



NEWS

AMERICANS FOR TAX REFORM

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Defeat the Dastardly Double Dividend Tax

Rep. Chris Cox (R-Calif) introduces major legislation to end the double taxation of dividends (explained here). House expected to vote on measure before November elections.

WASHINGTON — Corporate mismanagement and diminishing investor confidence has dominated financial news headlines for the past eight months. But some members of Congress have finally introduced legislation aimed at both corporate accountability and pushing the stock market out of its funk.

Today, Rep. Chris Cox (R-Calif) introduced the Investor Protection, Market Stabilization, and Tax Fairness Restoration Act. The legislation aims to:

- End the double taxation of dividends, which can result in effective tax rates of more than 60%;
- Provide tax relief to investors who have been hurt in the stock market's downturn;
- Help seniors who depend on dividends for their retirement income; and
- Protect investors from over-dependence on stock prices by ending tax discrimination against dividends.

Taxpayer advocate Grover Norquist, who heads Americans for Tax Reform (ATR) in Washington, called Cox's proposal **"a move that will not only boost the financial markets, but one that will appeal to the growing class of investor-voters in the American electorate."**

The elimination of double dividend taxation will end tax-related distortions of the market. Dividends are taxed once as part of corporate earnings, and again as the personal income of the investor who receives the dividend. The National Center for Policy Analysis estimates that with profits taxed 35% at the corporate level and as much as 39% by the company's owners (shareholders), **the effective rate on corporate profits can run higher than 60%**. Many investors bought stocks because capital gains were taxed at 20 percent, while dividends were taxed so much higher. Because the tax code favored one class of assets over another, serious market distortions arose.

The elimination of double dividend taxation will encourage greater corporate accountability and investor confidence as well. Traditionally, stocks are valued based upon expected future dividends. Without dividends, investors must value stocks based on a corporation's earnings statement, which can be manipulated, as demonstrated by the recent corporate accounting scandals. But, as dividends can only be paid out of retained earnings that actually exist, the legislation will promote honest accounting practices and renewed confidence among investors.

"Rep. Cox has done something increasingly rare in Washington: he introduced legislation that is both good politics and good policy," continued Norquist. "The question is, once it passes the House, what will happen in the Senate graveyard?"

Americans for Tax Reform is a non-partisan coalition of taxpayers and taxpayer groups who oppose all tax increases. For more information or to arrange an interview please contact Jonathan Collegio at (202) 785-0266 or by email at jcollegio@atr.org