CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
April 6, 2004

TAXES LOOM AS LARGEST EXPENSE TO MUTUAL FUND SHAREHOLDERS

Press Release #108-115
Contact: Christopher Frenze
Chief Economist to the V.C.
(202) 225-3923
Stephen Thompson
Radio & T.V.
(202) 225-4765

WASHINGTON, D.C. – Taxes, not fees and expenses, remain the biggest cost to mutual fund shareholders, according to a new study released today by Vice Chairman Jim Saxton. A most serious tax impact comes from how income taxes on capital gain distributions significantly reduce investment returns, according to the new JEC study, *Providing Tax Equity for Mutual Fund Investors: Changing the Tax Treatment of Capital Gain Distributions.* This tax liability occurs when mutual funds realize capital gains that then must be passed on to mutual fund shareholders, even if the investors sold none of their mutual fund shares.

"As we approach April 15, many millions of mutual fund shareholders may be hit with unexpected taxes on capital gains from mutual funds despite the fact that no fund shares were sold," Saxton said. "The loss in investment returns over time can be very substantial. Over 30 years, a typical mutual fund investor could lose as much as $40,000 from this unfair aspect of the income tax.

"As bad as the current tax treatment of capital gain distributions is, the impact is actually greater for many investors. These investors may pay the tax twice: once when distributions are made, and again when they actually sell their shares. Because of the complexity of the tax system and the unusual tax treatment of these gains, it is very easy for taxpayers to be unaware that they have paid the tax on an accrual basis, and thus they may pay it yet again.

"Furthermore, when the stock market has been weak for an extended period, losses generated by mutual fund trades cannot be passed through to shareholders. As a result, the government is in a 'heads I win, tails you lose' situation. When the stock market is strong, mutual fund capital gains typically are immediately distributed and taxed. However, when markets are weak, mutual fund losses cannot be immediately passed through to shareholders to reduce their income tax liabilities.

"If mutual fund capital gains distributions are to be taxed, they should be taxed on a deferred basis within liberal limits. This is the purpose of H.R. 496, a bill I have introduced that also has attracted the support of many of my colleagues," Saxton concluded.

For a copy of the new JEC study, *Providing Tax Equity for Mutual Fund Investors: Changing the Tax Treatment of Capital Gain Distributions,* please visit our website at www.house.gov/jec.

###