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CHAIRMAN JIM SAXTON

PRESS RELEASE

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TAX INCENTIVES FOR INVESTMENT BOOST ECONOMIC GROWTH

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WASHINGTON, D.C. – Extension of the 2003 tax relief legislation, and other measures to facilitate capital formation, would reduce the anti-saving bias of the income tax and thus enhance long-term economic growth, according to a new study released today by Joint Economic Committee Chairman Jim Saxton. The new study, *Reducing Tax Impediments to Capital Formation,* examines how the income tax system subjects saving and investment to multiple layers of taxation and thereby effectively raises their cost relative to consumption. Drawing on research in tax theory from a number of economists, the study concludes that the complementary economic interests of both investors and employees would be best served by reducing the bias against saving and investment in the income tax to facilitate long-term economic growth.

"Under the income tax each dollar of saving and investment is taxed, and then the return is taxed once again," Saxton said. "However, if this dollar were consumed, it would be taxed only once. This significant tax bias against saving and investment essentially raises the cost of saving relative to consumption.

"The 2003 tax relief legislation contains provisions that reduce the tax rate on capital gains and dividends, as well as other incentives for capital investment. As I noted at the time, these provisions were designed to boost investment, which had been lagging in the period before consideration of the 2003 tax legislation. After adoption of this legislation, investment rebounded strongly, also bolstered by Federal Reserve policy.

"Not only should we make the 2003 tax relief provisions permanent, we should also strive to take further steps toward reducing the anti-saving bias in the income tax. Further expansion and liberalization of IRA and 401(k) accounts, for example, would provide more incentives for personal saving. We should not have a tax code that punishes the thrift, investment, and innovation that are the basis for future prosperity," Saxton concluded.

For a copy of the new study, *Reducing Tax Impediments to Capital Formation*, please visit our website at www.house.gov/jec

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