DIVIDEND TAX TREATMENT
JUNE 2006

The president signed into law a $70 billion tax cut bill May 17 that extends until 2010 the tax treatment of 15% for stock dividends and long-term capital gains through the year 2010. the bill also extends, for this year the changes to the alternative minimum tax that will keep 15 million taxpayers from being hit by the tax. Also included in the bill is the ability for tax payers with adjusted gross incomes of $100,000 or more the ability to convert their traditional IRA to Roth IRA's starting in 2010.

As far as dividends are concerned, current individuals in the lowest two federal tax brackets will only pay 5% on dividends. This rate covers single filers with taxable income up to $30,650 and $61,300 for married couples filing jointly for 2006. These same individuals will owe no tax on stock dividends and long-term capital gains received from 2008 through 2010.

We are huge fans of dividend paying securities. Dividend paying stocks have a proven total return (price gain plus dividends) history of outperforming non-dividend stocks with a much lower beta (volatility).

Taking the historic total return into account and couple it with favorable tax-treatment investors should expect higher rates of return with a lower tax rate. Dividends that will qualify for the 15% tax rate are both American and foreign corporations

The only exclusions are REIT's that do not pay tax, master limited partnerships and royalty trusts. Foreign corporations must be listed on an American exchange or the country must have a tax agreement with the United States. Preferred stocks in many cases do not qualify for the 15% rate.