



CONGRESS OF THE UNITED STATES

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JEC Study Explores the Economic Effects of Capital Gains Taxation

WASHINGTON, D.C. -- A new **Joint Economic Committee (JEC)** study released today by **Chairman Jim Saxton (R-NJ)** entitled, *[The Economic Effects of Capital Gains Taxation](#)*, explores the economic effects of capital gains taxation in light of the current tax system's multiple taxation of saving and investment.

The econometric evidence contained in the study show that by reducing one of the layers of this multiple taxation, a capital gains tax reduction would moderately increase economic and employment growth, with benefits accumulating over several years. A capital gains tax reduction would also spur innovation and discovery by entrepreneurs, contributing to economic advances and breakthroughs that might otherwise never be attempted.

"As America moves toward the next century, we must update our tax system to remove its discrimination against saving, investment, and innovation," noted Saxton. "This study documents how a capital gains tax cut is an important step toward making our tax system more conducive to innovation and economic and employment growth," he concluded.

The study also highlights the trend toward broader ownership of stock and mutual fund shares. For example, a recent NASDAQ stock market survey found that stock ownership has increased to 43 percent of the adult population. At least 47 percent of those investors are women and 55 percent of them are under the age of 50. Under the 1986 Tax Reform Act, middle class taxpayers experienced the largest increase in effective capital gains tax rates.

"This report strengthens the case that a reduction in the capital gains tax is long overdue and will boost economic growth. The fact is that nearly 57 percent of those who pay capital gains taxes make less than \$50,000 dollars a year. These are people who are selling a home or small business, or parents who have had to sell some of their shares in a mutual fund to help put their child through school. These are also the entrepreneurs in our society -- risk-takers who get a good idea and start a small business and then find out that the federal government taxes them when they try to get ahead," stated **JEC Member Mac Thornberry (R-TX)**.

Another important point addressed in this study is the large portion of inflation embedded in capital gains. While there is broad agreement that taxation of illusory inflation-derived income is not appropriate, the current tax code nevertheless fails to account for this. The failure results in taxing real losses as gains and greatly increases effective capital gains tax rates far above statutory rates for many taxpayers.

JEC and Ways and Means Committee Member Rep. Jim McCrery (R-LA) further elaborates, "When we think of capital gains taxes we normally consider the fact that they are a hindrance to the growth of job-creating business. But we are finding that middle income workers who plan for their retirement or sell a home are now being unfairly penalized by capital gains taxes. It is past time for Americans to get relief."

As the study points out, official estimates of the effects of capital gains tax changes have been fraught with

problems. In the last major capital gains tax debate, projections of both the Congressional Budget Office and Treasury Department had seriously underestimated the negative impact of the 1986 tax increase on capital gains tax realizations. The evidence suggests that the responsiveness of taxpayers to changes in capital gains tax rates has often been underestimated.

* The [Executive Summary](#) of this report follows.

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