

October 4, 2011

The Honorable Peter Roskam
United State House of Representatives
227 Cannon House Office Building
Washington, D.C. 20515

Dear Congressman Roskam,

The Alliance for Savings and Investment (ASI) is a diverse coalition of dividend-paying companies, investor organizations and trade associations. We want to thank you for introducing legislation that would make permanent current tax rates on capital gains and dividend income.

As you know, in 2003, Congress lowered the maximum rate on capital gains and dividends to 15 percent. Unfortunately, those rates will sunset – increasing the capital gains tax from 15 percent to 20 percent and more than doubling the dividend rate from 15 percent to 39.6 percent. In addition, beginning in 2013 investment income will be subject to an additional Medicare HI tax of 3.8 percent, raising the top rate on dividend income from 39.6 to 43.4 percent and capital gains to 23.8 percent.

Lower investment tax rates don't just benefit direct shareholders; they benefit the tens of millions of Americans who own stock indirectly through mutual funds as well as stock held through life insurance policies, pension funds or 401(k) plans.

According to a January 2010 study by Ernst & Young, of the 27.1 million Americans who received dividend payments from utility companies in 2007, 61 percent were taxpayers age 50 and older and 30 percent were taxpayers 65 and older.

Allowing the rates to increase will undermine economic recovery efforts. A Heritage Foundation study found that higher investment tax rates would lead to 270,000 fewer jobs in 2018. The study also concluded that had the rates been allowed to increase, economic output measured by GDP after inflation would have fallen by \$50 billion in 2012.

By synchronizing the tax rates of capital gains and dividends, Congress eliminated the tax bias toward investing in high growth-low dividend companies. Maintaining parity between the two rates is important to ensure that investors' decisions remain "tax neutral." A higher tax rate on dividends could lead investors to favor higher risk capital gains over lower risk dividend-paying stocks.

Keeping tax rates low will encourage more companies to pay dividends. The Cato Institute found that 19 companies in the S&P 500 began paying dividends for the first time in the immediate aftermath of the tax reform enacted in 2003. The study also found that dividend payments by S&P 500 companies rose from \$146 billion to \$172 billion in the first year following the 2003 tax cut. The overall pay-out of dividends in 2005 was more than 36.5 percent higher than the payout before the 2003 tax cut, and dividend income reported by taxpayers increased by a similar margin.

Undoubtedly, the current looming tax increase on investment income will also affect asset values. Congress should not expect, however, that values will not be affected until very near the date of expiration. Instead, the market will begin to price in the expiration months in advance.

As the Congress considers efforts to improve the tax code and promote economic growth, we thank you for your leadership to maintain current low rates on both capital gains and dividends and provide certainty to the market well in advance of the expiration dates of the current rates.

Sincerely,

The Alliance for Savings and Investment¹

¹ The Alliance for Savings and Investment (ASI) is a diverse coalition of dividend-paying companies, investor organization and trade associations, formed in support of a common goal: to promote economic recovery, growth and job creation through policies that foster private savings and capital investment. ASI members include: AGL Resources, Altria, American Forest & Paper Association, American Farm Bureau Federation, American Gas Association (AGA), AT&T, Capital Research and Management Company, CenturyLink, Edison Electric Institute (EEI), Financial Services Forum, Frontier Communications, Investment Company Institute (ICI), Laclede Gas Company, Mass Mutual, National Association of Manufacturers, National Association of Water Companies, Qwest, Securities Industry and Financial Markets Association (SIFMA), Spectra Energy, RAI Service, UPS, U.S. Chamber of Commerce, USTelecom Association, Vanguard, Verizon, Windstream, and Xcel Energy.