



A Lot Is Riding On Lower Tax On Investment

Investor's Business Daily

March 17, 2006

By Bill Archer

Passed in 2003, the dividend tax rate reduction expires at the end of 2008. Unless Congress moves to extend it, we may all miss out on a benefit that puts more money in our bank accounts, allows companies to grow and creates jobs.

First, the lower rate has been good for investors. The Treasury Department estimates that 24 million investors saved an average of \$947 on their taxes last year. And for the 7 million seniors who own dividend-paying stocks, the average savings exceeded \$1,200.

Keep in mind that the typical electric utility shareholder is over the age of 65, has been a shareholder for more than 10 years, and relies on dividend payments to supplement income. Extending the 15% rate means these shareholders would be able to keep more of their earnings in their pockets.

Also, studies show that stock ownership is rising quickly across all income brackets, and especially among low-income households. According to the American Shareholders Association, there was a 91% increase in the number of "lower 20% households" owning stock between 1995 and 2001.

Many of these new investors joined the market as "indirect shareholders," meaning they participate through IRAs or 401(k) plans. However, just as those who own stock directly, these indirect owners benefit from higher equity prices, increased dividend flow and the improved corporate governance that results from the lower rates.

What if you don't own stock at all? The lower rates help you as well. Since the 2003 law was passed lowering taxes on dividends, the economy has grown at a swift clip and created more than 4 million jobs in a broad range of employment sectors in the process.

That brings us to another important point: Companies rely on people like you to attract the capital needed to grow.

Take the electric utility industry. Over the next few years, electric power companies across the nation will infuse massive amounts of cash into critical infrastructure projects to meet this country's growing demand for energy. This includes building the power plants and transmission infrastructure needed to ensure that Americans continue to enjoy access to reliable, affordable electricity, as well as installing new, updated pollution controls to comply with current and future environmental regulations.

The reduced tax rate is crucial to the industry's ability to attract the necessary capital to finance these critical projects. The investment community prefers that companies sell rather than borrow to raise funds, and a lower tax rate encourages corporations to do just that.

Should the reduced tax rate on dividends be allowed to expire, tax policy would again favor debt over equity in order to raise capital, an outcome that could make Wall Street leery of providing financing for major new projects.

Moreover, the lower tax rates on dividends and capital gains have effectively reduced the cost of capital for businesses to invest in new equipment, facilities and products by as much as 15.5%, according to Treasury Department estimates.

Of equal if not more importance, customers and employees also benefit from the measure. Data show that the lower tax rate prompts investors to buy utility stocks, which translates to an increase in funds needed by the utilities themselves to bolster training programs, infrastructure upgrades - in short, service. That's a bottom-line benefit for everyone.

With so much riding on the (bottom) line, it's difficult to imagine not extending or making permanent the lower dividend tax rate. It makes sense for America.

Archer represented the Houston area in Congress from 1971 to 2001 and was chairman of the tax-writing House Ways and Means Committee from 1995 to 2001. He is now senior policy adviser at PricewaterhouseCoopers LLP.