

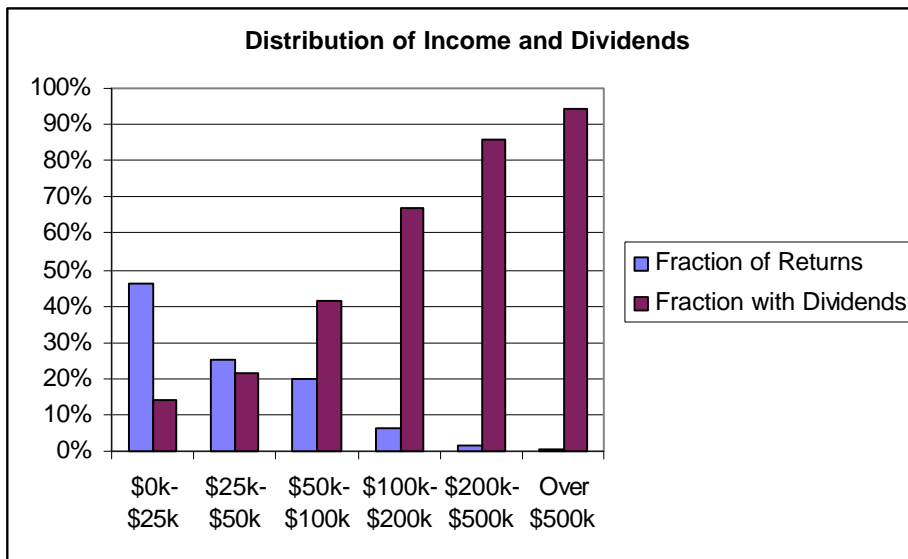
Tax Cuts Only for the Few

Although many Americans may own some stock, only a minority receive any income from dividends. Thus few Americans will benefit from dividend tax cuts.

Let's explore what this means. According to the Internal Revenue Service, for the year 2000 there were 128 million returns filed. Only 34 million of those returns, that's 26 %, reported any dividend income whatsoever.

The dividend income was not spread uniformly among income groups. For those with incomes of less than \$25,000 (representing 46% of the returns), only 14% had any dividend income. The average dividend income for that subgroup was \$1,378, and average effect of eliminating taxation on these dividends would be \$138. This means that 14% of lower-income taxpayers would receive tax savings of a little more than one-hundred dollars, and the other 86% would receive nothing.

Graph 1: Distribution of Adjusted Gross Income and Dividends by Income Group



This graph shows the fraction of tax returns and the portion of those with dividends by income category. For example, 46% of the returns filed had income below \$25,000. In that income group only 14% reported any dividend income. Only 1% of those filing had incomes over \$500,000 and 94% of that group had dividend income.

As overall income goes up the amount of dividend income, and thus tax benefits, goes up too. But even for those in the \$50,000 to \$100,000 range fewer than half (41%) have any dividend income, so even for that group 59% would receive no benefit. Further specifics are shown in Table 1 where you can see that dividend income is very unevenly distributed among households in the U.S.

How would this affect you personally? As an exercise, take a look at your most recent tax return and find the amount of your dividend income. Multiply that by your marginal tax rate (see Table 1) to see how much you stand to benefit.

Thus since dividend income is very unevenly distributed among households in the US, the effects of dividend tax cuts benefit only the few and mostly the already wealthy.

Notes & References:

Table 1: Dividend Income by Income Category for year 2000 Tax Returns

Adjusted Gross Income Category	Number of Returns Filed (in 2000)	Percent of Returns with Dividends	Avg Dividend per Recipient	Estimated Marginal Tax Rate	Dividend Exemption Benefit
\$1 to \$25,000	59,371,000	14%	\$1,378	10%	\$138
\$25,000 to \$50,000	32,328,000	22%	\$2,044	15%	\$307
\$50,000 to \$100,000	25,673,000	41%	\$2,550	20%	\$510
\$100,000 to \$200,000	8,083,000	67%	\$4,948	27%	\$1,336
\$200,000 to \$500,000	2,136,000	86%	\$12,619	38%	\$4,795
\$500,000 and over	637,000	94%	\$71,045	38%	\$26,997
Total Returns	128,228,000				

Some of the data used in this paper was extracted from:

“Read My Lips: More New Tax Cuts – The Distributional Impacts of Repealing Dividend Taxation” by Brian Roach, February 2003

http://www.ase.tufts.edu/gdae/publications/working_papers/03-01DividendTaxes.PDF

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