INVESTING WISDOM

Investors and Experts Propose Extending The Tax Cut on Dividends

(NAPSA)—"Investors love dividends," and that, experts say, is one reason many Americans are showing deep support for a permanent dividend tax cut.

According to results of a spot survey sponsored by Eaton Vance Corporation in March, seven in ten (70 percent) Americans polled agree that the current tax cut established by the 2003 Tax Act should remain.

These sentiments closely resemble those of the individual investors polled in Eaton Vance's 7th annual investor study. A panel of experts at a recent luncheon hosted by the company concurred.

The event—Divining Dividends: The Past, Present, and Future of Corporate Cash Payouts and Implications for Investors—featured a panel of corporate finance, economic, tax, and capital market experts. Discussion focused on dividend trends and potential implications for the stock market and U.S. economy.

Panelist Alice Rivlin, former vice chair of the Federal Reserve, said she was not surprised by the favorable response from polled investors who want the lower tax rate on dividends to continue. "We need to broaden the tax base so that all tax rates can be lower and ensure that return on capital is taxed only once and not at rates that discourage investment," stated Ms. Rivlin.

With the current tax cut reducing the maximum tax rate on qualified dividends from 35 percent to 15 percent, panelist, and senior research analyst at Lipper, Inc., Tom Roseen described how the tax cut has helped many mutual fund investors in recent years. "In 2004, funds in Lipper's U.S. Diversified Equity (USDE) funds macro-classification distributed \$12.9 billion more in dividend income than in 2002, but investors paid almost the same amount in taxes as they did in 2002," declared Mr. Roseen.

Howard Silverblatt, senior index strategist at Standard & Poor's, added to the panel discussion, noting, "The bottom line is investors love dividends. Quarterly dividends supply not just income to live on, but can also provide a convenient mechanism for dollar-cost averaging through dividend reinvestment programs."

It is still unclear when Congress may make a decision regarding the tax cut extension; however, panelists shared their own predictions with the audience. "We won't see a permanent solution this year, but political trade-offs are likely to lead to at least a one-year extension through 2009," observed Mark Weinberger, former U.S. Assistant Secretary of Treasury for Tax Policy and current vice chair of Ernst & Young.

Yet, despite the uncertainty that surrounds the potential tax cut extension, moderator and executive vice president and chief equity investment officer for Eaton Vance, Duncan Richardson, added, "In many cases, the 'right thing' will be to return more cash to shareholders, through dividends, causing payout ratios to rise over the next decade. We see the coming period as a golden era of equity income investing."

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