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# Dividend taxation and household dividend portfolio decisions: evidence from the U.S. Jobs and Growth Tax Relief Reconciliation Act of 2003

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dividends under JGTRRA. That is, households in the upper tax bracket hold significantly greater shares of qualified dividends relative to ordinary dividends after the tax act.

KEYWORDS:

- Jobs and Growth Tax Relief Reconciliation Act
- qualified dividends
- ordinary dividends
- dividend clientele
- capital gains

JEL CLASSIFICATION:

- H24
- G11
- H31

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Disclosure

No potential

No



<sup>1</sup> The exemption for qualified dividends is available only to households in the upper tax-bracket. The exemption is not available to households in the lower tax-bracket. The exemption is also not available to households that receive dividends from foreign corporations. The exemption is also not available to households that receive dividends from corporations that are not U.S. corporations.

<sup>2</sup> Dividends from foreign corporations are not eligible for the exemption. The conditions are

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information costs (Barber and Odean [2008](#)).

<sup>13</sup> Because wealthier households can handle adverse income shocks relatively easily, they are less likely to depend on periodical income of dividends and more likely to focus on long-term investments (Amromin [2008](#)).

<sup>14</sup> The weak instrumental variable test rejects the null hypothesis ( $H_0$ : Instrument variable by the first dollar method is weak).

<sup>15</sup> This counter-intuitive result might also be due to the timing of capital gains realization around the 2003 tax reform. Households that waited until the scheduled tax rate reduction on capital gains deferred capital gains realization and did so to a great extent after the 2003 tax act. This timing behaviour increases the values in the denominator of the dependent variable, which rather weakens the significance of the results. As such, the timing of capital gains realization does not drive the result.

<sup>16</sup> The Hausman test for the model specification rejects the null hypothesis at a 1% significance level (F-statistics: 7.93; p-value: 0.005). Thus, the Tobit estimates using the instrumental variable are consistent for true parameters.

<sup>17</sup> This is because the analysis was based on the post-2003 tax data.

<sup>18</sup> All the estimates in section 'Robustness check' are available on request.

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