CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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Contact: Christopher Frenze
Chief Economist to the V.C.
(202) 225-3923

TAX IMPEDIMENT TO PERSONAL SAVING AND INVESTMENT ANALYZED

– Many Millions of Mutual Fund Owners Would Benefit from Tax Change –

WASHINGTON, D.C. – A tax provision detrimental to tens of millions of Americans who save and invest through mutual funds should be changed, according to a new study released today by Vice Chairman Jim Saxton of the Joint Economic Committee (JEC). The new JEC study, *Encouraging Personal Saving and Investment: Changing the Tax Treatment of Unrealized Capital Gains,* examines the forced distributions of mutual fund capital gains realizations to shareholders. These distributions are mandated by federal income tax law, and force mutual fund shareholders to pay tax on these involuntary capital gain distributions, regardless of whether they have sold any of their shares.

"The current tax treatment of mutual fund shareholders undermines incentives for personal saving and investment, and should be ended," Saxton said. "Current tax law mandates that mutual funds distribute fund capital gains to shareholders. Thus, shareholders who have not realized capital gains themselves must pay federal income taxes anyway, often amounting to several thousand dollars.

"This tax treatment subjecting mutual fund owners to taxation even if they do not sell any of their shares and realize no gains is counterproductive. This results in a loss to the mutual fund investor of 10 to 20 percent of their pre-liquidation rate of return. This is just one of many ways the tax law penalizes thrift by reducing the return to personal saving and investment.

"As a long time advocate of tax incentives for personal saving and investment, I think this tax treatment of mutual fund owners seems to be one of the worst aspects of the income tax. In the near future, Congress will be moving forward to approve expanded incentives for IRAs and 401(K) plans, measures that I have strongly supported for many years. In addition, we must also look ahead to other needed reforms given the emergence of the new economy.

"With about half of all households now invested directly or indirectly in the stock market, tax provisions that discriminate against tens of millions of mutual fund owners should be addressed and appropriate actions taken. Shortly I will be introducing legislation intended to begin a debate over this counterproductive feature of the tax code," Saxton concluded.

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

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