

STAR GAZER

By CLAY R. POLLAN
Your Daily Activity Guide According to the Stars

To develop message for Wednesday, read words corresponding to numbers of your Zodiac birth sign.

ARIES	1-8-10-22	23-55-87-89
Taurus	21	28
Gemini	4-17-49-65	67-71-76
Cancer	42-43-51-64	72-73-74
Leo	2-3-4-24	25-26-34
Virgo	12-15-17-32	37-40-41-87
Libra	16-18-20-21	25-44-46
Scorpio	11-19-45-48	60-63-86-90
Sagittarius	18-19-45-48	60-63-86-90
Capricorn	12-15-17-32	37-40-41-87
Aquarius	11-19-45-48	60-63-86-90
Pisces	12-15-17-32	37-40-41-87

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Your Money's Worth

By SYLVIA PORTER
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CAPITAL GAINS TAX 'REFORM'

As one of America's 17 million shareholders, you know that you must hold a stock for six months or longer before any profit you have on it can qualify as a long-term capital gain and thus be subject to a maximum tax of 25 per cent under today's law.

If this holding period were lengthened to one year and simultaneously the tax on your long-term capital gains were sharply lowered, would this encourage you to delay taking any profits until after the 12-month deadline and thus reduce the number of your stock transactions? Or would the fact that you had to wait a year to get the preferential tax treatment encourage you to sell whenever you felt the time was right within the 12-month period, even though you then would have short-term gains taxed as regular income at ordinary income tax rates?

The U.S. Treasury thinks that stretching out the holding period would encourage you to make more stock trades and that as a result, it would pick up an extra \$180 million a year even at the reduced gains rates. Thus, as a key tax reform, it is urging lengthening of the period you must hold a stock before any profit you make on it moves out of the category of regular income taxed at ordinary rates and into the category of long-term capital gains taxed at preferential rates.

Most Wall Streeters violently disagree with this view, and today the New York Stock Exchange released a new study which says flatly that lengthening of the holding period to one year would cut stock transactions 10 to 15 per cent, and instead of hiking the Treasury's tax take would slice it by \$100 million a year.

The NYSE reasons that many of you would postpone taking profits because you would not want to add these to your regular income. If volume of trading fell 10 to 15 per cent, obviously there would be far fewer transactions on which the Treasury could collect capital gains and stock transfer taxes. If there were fewer transactions, the market would be less liquid, this "reform" would neither stimulate the economy nor help balance the budget.

On this tax reform I have mixed feelings. As truly long-term investors, we rarely switch stocks on which we have gains just because a tax deadline has passed, and naturally we would like to have profits on stocks which we sell after years of ownership taxed at lower rates. But the NYSE's study does suggest the Treasury has overlooked historical evidence indicating that a longer holding period will reduce trading and that the Treasury's estimate that this reform would bring in an extra \$180 million a year is way off base.

Congress last changed the holding period in 1942, from a minimum of 18 months to six months. Immediately, the volume of trading jumped, and during the next four years average volume on the NYSE was up 13 per cent. The reverse could happen now if the holding period were substantially lengthened, for the NYSE reports that "nine out of every 10 registered representatives responding to a recent survey said their clients would make fewer transactions if the holding period were lengthened to one year—even if the capital gains tax were reduced." The holding period is estimated to be the key factor in 20-25 per cent of all securities sales. The decline in trading on the London Stock Exchange since the British Government introduced a six-month holding period in 1962 is another indication shrinking liquidity would be the undesirable result of lengthening here.

We are among the few countries which tax capital gains at all, incidentally. Most do not consider these gains as income and exempt them from taxation. While we do not exempt capital gains, we also recognize they are different from income and are entitled to a preferential rate. The purpose of a holding period is to distinguish between an investment and an ordinary business transaction. The period chosen is artificial, and arbitrary, but it's a convenient, simple, well defined way to make the necessary distinction.

It's idle to guess now the final form of the 1963 tax bill. But much as Wall Street wants a cut in the capital gains rate, it would settle for no reduction if attached to it must be this reform.

Dennis the Menace



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