Congressman Vito Fossella

Statement for the record: Subcommittee on Oversight and Investigations: Impact of the President's tax plan on Individual Investors. March 18th 3:00pm.

I would like to highlight three major factors we should keep in mind when discussing the repeal of the tax on dividends. The current system goes out of its way to target seniors, hurts an increasingly large majority of the population and encourages bad corporate governance.

As a starting point, the stock market has grown increasingly important to the US economy due to the rapid increase of investors in America. Today, 52% of American families (or 84 million people) are invested in the stock market. The increase from just a few years ago highlights one of the most remarkable changes currently underway in American society. It is also expanding the middle class and enriching many lower-income families. With more than $7 trillion of value lost in the stock market since March 2000, abolishing the double taxation of dividends will restart the stock market and hence, economic growth. The time to act is now, before any more harm is done to family savings for retirement and education and, indeed, to the economy as a whole.

Second, many seniors rely on dividend income for their retirement. Seniors take in only 15% of national income, but receive 50% of the dividend income, according to Treasury statistics. That shows just how disproportionately the dividend tax affects our parents and grandparents. Many seniors who do not have other sources of income rely on dividend income. The double taxation inherent in the dividend tax means especially rough treatment at the hands of the tax code.

Finally, abolishing the double taxation of dividends will promote honest accounting and better corporate governance. The Enron mess last year shows us a key way in which elimination of the dividend tax will serve the public good. The double taxation of dividends tax lowered rate of returns relative to other investments, the number of firms offering dividends has dramatically declined: from 66% in 1978 to only 21% in 1999. Companies and investors have instead pursued high-growth stocks to take advantage of the lower capital gains tax rate. The difficulty is that the value of a company is often based on speculative theories of future earnings. But dividends can only be paid on actual earnings and thus, serves as a true indicator of a company's health. The paper empire that Enron had built would have been much less difficult to accurately assess. I believe that by abolishing the double taxation of dividends better accounting practices will be pursued and investors will have a renewed confidence in the companies they invest in.

Companies are also currently able to deduct debt but not dividends. This distortion results in a tax code that favors debt over equity - the result being that companies like Enron and United racked up enormous debt before declaring bankruptcy. This has the crucial secondary effect of harming creditors, which has contributed overall to the economic doldrums America and the world are trying to overcome.

It seems clear that elimination of the dividend tax will be an overwhelmingly positive measure for the economy, empowering shareholders and protecting our seniors. I want to thank everyone here today for coming in to share their views with us on this important subject and hope that we can get some effective discussion out of today's hearing.