![ASI The Alliance for Savings & Investment]

April 15, 2015

The Honorable Mike Crapo
United States Senate
239 Dirksen Senate Building
Washington, DC 20510

The Honorable Sherrod Brown
United States Senate
713 Hart Senate Office Building
Washington, DC 20510

Dear Senators Crapo and Brown,

We are the Alliance for Savings and Investment, a coalition of trade associations and U.S. companies who support low tax rates for capital gains and qualified dividends, as well as parity between these rates.[1] We believe that these preferential rates provide a necessary and powerful incentive for investments that benefit retail investors and strengthen the U.S. economy, and believe it is important to be mindful of preserving these incentives as tax reform discussions unfold.

A recent analysis for the Alliance for Savings and Investment by Ernst & Young found that for 2014, the U.S. integrated tax rate on corporate profits are among the highest in the world. The U.S. integrated tax rate has increased over the past several years due to the reforms mentioned above, while the top integrated tax rate elsewhere has fallen due to tax reforms in other countries aimed at encouraging foreign investment and promoting economic growth. Taking into account both the corporate and investor-level taxes on corporate profits at the federal and state level, in 2014 the United States has the second-highest top integrated tax rates for both dividends and capital gains among developed and advanced developing countries.

The top U.S. integrated dividend tax rate is 56.2 percent, while the average top integrated tax rate among other OECD and BRIC countries (weighted by GDP) is 44.5 percent. In other words, the U.S. rate is nearly 12 percentage points higher than the prevailing average among our economic competitors. Similarly, the top U.S. integrated long-term capital gains tax rate is 56.3 percent,

[1] The Alliance for Savings and Investment (ASI) is a diverse coalition of dividend-paying companies, investor organizations 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. http://theasi.org

while the GDP-weighted average top integrated tax rate among OECD and BRIC countries is 40.3 percent. Thus, the U.S. rate is 16 percentage points higher than the prevailing average among OECD and BRIC countries. In both of these metrics, the United States is second only to France and far above the rate prevailing in many countries with similar growth prospects and legal protections for investors.

In recent years, there have been developments in the treatment of capital gains and dividends that have resulted in substantially higher maximum U.S. tax rates for investors. While the American Taxpayer Relief Act of 2012 (ATRA), made permanent the 15 percent rate for both long-term capital gains and qualified dividend rates for those with taxable income below $400,000 (single filers), $425,000 (heads of households) or $450,000 (married couples filing jointly), taxpayers with incomes above those thresholds are subject to tax on capital gains and qualified dividends at a 20 percent rate.

In addition, the Affordable Care Act (ACA), signed into law by President Obama in 2010, applied a 3.8 percent Medicare tax to investment income for individuals and married couples filing jointly whose adjusted gross incomes exceed $200,000, and $250,000 respectively. The tax on investment income became effective in January 2013, and reduces the benefits of the preferential rate for investment income by raising the top rate higher than the statutory rate of 20 percent. Where a taxpayer is subject both to the higher 20 percent rate under ATRA and the Medicare surtax, capital gains and qualified dividends are subject to a combined 23.8 percent rate. Even before the recent tax law changes, the U.S. had top integrated tax rates which were among the highest of any developed nation.

Members of the Alliance for Savings and Investment continue to believe that policy makers in Congress should take into account the negative impact of these higher capital gains rates on realization, and the drag on economic growth that could result from further bias away from savings and towards current consumption in federal tax law. In addition, Congress should retain parity between the taxation of qualified dividends and long term capital gains. Increasing the dividend tax rate relative to the capital gains tax rate could discourage companies from distributing corporate earnings to shareholders through dividends.

We appreciate your consideration of our views and we remain committed to working with the Committee and the tax reform working groups to ensure that policies do not discourage capital investment or have other unfavorable consequences.

Sincerely,

The Alliance for Savings and Investment