

**MEMO# 6875**

April 21, 1995

# INSTITUTE PAPER ON CONSUMPTION TAXES

April 21, 1995 TO: BOARD OF GOVERNORS No. 47-95 ACCOUNTING/TREASURERS MEMBERS  
No. 21-95 TAX MEMBERS No. 21-95 RE: INSTITUTE PAPER ON CONSUMPTION TAXES

\_\_\_\_\_ A number of prominent politicians and economists have, in recent months, urged a major overhaul of the US income tax system. Some of the proposals, including one advanced on a bipartisan basis by Senators Nunn and Domenici, have suggested the substitution of a consumption-based tax for our current income tax as a means to increase national saving. The Institute has published the attached paper, entitled "Reducing the Tax Burden on Saving," to contribute to the on-going public debate on this important policy issue. The author of the paper, Dr. Rudolph Penner, is a nationally known authority on federal budget and tax policy. The paper describes several possible consumption tax systems and the effects of their adoption on national saving. It also addresses some of the practical problems that would arise upon conversion to a consumption-based system, such as the need to develop transition rules for taxpayers who have accumulated financial assets on which they have previously paid taxes. We will keep you informed of developments in this area. Catherine L. Heron Vice President & Senior Counsel

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