The New England Council

November 15, 2010

To Member of Congress

Subject: Extending Current Tax Rates for Capital Gains and Dividends

Dear Representative,

As 2010 draws to a close, the New England region continues to demonstrate uneven recovery from one of the worst economic downturns in the nation's history. Without congressional intervention, the continuity of our fragile regional – and national – economic recovery faces a major disruption on January 1, 2011. If the current capital gains and dividend tax rates are allowed to expire, capital gains tax rates will increase from 15 percent to 20 percent and the maximum tax rate for qualified dividend tax rates could nearly triple from 15 percent to 39.6 percent.

The Economic Benefit of Maintaining Current Dividend and Capital Gains Tax Rates

The tax rates for both capital gains and qualified dividends fundamentally affect investment behavior - in this instance, at a critically important juncture of our nation's economic recovery. Favorable tax rates encourage investment in companies that in turn grow, create jobs, and drive economic expansion. Increasing those taxes could drive investors to the sidelines again, just when they are beginning to cautiously return to the market. Allowing tax rates to spike at the end of this year would interrupt – potentially drastically – any economic improvements so painfully gained in the last 18 months. Continuity and predictability in tax treatment helps facilitate economic growth, but it is simply counterintuitive to change tax treatment just at the point when the economic recovery has begun to take root. With American companies competing in an increasingly global market, raising the tax rates on capital gains and dividends undermines this nation's capacity to maintain its position as a worldwide economic leader. As we witnessed, the last two years presented ample challenges to America's economic viability on the world stage.

Capital Gains and Qualified Dividends Should be on Equal Footing

To exacerbate the problem posed by the expiring dividend and capital gains tax rates, if no congressional action is taken, dividends would be taxed at a substantially higher tax rate than capital gains, in effect penalizing companies that pay dividends to shareholders. Currently, investors pay the same tax rate for income derived from long-term capital gains and qualified dividends. Parity between the two rates ensures that companies are making the best business decisions about whether to retain profits or pay out dividends, rather than making these decisions based on tax considerations. The New England Council, representing over 300 companies in the region, urges you to support legislation that would continue this equity in tax treatment between capital gains and dividends. Enacting such legislation would stimulate good business practices and encourage greater investment in our economic recovery going forward.

Impact of Dividend Tax Change on Retirees

According to an analysis of 2005 IRS Statistics by the Heritage Foundation, seniors are far more likely than other investor groups to own stocks which pay dividends, and in 2010, seniors are almost twice as likely to report dividend income on their tax returns. Since seniors have a shorter investment horizon, their need for cash tends to be higher, and dividends supplying regular income are an important part of many retiree investment portfolios. Any tax rate change that disadvantages dividend payments will have a disproportionate impact on our region's seniors.

	Senior Tax-payers Without dividends	Senior Tax-payers With dividends
Connecticut	34.3%	65.7%
Maine	49.5%	50.5%
Massachusetts	47.2%	52.8%
New Hampshire	44.2%	55.8%
Rhode Island	41.7%	58.3%
Vermont	31.9%	68.1%

Source: Center for Data Analysis, the Heritage Foundation, based on 2005 Statistic of Income Public Use File

Now that the election is behind us, there will be limited time in which to address legislative priorities before a new Congress is convened. Unfortunately, the expiration of the current capital gains and dividend tax rates could easily slip through the cracks between the 111th Congress and the 112th Congress.

On behalf of our more than 300 members, we urge you to address the extension of the current capital gains and qualified dividend tax rates as a top priority between now and year-end. It will be far less disruptive to deal with this tax issue proactively in 2010, rather than working to retroactively address the economic impact after the tax cuts have expired. Please contact the New England Council at 202-460-9417 if you have any questions or require additional information.

Sincerely,

Michele M. Jalbert
Executive Director – Policy & Strategy