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CHAIRMAN JIM SAXTON

PRESS RELEASE

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MUTUAL FUND SHAREHOLDERS' TAXES JUMP

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WASHINGTON, D.C. – A surge in capital gain distributions in 2005 contributed to a large increase in taxes paid by mutual fund shareholders in the most recent filing season, Chairman Jim Saxton said today. Saxton based his remarks about this growing tax burden on a new study released by the respected Lipper research organization. According to the Lipper study, long-term capital gain distributions made by mutual funds surged 152 percent from 2004 to 2005.

Consequently, shareholders' taxes on long-term capital gain distributions rose to $6 billion in 2005, even though many shareholders had not sold any of their mutual fund shares. Nonetheless, even if they had sold no mutual fund shares, these shareholders still had to come up with the cash to pay the capital gains tax. As the Lipper study notes, "Considering most mutual fund investors reinvest their distributions back into the funds, that is a large price to pay for a buy-and-hold strategy."

"The current tax treatment of mutual fund shareholders is unfair because it subjects them to capital gains taxation, even if they have sold none of their mutual fund shares," Saxton said. "My legislation would provide that capital gains taxes apply to most mutual fund shares when sold by shareholders, in a way similar to the capital gains treatment of corporate stocks. The new Lipper study demonstrates the need for this tax deferral and quantifies the great benefits for mutual fund shareholders," Saxton concluded.

The high tax burden of shareholders can be alleviated by a tax deferral approach first advanced by Saxton and currently expressed in several pieces of legislation, including H.R. 196. As noted in the Lipper study, instead of taxing long-term capital gain distributions unrealized by shareholders, H.R. 196 would defer taxation of these distributions for most shareholders until the mutual fund shares are sold. This would increase the investment return of shareholders while also ultimately resulting in the payment of capital gains taxes.

For more information please see the following JEC study, *Providing Tax Equity for Mutual Fund Investors: Changing the Tax Treatment of Capital Gain Distributions*, available on our website at www.house.gov/jec

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