Four facts about dividend payouts and the 2003 tax cut

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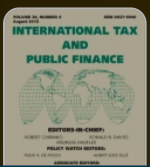

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Notes

1. Chetty and Saez (2005, p. 793), write, “Aggregating the changes in amounts along the extensive and intensive margins, we estimate that the tax cut raised total regular dividend payments by about $5 billion per quarter (20 percent), a change that is statistically significant at the 1 percent level. This implies an elasticity of regular dividend payments with respect to the marginal tax rate

effect. REITs are limited to holding 20 % of their assets in taxable REIT subsidiaries. Data from NAREIT indicate that qualified dividends paid by TRSs constitute a negligible portion of total REIT dividend payouts.

4. REITs can be identified in CRSP either by a Share Code that ends in 8 or by an SIC code equal to 6798. However, these two variables sometimes disagree on a firm's status in a given month. By comparing observations with disagreement to firm 10-Ks and other documents, I concluded that the Share Code variable correctly indicates REIT status, while the SIC code variable often contains errors. Thus, I identify REITs in this paper using the Share Code variable only.

5. I focus this section of the paper on regular (as opposed to special) dividend

8. To argue that the tax cut caused an increase in dividend payouts, one would need to argue that the payout ratio would have fallen further in absence of the tax cut. It is true that this ratio typically fell during periods of growth in corporate earnings in the 1980s and early 1990s. It was quite stable, however, during the expansion of the late 1990s. I judge that this more recent experience is the better one from which to form a counterfactual. Note also that the ratio spiked back up as earnings fell during the financial crisis and recession of 2008 and 2009, but these movements clearly have little to do with the 2003 tax cut.

9. Poterba (2004) calculates implications for the aggregate "dividend tax preference parameter," $(1-\tau_{div})/(1-\tau_{cg})$, where τ_{div} is the tax rate on dividends, and τ_{cg} is the effective tax rate on capital gains. Although JGTRRA also lowered the top rate on capital gains from 20 to 15 percent, the decrease

be driven by smaller firms. It should also be noted evidence from other countries has sometimes produced clearer signs of tax-induced substitution between dividends and repurchases. For example, in Jacob and Jacob (2010) it appears that Japanese firms raised dividends and cut repurchases after a 2004 tax reform.

Blouin and Krull (2009) and others have argued that some U.S. repurchases were driven by the American Jobs Creation Act of 2004, which allowed firms to repatriate cash from foreign subsidiaries at a lower tax rate than usual. There is no apparent reason, however, that these funds could not have been distributed to shareholders as dividends rather than repurchases, as, in fact, IRS guidance indicated that both dividends and repurchases were *dis*allowed as uses of repatriated funds.

15. Unfortunately, REITs must pay a dividend in every year that they are profitable, so there are very few REITs that initiate dividends by this definition. Thus, I cannot perform the same falsification exercises using REITs that I have performed for other measures of dividend behavior.

16. Figure II of Chetty and Saez (2005) presents data on firms *paying* a dividend for the first time in more than a year, while here I present data on firms *announcing* a dividend initiation. As many firms announce dividend payments in the quarter before they are paid, the series presented by Chetty and Saez (2005) displays a more pronounced increase in 2003Q3.

17. These data were downloaded from http://pages.stern.nyu.edu/~jwurgler/.

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