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VICE CHAIRMAN JIM SAXTON

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NEW LIPPER STUDY HIGHLIGHTS TAX ISSUES OF MUTUAL FUND SHAREHOLDERS

WASHINGTON, D.C.— A new exhaustive Lipper Inc. study provides an invaluable amount of new information on the tax problems of mutual fund shareholders, Vice Chairman Jim Saxton said today. The new Lipper research study, *Taxes in the Mutual Fund Industry,* examines virtually all the tax implications regarding the current treatment of mutual fund shareholders. The study also reviewed Saxton's legislation, H.R. 496, to provide tax deferral within certain limits for capital gain distributions received by shareholders from mutual funds.

According to the new Lipper study, "With capital gains realization expected to be low over the next couple of years, immediate implementation of this bill would benefit the taxable investor and have only a limited impact on government coffers."

"This Lipper study demonstrates that over the long run the largest drag on mutual fund performance is taxes," Saxton said. "It also demonstrates that a major component of this drag is the treatment of capital gains distributions. Tax deferral of these gains, to the extent possible, would benefit many millions of investors.

"Under current tax law, millions of investors are subject to capital gains taxes even if they do not sell their mutual fund shares, and even if the value of these unsold shares declines. In recent years, many billions of tax dollars have been paid by mutual fund owners holding shares whose value has now plunged to levels below the price at which they were purchased.

"This situation is a 'heads I win, tails you lose' proposition for the government: If mutual fund shares go up in value, the taxpayer owning mutual funds can be immediately taxed, but if the shares then fall in value, the taxpayer does not receive an immediate capital loss deduction. These shareholders may be no better off than they were in 1997 or 1998, but they have been forced to pay taxes on capital gains that are not reflected in the current value of their shares. A better policy regarding capital gains would be to tax mutual fund shareholders the same way as other individual investors are taxed: when their shares are sold.

"The Lipper study is an authoritative treatment of the tax issues related to the mutual fund industry," Saxton concluded.

For more information on mutual fund taxation, please visit our website at www.house.gov/jec.

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