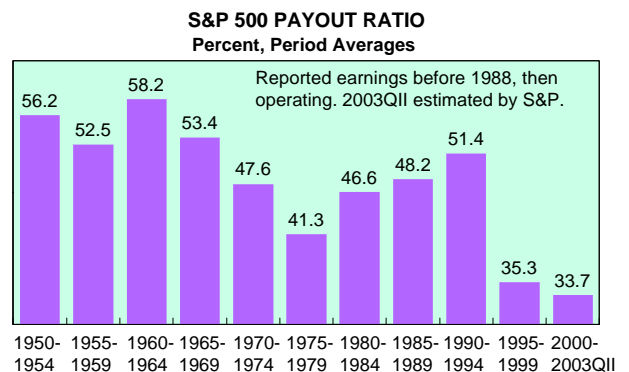


THE JOBS & GROWTH TAX RELIEF RECONCILIATION ACT AND THE INCREASE IN DIVIDENDS JULY 30, 2003

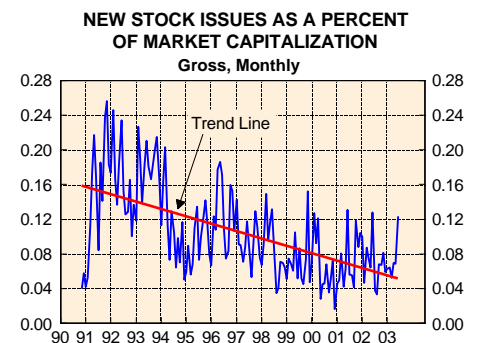
"This [the reduced tax rate on dividends] will encourage more companies to pay dividends, which, in itself, will not only be good for investors, but will be a corporate reform measure. It's hard to pay dividends unless you've actually got cash flow. The days when people could say, invest with me because the sky's the limit, will be changed by dividend policy." – President George W. Bush

It has long been recognized that the double taxation of corporate dividends introduces many deleterious distortions into the economy, including an inefficient bias against corporate finance by equities, and a disincentive to pay out dividends to shareholders. The Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) addresses these disincentives by greatly lowering the maximum tax rate on dividends and on capital gains to 15 percent in 2003-2008, and for taxpayers in the 10 percent and 15 percent ordinary brackets, the rate falls to 5 percent in 2003-2007 and to zero in 2008. By encouraging equity financing, it will reduce the risk of corporate bankruptcies. By encouraging higher dividends, it will help reduce faulty accounting that led firms to overstate earnings. The effects of JGTRRA are already being seen, especially in the numbers of companies that have increased their payouts of dividends.

- ▶ The first chart plots five-year averages of the payout ratio (dividends as a percent of earnings) for the S&P 500 companies, and vividly illustrates the steep drop off in the payout ratio since the mid-1990s—a source of concern by many about the declining role of dividends.



- ▶ The second chart depicts the gross new issuance of stock as a percent of total market capitalization, and includes a trend line showing that this ratio has been falling for the last decade. Although the data in the chart stop only a month after the President signed JGTRRA into law, a sharp increase in stock issuance can already be seen.



- ▶ But perhaps the clearest evidence of the effects of JGTRRA is the large number of companies that have initiated dividend increases since May 28. The following tables provide information on these increases.

Ex-Dividend.com has reported 719 dividend increase announcements so far this year, compared with 550 announcements at this point last year. In particular, the number of announcements from June 1 through July 25, 2003 was 74 percent greater than during the same period last year. Companies increasing dividends include such well-known names as Target, Procter & Gamble, Walgreen, and Bank of America. More than 60 percent of the companies have hiked dividends by more than 10 percent.

- ▶ 210 companies have announced a dividend increase since President Bush signed JGTRRA into law on May 28, 2003.

- ▶ Moreover, JGTRRA's influence can also be seen in the 134 companies that were not previously paying dividends, but have announced dividends this year. These companies include Microsoft, Viacom, Petsmart, and IHOP.

- ▶ According to Bloomberg (July 27): “Shareholders will pocket \$9.2 billion more from Standard & Poor’s 500 Index companies in the next year, thanks largely to President George W. Bush’s dividend-tax cut. Since Bush signed the tax reduction into law in May, 54 members of the S&P 500 have either raised quarterly dividends or started making a payout. The average increase has been 28 percent.”

“It [the new tax law] dramatically reduces the tax on dividends and investment. This will have a profoundly positive effect on job creation, corporate accountability, and the well being of all Americans.” – Treasury Secretary John Snow

Dividend Announcements Year-To-Date: 2002 vs. 2003

	2002	2003	% Change
In early January, President Bush proposed to eliminate the double tax on dividends.			
January	114	136	+19.2%
February	97	110	+13.4%
March	64	81	+26.5%
April	95	107	+12.6%
May	61	77	+26.2%
On May 28, the President signed the reduced tax on dividends into law.			
June	52	73	+40.3%
Through July 25	67	135	+101.4%
TOTAL	550	719	+30.7%

Source: Based on data provided by Ex-Dividend.com

Magnitude of Increase

% Change in Dividend	Less than 5%	5% to 10%<	10% to 25%<	25% to 100%<	100% or more
Number of companies (210 total)	38	41	72	48	11

As of July 25, 2003:

210 companies have announced an increase in their dividend since the President signed the new tax law

including . . .

Target Corp.	Bellsouth Corporation	Bowl America
Pier 1 Imports	Procter & Gamble	Walgreen Co.
Citigroup Inc.	Bank of America	United Mobile Homes Inc.