UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM — MINORITY STAFF
SPECIAL INVESTIGATIONS DIVISION
APRIL 2003

THE DIVIDEND TAX CUT

FORTUNE 100 CORPORATE EXECUTIVES WOULD REAP HUGE FINANCIAL BENEFITS

PREPARED FOR REP. HENRY A. WAXMAN

WWW.REFORM.HOUSE.GOV/MIN

EXECUTIVE SUMMARY

President Bush has proposed eliminating personal income taxes on dividends. Such a tax cut would have virtually no impact on the average American. According to data from the Internal Revenue Service, over 70% of taxpayers would receive no benefit at all from a dividend tax cut.

While the average American would derive little, if any, benefit from the elimination of the dividend tax, some of the main beneficiaries of this plan would be top executives of "Fortune 100" corporations. At the request of Rep. Henry A. Waxman, this report estimates the tax savings that would be realized by three top executives at each of the Fortune 100 companies. This report finds:

- The three largest shareholders among officers and directors at the Fortune 100 companies would receive an estimated tax savings of nearly **$120 million** annually from a dividend tax cut. The estimated tax cut would average **$400,000** annually for each of these executives. Over ten years, the estimated tax savings for these 300 top corporate executives would be **$1.3 billion**.

- The estimated tax savings for 21 of the executives would exceed **$1 million** each every year.

These estimates, which were derived from SEC filings, may understate the actual tax savings of these executives. This analysis examines only the amount of stock that these corporate executives own in their own companies and does not include their other stock holdings. Moreover, the President's plan would also provide a capital gains tax cut for executives in these companies if the companies reinvest their earnings, rather than pay them out in dividends. This capital gains benefit is not included in this analysis.

The top executives who benefit from the proposal to eliminate taxes on dividends run companies that are some of the nation's largest campaign contributors. In total, the companies in the Fortune 100 gave almost $81 million to political candidates and parties during the 2002 election cycle. Of these contributions, 64% went to Republicans and 36% went to Democrats.

BACKGROUND

On January 7, 2003, President Bush unveiled a new plan to reduce taxes. The centerpiece of the plan is the elimination of personal income taxes on corporate dividends. It is estimated that the dividend tax portion would cost an estimated $396 billion over the next ten years — or more than half of the total $726 billion cost of the entire Bush plan.[1] In describing his plan, President Bush stated: "Abolishing double taxation of dividends will leave nearly 35 million Americans with more of their own money to spend and invest, which will promote savings and return as much as $20 billion this year to the private economy."[2]

Not all Americans would share equally in a proposal to eliminate individual taxes on corporate dividends, however. A significant number of Americans receive no dividend tax income and thus would receive no benefit from the President's plan. In 2000, 129.4 million individual tax returns were filed on behalf of 180 million taxpayers.[3] Only 26.4% of the returns filed reported any dividend income.[4] The remaining 73.6% of returns, representing an estimated 132 million taxpayers, reported no dividend income and would receive no benefit from a dividend tax cut.

The benefits of the dividend tax cut flow disproportionately to the wealthy. The top 1% of taxpayers — those earning $374,000 or more — would receive an average tax cut of $11,483. In contrast, the bottom 80% of taxpayers — those earning $77,000 or less — would receive an average tax cut of only $29.50.[5] *See* Figure 1.

1 Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions Contained in the President's Fiscal Year 2004 Budget Proposal* (Mar. 4, 2003).

2 President Bush's Speech to Economic Club of Chicago (Jan. 7, 2003).

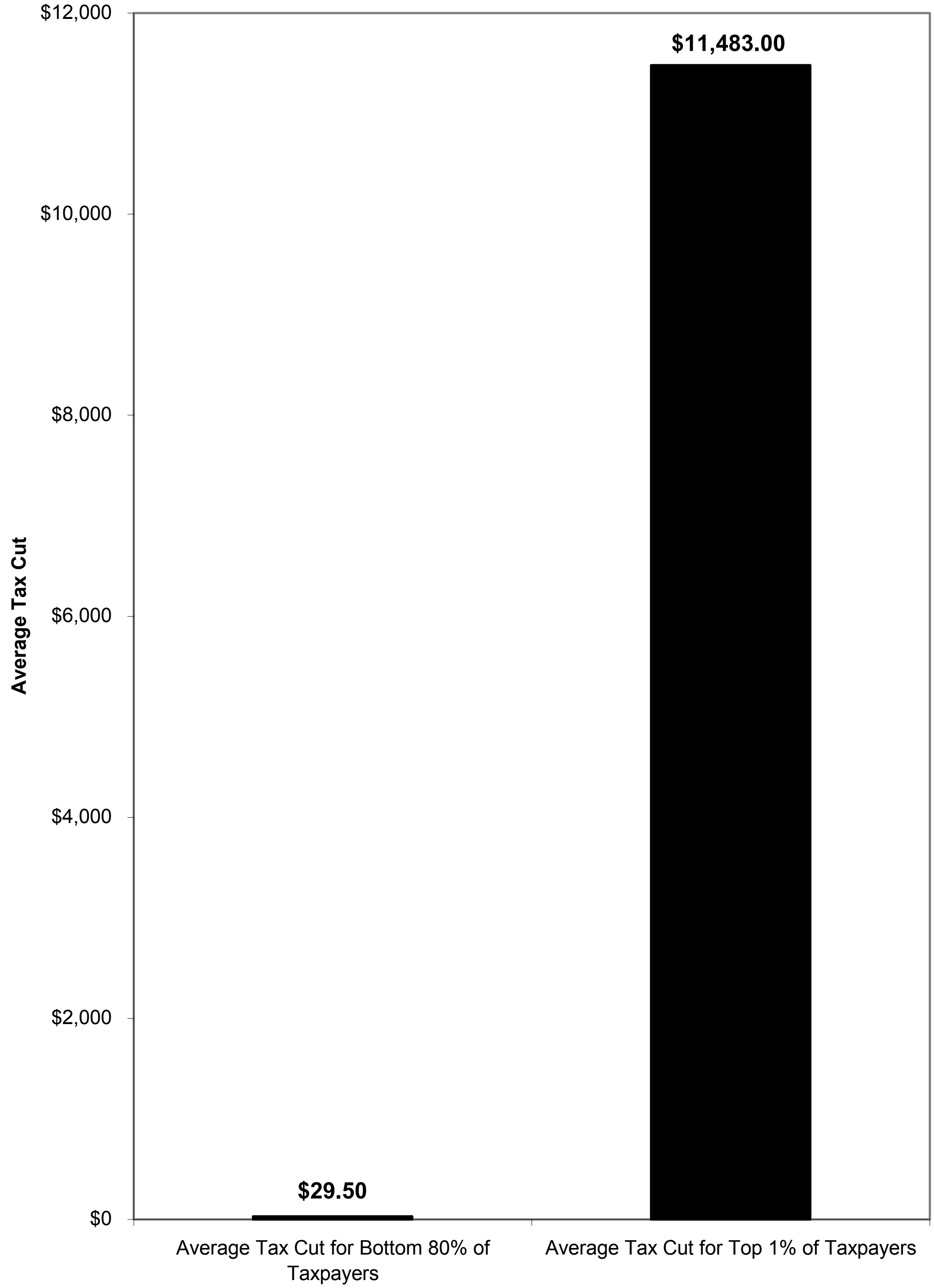
3 Internal Revenue Service SOI Bulletin, *Individual Income Tax Returns: Selected Income and Tax Items for Specified Tax Years, 1980–2000* (Jan. 2003).

4 Internal Revenue Service SOI Bulletin, *Individual Income Tax Returns 2000* (Dec. 2002).

5 Citizens for Tax Justice, Fact Sheet (Jan 8, 2003).

Figure 1

The Benefits of the Dividend Tax Cut Flow Disproportionately to the Wealthy



METHODOLOGY

At the request of Rep. Henry A. Waxman, this report looks at the tax benefits that would be provided to one especially privileged subset of taxpayers: the top executives at the nation's richest companies.

To assess the amount of potential dividend tax savings to corporate executives, this report relied on *Fortune* magazine's 2002 listing of the largest 100 companies in the United States.[6] Of these 100 companies, 77 pay dividends to shareholders.

For each of these companies, the Special Investigations Division examined corporate financial reports filed with the Securities and Exchange Commission (SEC). These reports list the corporate officers and directors and their stock holdings in the companies. Based on these SEC filings, the Special Investigations Division compiled a list of the top three shareholders at the 77 dividend-paying companies who were also either corporate officers or directors.

The estimated dividends earned by each executive were determined by multiplying the number of shares owned by the individual and the per-share dividend in 2002, as determined by Internet financial websites. It was assumed that each of these corporate executives was in the highest tax bracket, which is taxed at a rate of 38.6%. Thus, the amount of dividends was multiplied by 0.386 to determine the estimated tax savings from a dividend tax cut.

One uncertainty that could cause the estimates in this report to overstate the tax savings to executives is the uncertainty surrounding what types of dividends would be exempt from taxes under the President's proposal. This analysis assumes that all dividends paid by Fortune 100 companies after the passage of the President's proposal would qualify for tax-free status. Although the White House has stated that the plan will benefit "[e]veryone who invests in the stock market and receives dividend income,"[7] the plan would appear to apply only to dividends from corporations that have paid corporate taxes on profits. Consequently, it is possible that some stock dividends will remain taxable under the President's plan.[8]

6 *The 2002 Fortune 500 — America's Largest Corporations*, Fortune (Apr. 15, 2002).

7 White House, *President Bush Taking Action to Strengthen America's Economy* (Jan. 7, 2003) (online at http://www.whitehouse.gov/news/releases/2003/01/20030107.html).

8 Additional changes are being proposed that would increase the possibility that wealthy individuals will be able to receive tax-exempt dividends. After the initial tax plan was announced in January, the Bush Administration announced that a number of companies

On balance, however, it is likely that the estimates in this report will understate the actual tax savings that would be realized by the executives. This analysis examines only the amount of stock that the corporate executives own directly in their own companies and does not include indirect holdings of company stock by trusts or family partnerships. This analysis also does not include the executives' stock holdings in other companies.

Moreover, the tax benefits that would be realized by the executives under the proposal are not limited to avoiding taxes on the dividends they receive. The Bush tax proposal would also provide a "deemed dividend" to companies that elect to retain all or part of their after-tax earnings, instead of paying them in the form of a cash dividend.[9] This deemed dividend would allow the executives to increase the cost basis of their stock, thus reducing any capital gain when the stock is sold. According to analysts, this capital gains benefit may be worth as much as the elimination of taxes on dividends.[10] But it is also not included in this analysis.

FINDINGS

Aggregate Tax Savings

In 2002, the Fortune 100 companies paid $309.4 million in dividends to their top three shareholders who were also executives or directors. If these companies paid the same amount in dividends in 2003 and the dividends were tax-free, the one-year tax savings to these executives would be an estimated $119.4 million. Assuming that dividends grow at an average of 2.3% annually, the estimated 10-year tax savings would be over $1.3 billion on payments of over $3.4 billion.[11]

---

whose dividends would have been taxable under the President's original proposal would be allowed to distribute tax-exempt dividends. These changes would allow tax-exempt dividends to be paid by companies that pay the corporate alternative minimum tax and cyclical companies that make money in some years and lose money in other years. *Corporate Gain, Treasury's Loss in Bush Plan*, New York Times (Mar. 3, 2003).

9 *Wag the Dow*, Money (Mar. 2003).

10 Center on Budget and Policy Priorities, *Bush "Growth Plan" Would Worsen State Budget Crises* (Jan. 30, 2003).

11 Federal Reserve Bank of Cleveland, *Why is the Dividend Yield So Low?* (Apr. 1, 2001).

Tax Savings at Specific Companies

Among the Fortune 100 companies, three top executives at Microsoft would stand to save the most through a dividend tax cut. Microsoft's three executives would save an estimated $44.7 million in taxes each year, based on 2002 dividend levels. Executives at both Citigroup and American International Group (AIG) would save an estimated $8 million annually.

The 20 companies whose executives would save the most through a dividend tax cut are shown in Figure 2.

Figure 2
The Twenty Fortune 100 Companies That Pay Three Top Executives the Most in Dividends (Based on Most Recent SEC Filings)

Company	Estimated Annual Dividends from Company Stock for Three Top Executives	Estimated Annual Dividend Tax Savings for Three Top Executives
Microsoft	$115.8 million	$44.7 million
Citigroup	$20.9 million	$8 million
AIG	$20.5 million	$8 million
Intel	$16.7 million	$6.5 million
El Paso	$13 million	$5 million
Coca-Cola	$9.9 million	$3.8 million
Morgan Stanley	$8.3 million	$3.2 million
Motorola	$8.3 million	$3.2 million
Wal-Mart	$7.6 million	$2.9 million
Archer Daniels Midland	$7.4 million	$2.4 million
Home Depot	$6.1 million	$2.4 million
Ford	$5.8 million	$2.2 million
Altria/Phillip Morris	$5.6 million	$2.2 million
Boeing	$4.8 million	$1.9 million
Bank of America	$3.9 million	$1.5 million
Goldman Sachs	$3.8 million	$1.5 million
Wells Fargo	$3.7 million	$1.4 million
J.P. Morgan Chase	$3.5 million	$1.4 million
DuPont	$3.1 million	$1.2 million

Tax Savings for Individual Executives

Among executives at Fortune 100 companies, there are 21 who would receive more than an estimated $1 million in tax savings annually from a dividend tax cut, based on 2002 dividend levels. The largest savings would be realized by Microsoft Chairman Bill Gates and President Steven Ballmer, who would save an estimated $37.4 million and $7.3 million, respectively. Other major beneficiaries include Sanford Weill of Citigroup, Gordon Moore of Intel, and Maurice Greenburg of AIG, all of whom would save more than an estimated $5 million annually.

The 21 executives who would save more than an estimated $1 million annually from a dividend tax cut are shown in Figure 3.

Figure 3
Corporate Executives Who Would Save over $1 Million Annually under the Proposal to Eliminate Taxes on Dividends (Based on Most Recent SEC Filings)

Name	Company	Estimated Annual Dividends from Company Stock	Estimated Annual Dividend Tax Savings
Bill Gates	Microsoft	$96.8 million	$37.4 million
Steven Ballmer	Microsoft	$18.8 million	$7.3 million
Sanford Weill	Citigroup	$18.2 million	$7 million
Gordon Moore	Intel	$14.3 million	$5.5 million
Maurice Greenburg	AIG	$13.1 million	$5 million
Selim Zilkha	El Paso	$10.7 million	$4.1 million
Herbert Allen	Coca-Cola	$7.6 million	$2.9 million
Robert Galvin	Motorola	$6.8 million	$2.6 million
John McDonnell	Boeing	$4.6 million	$1.8 million
Kenneth Langone	Home Depot	$4.3 million	$1.7 million
Edward Matthews	AIG	$3.8 million	$1.5 million
William C. Ford Sr.	Ford	$3.8 million	$1.5 million
Geoffrey Bible	Altria/Phillip Morris	$3.7 million	$1.4 million
Howard Ian Smith	AIG	$3.6 million	$1.4 million
John T. Walton	Wal-Mart	$3.6 million	$1.4 million
Dwayne Andreas	Archer Daniels Midland	$3.4 million	$1.3 million
Jim C. Walton	Wal-Mart	$3.1 million	$1.2 million
Philip Purcell	Morgan Stanley	$2.9 million	$1.1 million
John Vanier	Archer Daniels Midland	$2.8 million	$1.1 million
Robert Scott	Morgan Stanley	$2.7 million	$1 million
Rodger Scott	Morgan Stanley	$2.7 million	$1 million

Campaign Contributions from Fortune 100 Companies

The Fortune 100 executives run companies that are generous campaign contributors. During the 2002 election cycle, the companies, through their political action committees, gave almost $81 million to federal candidates and political parties. Of this amount, over $52 million went to Republican candidates and parties (64%) and over $28 million went to Democratic candidates and parties (36%).

CONCLUSION

The President's proposal to eliminate taxes on dividends would provide substantial tax savings to top executives at Fortune 100 companies. The tax savings for the three executives at each company who are the largest shareholders is estimated to be nearly $120 million per year, resulting in an estimated average tax savings of $400,000 per year for each of the executives. Over 20 of the executives are estimated to save over $1 million annually in taxes under the proposal.