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Hopes High for Reintroduced Cap Gains Bill

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By [Alison Sahoo](#)

Hope springs eternal for Rep. Jim Saxton (R.-N.J.) and his bill that would allow investors to defer payment of income tax on mutual fund capital gains distributions. Saxton has reintroduced the bill, and some believe it has a better shot compared to prior versions, which languished and died.

The latest rendition of the Saxton bill would allow middle-income investors to defer tax on capital gains up to certain limits. For individuals, that's \$5,000 and for married couples, it's \$10,000.

That's an increase over the \$3,000 and \$6,000 limits proposed in legislation introduced by Saxton in the last Congress.

Saxton spokesman Jeff Sagnip Hollendonner says he thinks the time may be ripe for a new look at using tax savings to stimulate retirement investing. And just because the bill didn't move significantly in the past few sessions doesn't mean it won't now, he says.

"It's typical to have to reintroduce a bill several times," he says. "We had to introduce the bill to increase IRA contribution limits three or four times before we found the right vehicle for it. And it took over 10 years to repeal the earnings limits for Social Security for people age 70 and older."

Hollendonner counts the latter effort among Rep. Saxton's more significant successes, since before the bill's passage, seniors paid back into Social Security \$1 for every \$3 they earned above \$17,000.

"We'll keep at the tax deferral bill until it passes in one form or another," he says. "It's just a matter of waiting for the right vehicle."

Congressman Saxton proposed the bill earlier this month without co-sponsors and is currently working to build support for it.

Saxton first proposed the legislation in 2000. But it withered in the aftermath of September 11 when virtually all legislation not related to economic recovery was sidetracked. Rep. Saxton resubmitted the bill in 2003 and garnered support from some three dozen co-sponsors. That wasn't enough to bring the proposal before the full House for a vote, however. So Rep. Saxton introduced a third iteration of the bill in the present Congress.

Hollendonner notes that the issue is building support among constituents. The congressman's office, he says, has been getting calls from voters about the bill after some fund firms included information about it in quarterly mailings to shareholders.

A Republican-led effort to open the debate on retirement savings vis-à-vis Social Security will help push the bill along, some believe.

Niels Holch, for one, says he expects Republicans to include the bill as part of a bigger debate on the ability to save for retirement. Holch is a partner with Washington, D.C.-based firm **McGuinness & Holch**.

"Social Security has always been an Achilles' heel for the Republican party," he says. "Even if a Republican advocates a benefit that doesn't go up as much in the future, that's considered a cut by Democrats."

So Republicans will try to broaden the debate to include related topics such as how to stimulate retirement savings and how to improve the tax structure of savings, he believes.

Saxton's not the only one pushing for tax deferrals on capital gains, however. Rep. Paul Ryan (R-Wis.) is also expected to bring back the tax deferral bill that he put forward in the last Congress.

That proposal was similar to the Saxton bill, but contained no limits on eligible income. It also didn't preclude wealthy investors from tax deferral.

Investment Company Institute (ICI) spokesman Chris Wloszczyna says that the ICI supports such legislation because the deferral of taxation would benefit shareholders. It would also be fairer, he says, not to tax investors on an event that they didn't actively trigger.

Not everyone, however, believes that this year will be any different than the last for mutual fund tax deferral bills.

One Capitol Hill lobbyist says she thinks that Republicans may put 401(k)s and IRAs on the table but probably won't extend the discussion to mutual funds held outside of a retirement plan.

"The Saxton bill would have to be considered as part of a capital gains bill," she says. "And I don't see any of that type of legislation on the horizon."

She also notes that the budget deficit will be a continuing concern and any legislation that defers Treasury revenue will be heavily scrutinized.

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