



**American Shareholders Association**

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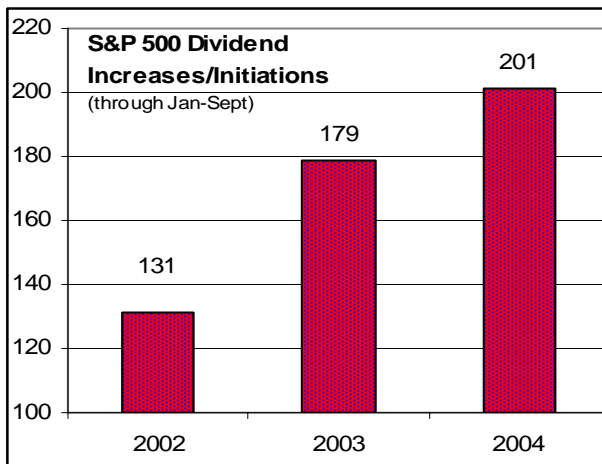
## Jobs and Growth Tax Relief Reconciliation Act

### ASA Dividend Scorecard – October 4, 2004

#### Heightened Dividend Activity Continued in September

On May 28, 2003 President Bush signed into law the most pro-growth tax cut since Ronald Reagan's historic tax cut in 1981. The centerpiece of the tax cut was the significant reduction on the double taxation of dividend income and then equalizing the capital gains tax rate with the dividend tax rate. In the tax cut's first full year, S&P 500 favorable dividend activity increased by 55.2 percent over the previous 12 month period and the 25 year decline of dividend payers was reversed. A number of news articles recently suggested dividend activity is slowing. Based on data through September 30, 2004 it appears this is not the case. Dividend activity remains elevated above 2003 levels, the number of companies initiating dividends will increase for the second year in a row and personal dividend income is accelerating. Without question, the dividend tax cut provisions should be made permanent.

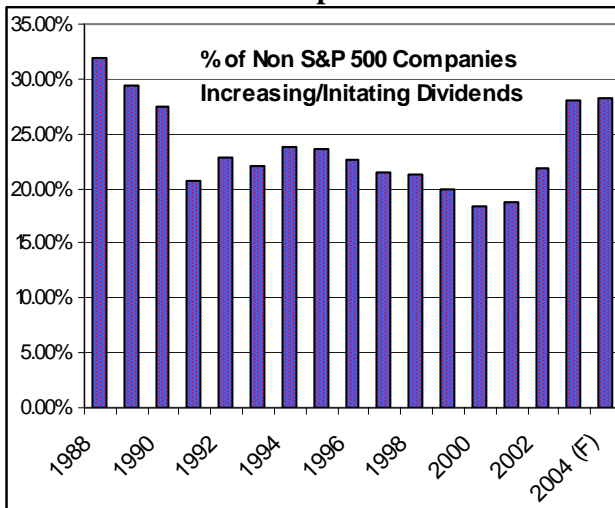
#### Dividend Growth Continues in 2004



#### Favorable Dividend Activity Continues in September

The accelerating pace of favorable dividend activity continued in September with 16 favorable dividend actions (increases and initiations) on the S&P 500 compared to just 11 in the same month last year. This was the first month since June in which 2004 monthly activity was elevated above 2003 levels. In the wake of the tax cut last year, firms in June, July, and August immediately responded by raising and/or initiating their dividends to readjust their corporate financing decisions. As such, year over year comparisons of these months were artificially deflated. Even so, year to date growth is still very strong with favorable dividend activity 17 percent higher than a year ago and 53 percent higher compared to 2002. Among the roughly 7,000 non S&P 500 firms, 2004 favorable dividend activity is 5.3 percent higher than in 2003 and 36 percent higher compared to 2002.

#### Tax Bias Elimination Spurs Dividend Growth



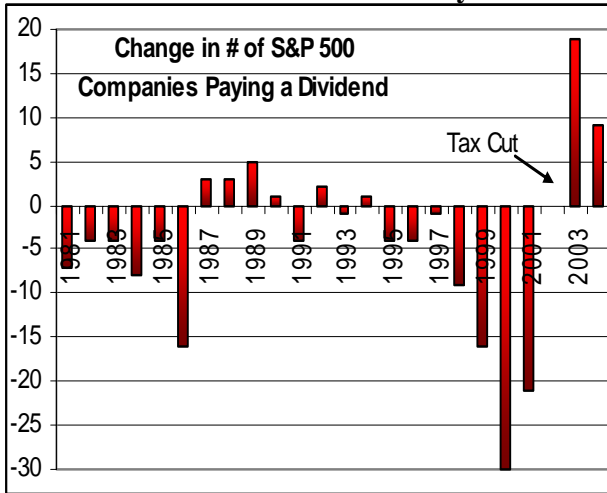
#### Total Dividend Activity Back to 1990 Levels

The most important tax change in the tax cut was the elimination of the tax bias between capital gains and dividend tax rates. Prior to the tax cut, capital gains were taxed at 20 percent while dividend income was taxed at as high as 39.6 percent. Companies in turn disproportionately favored generating capital gains through stock repurchases rather than dividends due to tax considerations. The equalizing of the capital gains tax rate with the dividend tax rate readjusted corporate payout policies based on the economic value of a decision, not the tax consequences as had been previously the case. As a result of the equalization, dividend activity among the approximately 7,000 non S&P 500 companies has returned to levels not seen since 1990, the last time the capital gains and dividend rates were identical (see chart). 106 companies increased their dividend in September which brings the 2004 total to 1,286, up 6.6 percent over 2003 and 22.9 percent over 2002.

American Shareholders Association is a non-partisan, not-for-profit organization dedicated to analyzing legislation affecting shareholders.

To educate U.S. investors, ASA reports the public positions of elected representatives on these issues to its members. For more information please contact Daniel Clifton at (202) 549-7803 or by email at [dclifton@americanshareholders.com](mailto:dclifton@americanshareholders.com)

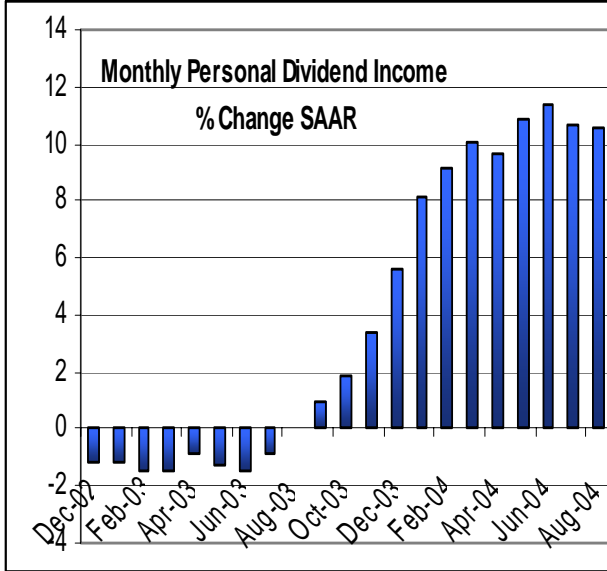
**Dividends Are Back In Style**



**More Companies Actually Paying Dividends**

The most positive development from the dividend tax cut is the reversal in the 25 year decline of companies paying a dividend. As the chart on the left shows, the number of S&P 500 companies paying a dividend significantly declined, from 469 in 1980 to 351 in 2002. However, the tax cut coupled with strong cash flow reversed this trend as 19 more firms paid dividends in 2003. Placing this number in context, 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. The 21 total initiations are the most in 24 years. In the first nine months of 2004, a net 9 companies on the S&P have initiated a dividend for shareholders. If this trend holds up it will be the first time in 15 years, the number of companies paying a dividend on the S&P 500 has increased two consecutive years.

**Cash Is Being Returned To Shareholders**



**Dividend Income is Soaring in 2004**

Increasing dividend payments and record growth of dividend initiations translates into significant more cash for shareholders. Annualized personal dividend income has been steadily increasing above 2003 levels and since March has been increasing at a double digit rate. Year over year growth is now at 7.6 percent, the highest growth rate in twenty months (and the increases in 2002 were artificially inflated from the significant reduction of dividend payments following the bubble burst). ASA also sees higher dividend income for individuals. S&P estimated earlier this year S&P 500 individual shareholders would receive \$6.4 billion more in dividend payments in 2004 compared to 2003. However, Microsoft's \$32 billion special dividend alone will generate \$9 billion for individual shareholders. With strong favorable dividend activity, ASA is expecting an additional \$8.6 billion to be returned to individual shareholders this year *in addition to* the \$9 billion for individual Microsoft shareholders as an added bonus.

**Top Dividend Mutual Funds**

**2004 Year to Date Top Performers (Through September 13, 2004)**

| Fund                            | Return |
|---------------------------------|--------|
| Alpine Dynamic Dividend         | 10.4%  |
| Schwab Dividend Equity Investor | 8.3%   |
| Crawford Dividend Growth        | 7.6%   |
| Electric City Dividend Growth   | 7.0%   |
| TCW Galileo Dividend Focused    | 6.9%   |
| S&P 500                         | 1.6%   |

Source: Morningstar, Inc., Ann Perry, Dividend Funds Enjoy the Best Of Times, thestreet.com

**Dividend Tax Cut Spurs Growth in Dividend Funds**

Clearly, the onerous double tax placed on dividends coupled with tax bias between capital gains and dividends had an effect companies returning cash back to shareholders. Since the tax cut significantly removed these biases, markets have responded as evidenced above. Additionally, a number of new mutual funds have been created in response to the dividend tax cut. According to Ann Perry of thestreet.com, 15 out of the 38 dividend based mutual funds listed by Morningstar were created after President Bush signed the tax cut into law. The top three dividends based mutual fund returns this year were created after the tax changes were put into place (see chart). Moreover, S&P 500 dividend companies have returned 7.5 percent since January while non dividend S&P 500 companies have lost -4.8 percent. The goal of the tax cut was not to make dividend paying stocks outperform non dividend stocks, but this year demonstrates investors now have greater choices and opportunities in different economic conditions.