C.
(202) 225-3923

MUTUAL FUND OWNERS' EXPENSES TOPPED BY TAXES

– Fee Expenses are Secondary Relative to Taxes on Capital Gains Distributions –

WASHINGTON, D.C. – A new report by the General Accounting Office (GAO) on mutual fund fee disclosure should be considered, but fee expenses are eclipsed in relative importance by the current tax treatment of capital gains distributions to shareholders, Vice Chairman Jim Saxton of the Joint Economic Committee (JEC) said today. Furthermore, while fees for stock funds have been declining during the last decade, the taxes paid on capital gains distributions have skyrocketed over the same period.

"As policymakers consider the expenses facing mutual fund shareholders, the heavy burden of the current tax treatment of capital gains distributions are very significant," Saxton said. "The current tax law forces middle-income savers and investors to pay tax annually on capital gains they have not realized. **In addition, this year many taxpayers may see the value of their mutual fund investments slip, even as they are slammed with a tax liability on capital gains they did not realize**. The result may be many millions of unhappy middle-income taxpayers demanding an explanation from policymakers and others later this year, and especially early next year when taxes are due.

"A recent JEC study demonstrates that the current treatment of capital gains distributions reduces shareholders' rate of return by 10 to 20 percent on a pre-liquidation basis. After the sale of mutual fund shares by investors, the reduction in investor return resulting from this tax treatment can amount to many thousands of dollars. The costs imposed by the current tax treatment of capital gains distributions are a huge expense for mutual fund shareholders. This is just one element of the current tax system that undermines personal saving and investment, and requires reform.

"In recent weeks I have introduced a bill, H.R. 4723, that would provide a partial income exclusion that would shield the capital gains distributions of many middle income investors from immediate taxation. This legislation would provide a $3,000 exclusion for individuals and a $6,000 exclusion for couples. Thus most middle-income investors would not have to pay tax on capital gains that they have not realized. When taxpayers sell their shares, they would then be subject to the tax, but they would not have been pressured to reduce their investments in the meantime to pay the tax. This tax change would facilitate a higher level of investment, higher returns to investors, and also eliminate the potential for mistakenly paying the tax twice," Saxton concluded.

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

###