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Four facts about dividend payouts and the 2003 tax cut

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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 on dividend income of -0.5 . All of these results are robust to controlling for a variety of potential confounding factors such as levels and lags of profits, assets, cash holdings, industry, and firm age.” A survey of related papers is provided in Dharmapala ([2009](#)), and the discussion of this survey by Shackelford is also useful in that it provides some reasons to be skeptical of the cited papers. Some other related papers include Julio and Ikenberry ([2004](#)), Nam et al. ([2004](#)), Aboody and Kasznik ([2008](#)), and Hsieh and Wang

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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 payouts for comparability to the prior literature, particularly Chetty and Saez ([2005](#)). Special dividends normally have negligible effects on aggregate payout amounts. An important exception occurred in the second half of 2004, when Microsoft announced and payed a \$32 billion special dividend. I do include special dividends in the comparison to repurchases discussed in the next section.

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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,” $(1 - \tau_{\text{div}})/(1 - \tau_{\text{cg}})$, 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 in dividend tax rates was much larger, so the dividend tax preference parameter still rose.
10. Note that this line of reasoning rests on the assumption that dividends and repurchases are gross substitutes. A review of the large literature on firms’ choices between dividends and repurchases is beyond this paper’s scope, but

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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 *disallowed* as uses of repatriated funds.

11. The visible seasonality in REIT payouts arises due to a somewhat interesting phenomenon. Particularly around the 2000 to 2002 period, there were a handful of large REITs that essentially paid a regular quarterly dividend, but always paid out their fourth quarter dividend just before the end of the calendar year. In other quarters, they paid their dividends a few weeks after the end of the quarter. They thus appear as paying a double dividend in the fourth quarter and zero in the first quarter. This phenomenon is not strictly limited to REITs—the Coca-Cola Company has been paying dividends on a

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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/>.
18. It is interesting to note that the firm announcing the largest initiation by dollar amount in 2003Q3 was Harrah's Entertainment, whose CEO, Gary Loveman, holds a Ph.D. in economics and may be less prone to behavioral biases towards inertia than others. The biggest spike in the figure, however, is in 2003Q1, when Microsoft announced a \$900 million dividend. This payment was announced on January 16, 2003, nine days after President Bush

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Author information

Authors and Affiliations

Federal Reserve Board, 20th St. & C St. NW, Washington, DC, 20551, USA

Jesse Edgerton

Corresponding author

Correspondence to [Jesse Edgerton](#).

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