CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
March 10, 2004

STATEMENT OF VICE CHAIRMAN JIM SAXTON "HELPING AMERICANS SAVE"

Press Release #108-106
Contact: Christopher Frenze
Chief Economist to the V.C.
(202) 225-3923
Stephen Thompson
Radio & T.V.
(202) 225-4765

WASHINGTON, D.C. – It is a pleasure to join in welcoming the panel of witnesses appearing before the Joint Economic Committee today.

Personal saving is vital for the financial security of households, and also finances the investment and capital formation necessary for long-term economic growth. Unfortunately, and despite recent changes, the U.S. income tax still retains a systematic bias against saving and investment. Under an income tax, a dollar saved is taxed, and its return is taxed yet again. Yet each dollar of consumption is taxed only once. Some of this bias has been reduced through the expansion of IRAs, 401(k)s, and similar vehicles. The longstanding anti-saving bias in the income tax is the reason that I have supported higher IRA deductions and 401(k) ceilings over many years.

Another problem is that the current tax treatment of mutual fund shareholders regarding capital gain distributions is illogical and unfair. Under current law, mutual fund shareholders must pay taxes on capital gains realized by mutual funds even if they have not sold one mutual fund share. Furthermore, they pay such taxes even when the value of their shares has plummeted, as it did after the collapse of the stock market that began in the first quarter of 2000.

In other words, when mutual funds generate huge capital gains, the shareholders get hammered even when their own unsold shares have declined in value. And when the mutual funds incur huge capital losses, as they did after the bubble burst, most of these losses cannot be immediately passed on to shareholders. This is a 'heads I win, tails you lose' situation for the government. In addition, given the complexity of the relevant tax provisions, it is very easy for confused taxpayers to pay the capital gains tax twice.

I have offered legislation, H.R. 496, which would remedy this inequity by providing a tax deferral on capital gain distributions large enough to cover all distributions of over 90 percent of shareholders. Mutual funds are an important saving and investment vehicle for middle-income Americans, and the punitive tax treatment of these taxpayers is unnecessary and counterproductive.

###