



Dividend Changes In Response To JGTRRA

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Introduction

- President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) May 28, 2003
- Legislation slashed the double tax on dividends by as much as 62 percent.
- Companies have responded by initiating first time dividend payments, increasing their dividends, and providing special dividends for shareholders.

Dividend Issuance

- For a number of reasons the use of dividends by companies had been declining.
- The rapid growth of tech stocks which used their cash for acquisitions, the outperforming growth stocks of the 1990's, and the double tax on dividends all played a part in firms declining use of dividends
- As such, the number of firms paying dividends dropped from 66 percent in 1978 to 21 percent in 1999.
- On the S&P 500, the number of firms paying dividends declined from 469 in 1980 to 351 in 2002

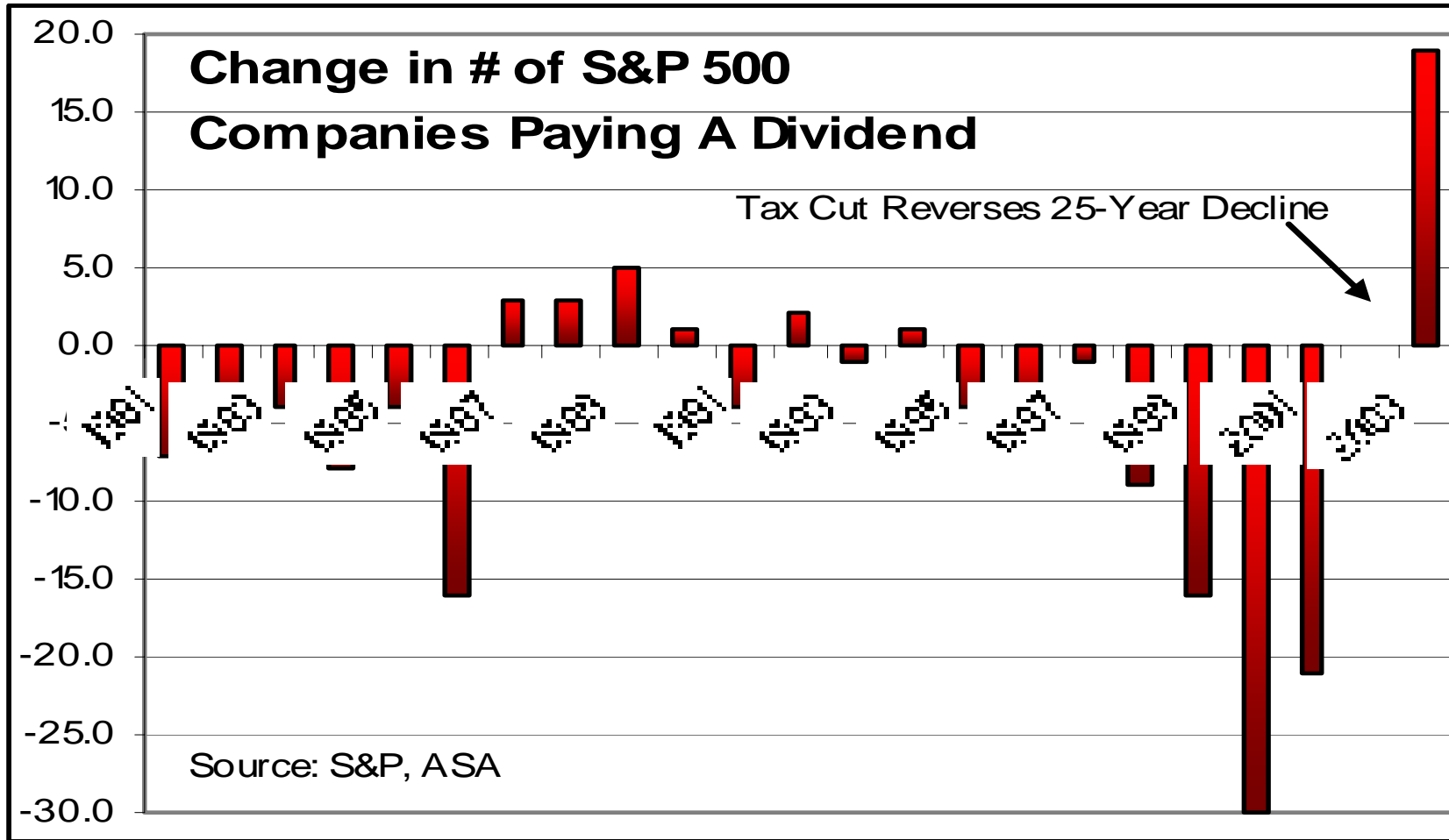
Dividend Issuance

- The double tax on dividends made growth stocks more attractive than dividend stocks.
- With a higher tax rate on dividends relative to capital gains many investors purchased growth stocks to generate a higher rate of after tax return.
- Tax policy was affecting the returns and investment decisions prior to the tax cut.
- JGTRRA changed this by equalizing capital gains with dividends and thus investment decisions are now based on risk and returns and not tax policy.

Dividend Issuance

- 2003 experienced the first increase in S&P 500 dividend issuance since 1994 with 20 initiations.
- The last year an increase occurred was 1994 and that was a net increase of one company.
- The largest one year increase in that time was 5 in 1989.
- Yet, four times as many companies initiated a dividend in 2003.

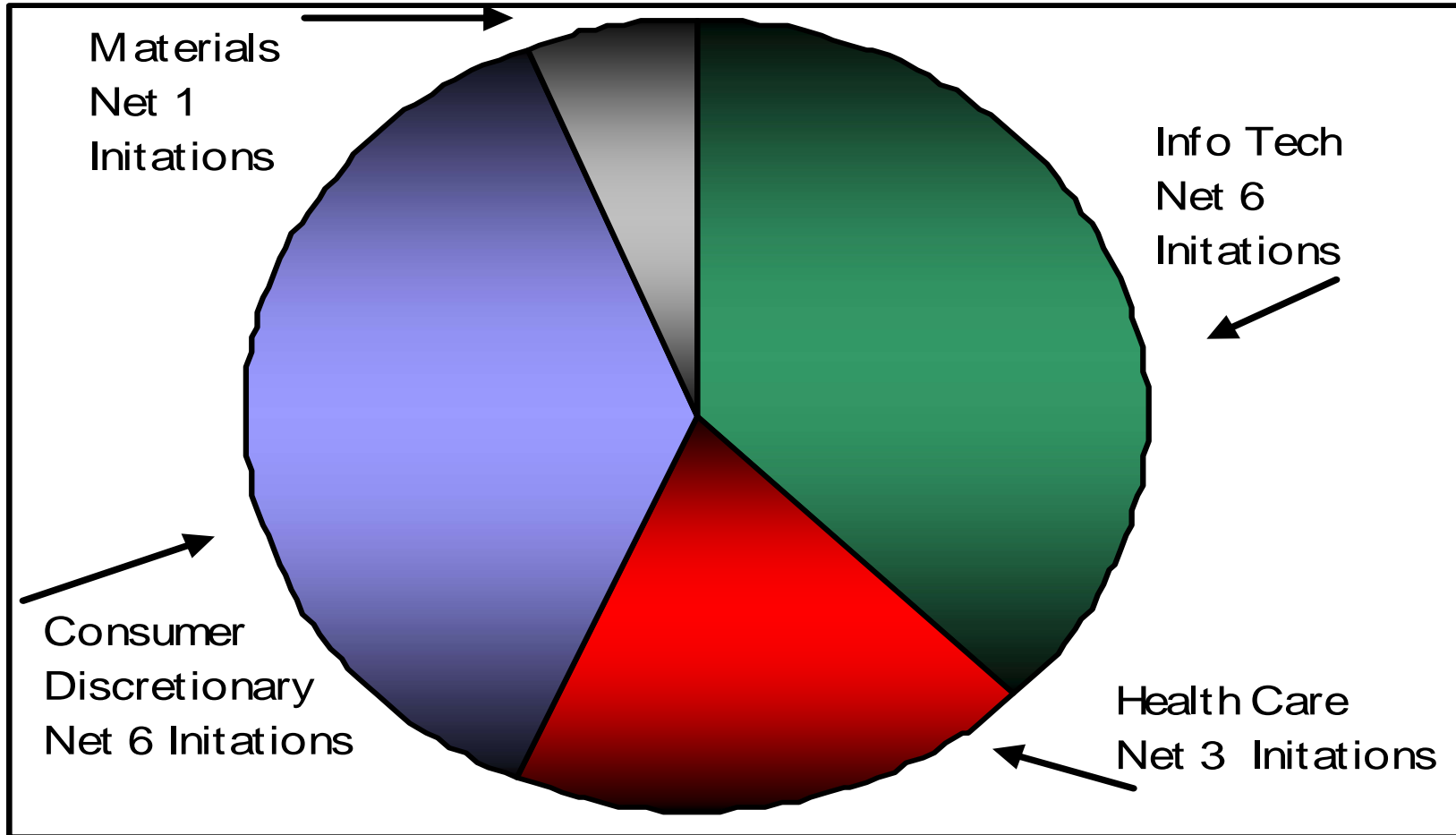
Tax Cut Reverses 25 Year Decline



Tech Companies Initiate Dividends

- 6 information technology companies listed on the S&P 500 initiated dividends in 2003
- This is significant because tech companies have historically not offered a dividend and hoarded cash that was reinvested back into the company, which places investors at risk.
- Without dividends, investors must value stocks based on a corporation's earnings statement, which can be manipulated, as demonstrated by the recent corporate accounting scandals.
- But, as dividends can only be paid out of earnings that actually exist, the Bush tax cut not only has improved economic growth, the tax cut is promoting honest accounting practices and renewing confidence among investors.

Tech Companies Initiate Dividends



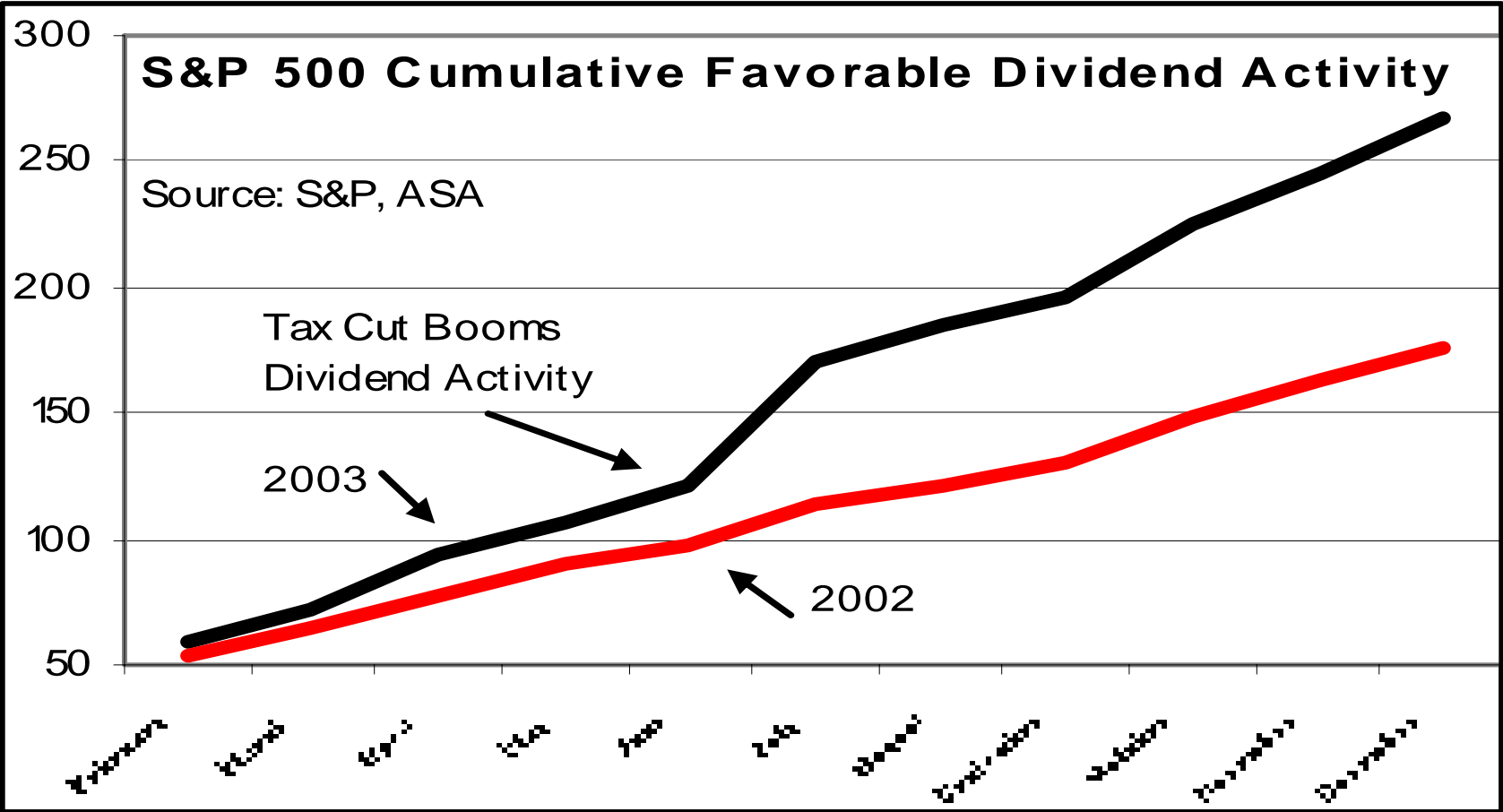
Favorable Dividend Activity

- Favorable dividend activity, the combination of initiations and increases, soared in 2003 and more specifically in following the tax cut.
- Favorable dividend activity increased by 52.3 percent in 03 compared to 02 and favorable activity outpaced 2002 in every month except for May when both years experienced an increase of 13.
- **Even more impressive, since the tax cut was put into place between June and December favorable dividend activity increased 88 percent.**

Favorable Dividend Activity

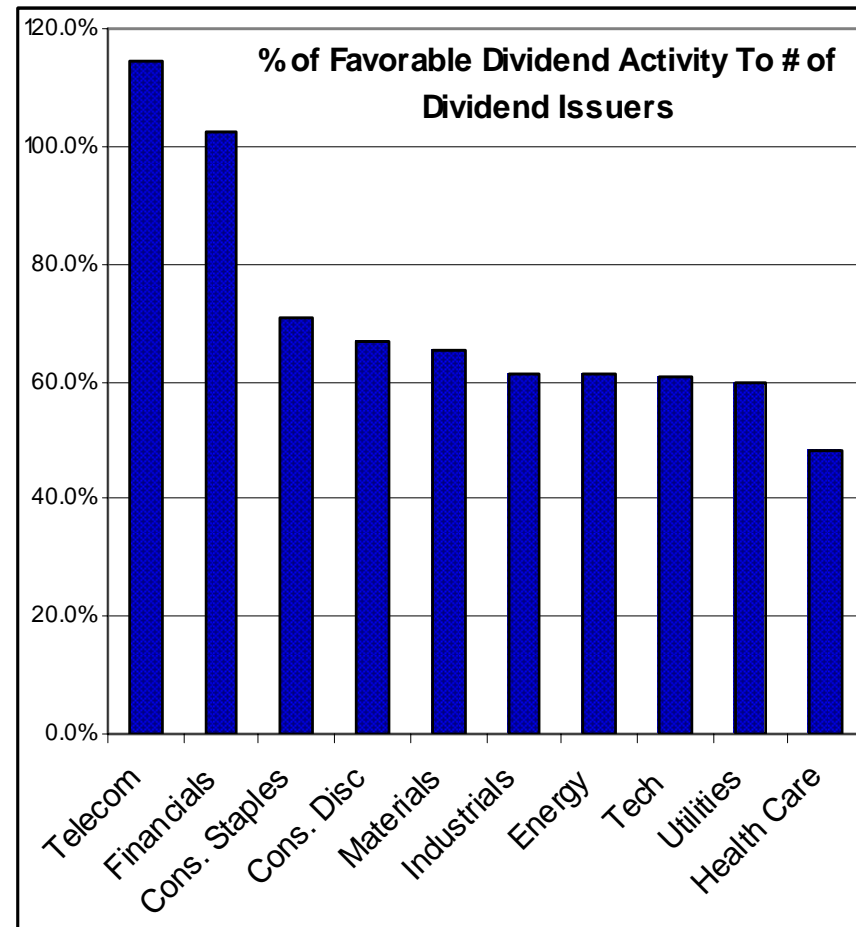
- Among non-S&P 500 companies favorable dividend activity increased 34.4% compared to 2002.
- In 2003, 62 percent of all S&P 500 companies that offer dividends, increased or initiated shareholder payments, while just 50 percent did in 2002.
- 39 companies increased their dividends more than once in 03

Favorable Dividend Activity Up 52.3 Percent in 2003

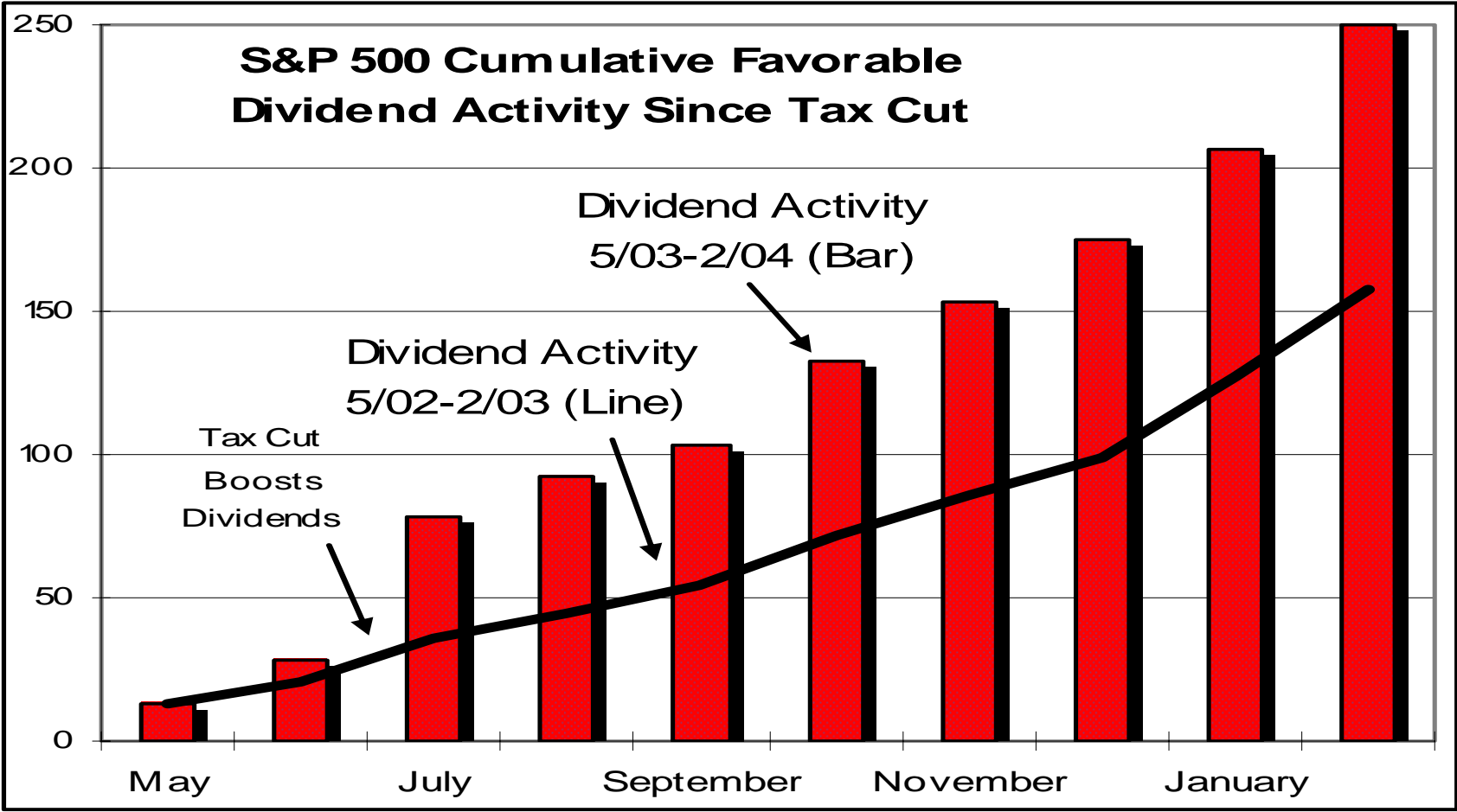


Every Sector Joined The Party

- In 2003, every sector of the S&P 500 had at least 50 percent of dividend issuers increase their dividends.



58% Increase in Favorable Dividend Activity Since JGTRRA



Dividend Increases

- 1,630 companies increased their dividends in 2003, a 14.4 percent increase over 2002 and 20 percent above 2001.
- The month of July had 179 total dividend increases, the most since 1979.
- **The number of S&P 500 companies increasing their dividends was 43 percent higher compared to last year.**

Dividend Increases

- For the year, 33 companies in the S&P 500 increased their dividend twice, five companies increased their dividend three times, and one company increased their dividend in all four quarters of 2003.
- 14 companies in the S&P 500 at least doubled their dividend payment in 2003, the median increase was 11 percent and the average increase was 26 percent

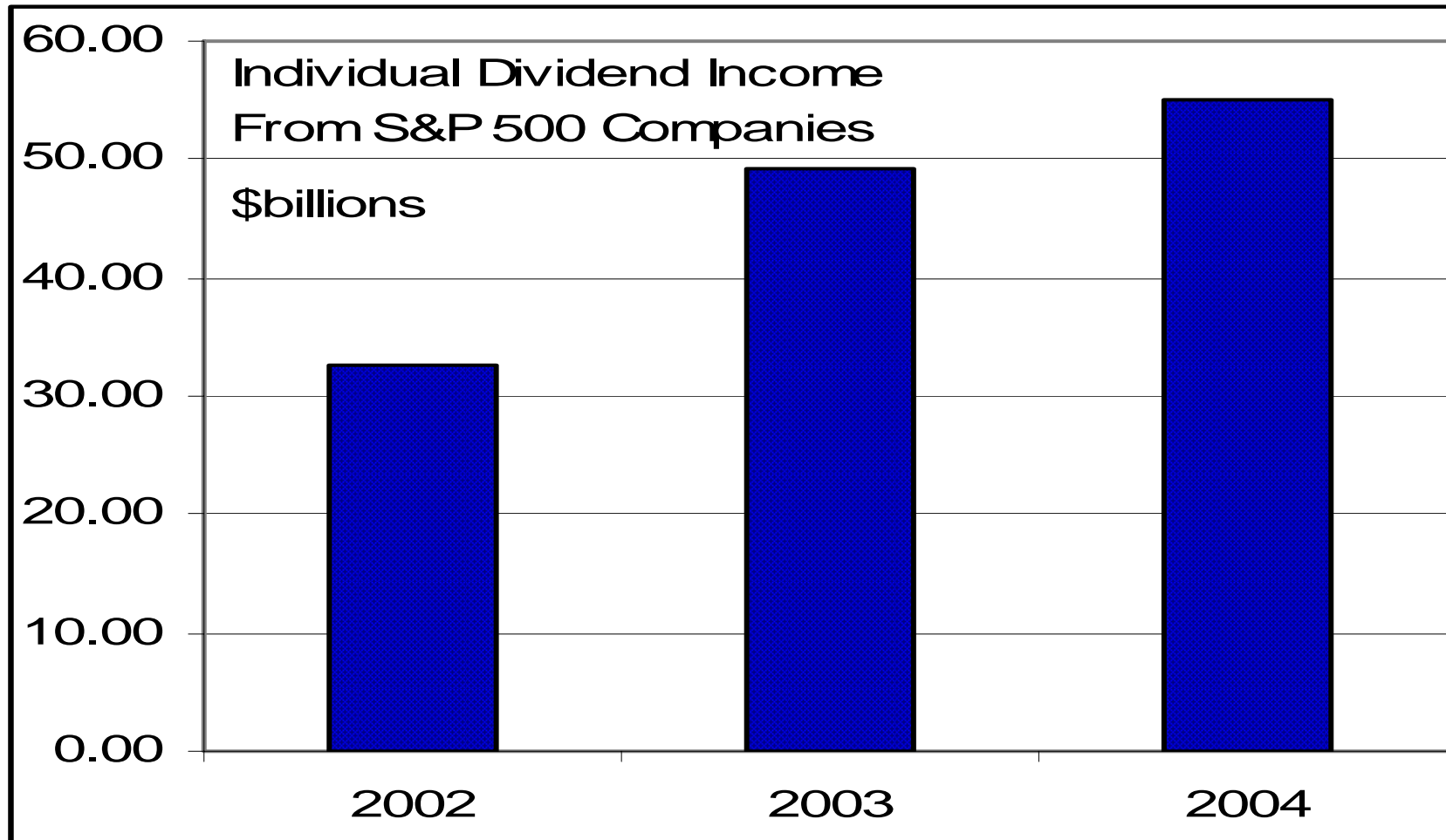
Dividend Income Is Booming

- Increasing dividend payments and record growth of dividend initiations translates into significant more cash for shareholders.
- According to S&P, *net individual* dividend income increased by 50 percent in 2003 from \$32.7 billion to \$49.1 billion.
- S&P estimates the growth of the indicated dividend rate to jump from \$16.08 in 2002 to \$17.9 in 2003 to \$18.5 in 2004.
- This will translate into \$55 billion net of taxes for shareholders in 2004.

Dividend Income Is Booming

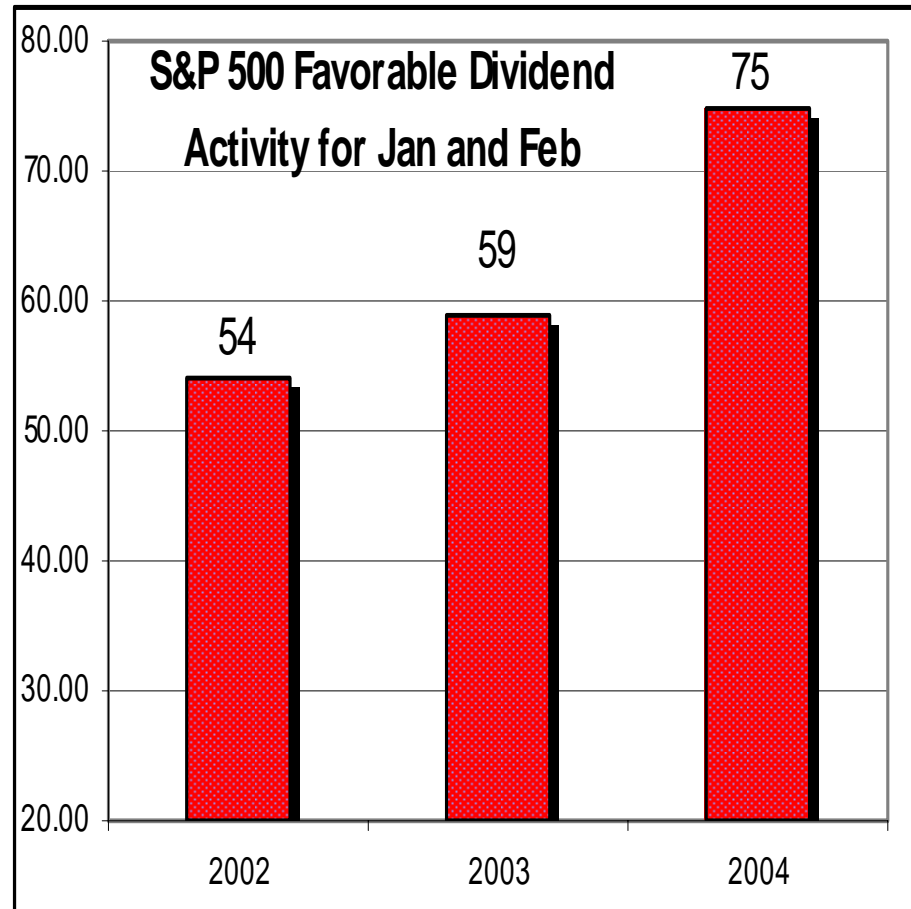
- A recent Lehman Brothers report forecasts S&P 500 firms dividend payments to increase from \$147 billion in 2002 to \$160 billion in 2003 to \$184 billion in 2004.
- Roughly \$14 billion of cash will be returned to shareholders this April as a direct result of the lower tax on dividends.
- This is roughly the equivalent amount of cash returned in rebates last summer for the child credit advance payment.

50% Increase of Individual Dividend Income in 2003



2004 Picks Up Where 2003 Left Off

- January and February historically are the two largest months for dividend increases/initiations.
- To date, favorable dividend activity is up 27 percent over 2003 and 39 percent over 2002.

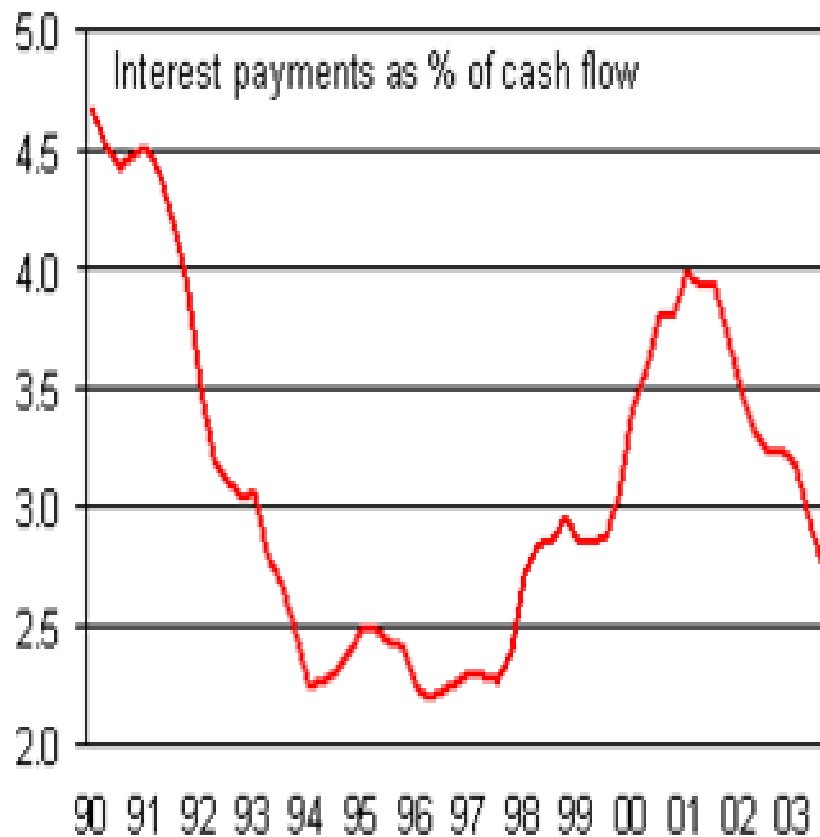


Dividends Going Forward

- ASA is expecting more dividend issuance and increases going forward.
- Corporate balance sheets have never been healthier and they are flush with cash.
- S&P is forecasting 5 percent growth in sales earnings and 13 percent increase in operating earnings.
- This provides substantial room for more cash to be returned to shareholders.

More Dividends Coming in 2004

Corporate Debt Service Burden Is Falling



Businesses Are Flush



Source: Federal Reserve Board