



ILLINOIS POLICY INSTITUTE



AMERICANS FOR PROSPERITY

## Co-Sponsor and Pass H.R. 6057, End Taxing Inflation on Capital Gains

September 19, 2006

Dear Member of Congress:

On behalf of the millions of taxpayers, small businesses, shareholders, and senior citizens represented by our organizations, we urge you to cosponsor and work to pass H.R. 6057, introduced by Reps. Pence and Cantor, which indexes capital gains to inflation for taxation purposes.

H.R. 6057 is simply a matter of fairness. Since 1913, the Treasury Department has ignored the effects of inflation when calculating capital gains taxes. As such, under current law capital gains taxes are due if a taxpayer sells an asset with a nominal gain even if the investment was a loss in real terms.

For example, an investor who purchased a stock for \$10 a share in 1952, and sold it for \$20 dollars a share in 2002, would be forced to pay capital gains taxes on the transaction, despite the fact that the investment was clearly a loss once inflation is taken into account. Sound tax policy should not tax a “gain” which gives the taxpayer or the U.S. economy no additional economic benefit. In fact, some people are being taxed for a gain when they are actually losing money.

According to a study by the non-partisan Tax Foundation, if an investor purchased the *average* S&P 500 stock in 1973 and sold that stock in June 1994, inflation eroded 65 percent of the \$77 capital gain. The investor would pay a tax of \$21.55 on an inflation-adjusted gain of \$26.77. As a result, the investor yielded 80 percent of their real gain in taxes, leaving the investor with making just \$5 dollars profit over 21 years. Clearly, this system encourages short-term investment and speculation, since the long-term investor is taxed more on inflation.

The Pence-Cantor legislation seeks to finally end this unfair practice. Starting in 2007, a taxpayer holding an asset for more than three years will have their gain or loss determined by a cost basis adjusted for inflation using the “Gross Domestic Product Deflator.”

As a result, taxpayers will finally be able to realize their true gains and build wealth for their families. At the same time, this legislation promotes investment and job creation by giving greater certainty to families and businesses making investments. And finally, as we witnessed with the reduction of the capital gains tax in 1997 and 2003, lower capital gains taxes increase household net worth, which has increased \$13 trillion (33%) since the 2003 tax cut.

Once again, we urge you to cosponsor and work to pass H.R. 6057, introduced by Reps. Pence and Cantor, which indexes capital gains to inflation for taxation purposes.

To co-sponsor H.R. 6057, please contact Ryan Fisher with Rep. Pence ([ryan.fisher@mail.house.gov](mailto:ryan.fisher@mail.house.gov)) or Paul Teller with the RSC ([paul.teller@mail.house.gov](mailto:paul.teller@mail.house.gov)).

Sincerely,

John Berthoud, President, National Taxpayers Union

John Biver, President, Family Taxpayers Network

Greg Blankenship, Director, Illinois Policy Institute

Patricia Callahan, President, American Association of Small Property Owners

Daniel Clifton, Executive Director, American Shareholders Association

Ryan Ellis, Executive Director, Alliance for Worker Freedom

Richard Falknor, Executive Vice-President, Maryland Taxpayers Association

Karen Kerrigan, President, Small Business & Entrepreneurship Council

Scott LaGanga, Executive Director, Property Rights Alliance

J. William Lauderback, Executive Vice President, American Conservative Union

Jim Martin, President, 60 Plus Association

Grover Norquist, President, Americans for Tax Reform

Dick Patten, President, American Family Business Institute

Tim Phillips, President, Americans for Prosperity

Michael Quaid, Vermonters for Tax Reform

Andrew Quinlan, President, Center for Freedom and Prosperity

Tom Schatz, President, Council for Citizens Against Government Waste

Jim Terry, Executive Director, Free Enterprise Fund

Pat Toomey, President, Club for Growth

Lew Uhler, President, National Tax Limitation Committee