RSC
Republican Study Committee

Rep. Sue Myrick (R-NC), Chairman
Neil Bradley, Executive Director

432 Cannon House Office Building
Washington, D.C. 20515

www.house.gov/burton/RSC
ph (202) 226-9717 • fax (202) 226-1633

Ending the Double Taxation of Dividends

March 2003

Under current tax law, a dollar of corporate profit is taxed when it is reported and then is taxed *again* (under the personal income tax) when it is paid out to stockholders. Many Members of Congress have proposed to reduce or eliminate the personal income tax on dividends.

BENEFITS

- Exempting dividends from the personal income tax (i.e. ending the double taxation of dividends) would (according to the U.S. Department of the Treasury and the Heritage Foundation):
  - Increase jobs by an average of 512,000 per year over the next ten years
  - Increase the dividend payout rate by four percentage-points by the end of 2005
  - Increase disposable personal income for an individual taxpayer by an average of $343 per year over the next ten years
  - Increase the GDP by $294 billion in the first five years
  - Increase purchases of business equipment by an average of $32 billion per year
  - Increase personal consumption by $272 billion in just the first five years

- In other words, ending the double taxation of dividends would:
  - Make U.S. corporations more competitive globally;
  - Expand shareholder wealth;
  - Improve investor confidence in the stock market;
  - Yield immediate *and sustainable* economic growth.

- There are a few things that the dividend exemption would *not* do. It would:
  - NOT increase inflation (just 0.1 percentage points in the first five years);
  - NOT balloon the federal budget deficit (net deficit impact of about $10 billion per year).

- Fixing this flaw in the tax code would also be good for seniors.
  - Among post-retirement age taxpayers who receive dividends, the median taxpayers' dividend income is $2,406, with an after-tax income of $35,544.

- Almost half of all savings from the dividend exemption would go to taxpayers 65 and older. The average tax savings for the 9.8 million seniors receiving dividends would be $936.

- Consider these additional facts, provided by a Heritage Foundation analysis of 1998 IRS data:
  - 70% of all taxpayers directly receiving dividends earn less than $55,000 in wage and salary income.
  - 90% of all single taxpayers directly receiving dividends earn less than $53,000 in wage and salary income.
  - 70% of all married couples directly receiving dividends earn less than $76,000 in wage and salary income.

- Tens of thousands—and potentially hundreds of thousands—of constituents in every congressional district stand to benefit from the dividend proposal. This is not just a plan for Bill Gates.

- If we end the double taxation of dividends, we will unquestionably see sustained economic growth and a decrease in the unemployment rate.

- A PriceWaterhouseCoopers study found that exempting dividends from the personal income tax would be more growth-enhancing in the long run than the acceleration of the reduction in marginal income tax rates, the elimination of the marriage penalty, the increase in the child tax credit, and the AMT exemption.

- Given all the benefits, the real question about the dividend exemption is: Why *wouldn't* we pass it?

FAIRNESS

- Not only is the double taxation of dividends economically unwise, it is also unfair.

- No dollar should be taxed **twice**—especially not a dollar created by citizen productivity.

- Just imagine if taxes were taken out of your constituents' weekly paychecks before they were mailed and then *again* after they were mailed. Wouldn't <u>that</u> be unfair?

- The double taxation of dividends is equally unjust. No income should be taxed more than once. If the federal government taxes a dollar of corporate profit, it has no right to tax that same dollar again just because it is distributed to shareholders.

- In his farewell address, President Andrew Jackson declared, "There is, perhaps, no one of the powers conferred on the federal government so liable to abuse as the taxing power." The double taxation of dividends exemplifies the abuse about which Jackson spoke.

INTERNATIONAL COMPETITIVENESS

- Nearly all industrialized nations allow full or partial relief of dividend double taxation and thus have much lower dividend tax rates than does the United States.

- In fact, the Organization for Economic Cooperation and Development (OECD) reports that the U.S. has the **second-highest** dividend tax rate in the 30-nation OECD. Only Japan has a higher rate.

- High dividend tax rates reduce economic growth by:
  - Discouraging savings and investment;
  - Encouraging the excessive retention of corporate earnings; and
  - Encouraging people to find creative ways of avoiding taxes rather to find truly productive outlets for their money.

- 27 of 30 OECD nations have adopted ways of reducing or eliminating the double taxation of dividends.

- Only Ireland, Switzerland, and the U.S. have no dividend tax relief (though Ireland's corporate tax rate is one third that of the U.S. federal corporate rate). Many countries have lower dividend tax rates than wage-income rates.

- Germany and Luxembourg provide a 50% exemption for dividends from the personal income tax, while Greece *fully* exempts dividends from individual taxation. If this exemption is good enough for Greece, if dividend tax relief is good enough for even the socialist countries of Europe, shouldn't it be good enough for the United States?

- There is a global trend toward lower tax rates on all forms of capital income. Leaders in the world's most important economies are recognizing that high taxes on dividends distort savings and investment and reduce economic growth. We in Congress should follow the world's example and lower—if not eliminate—the individual taxation of dividends.

RSC Staff Contact: Paul Teller, paul.teller@mail.house.gov, (202) 226-9718