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Original Articles

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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tax act.

Q KEYWORDS: Jobs and Growth Tax Relief Reconciliation Act qualified dividends ordinary dividends dividend clientele capital gains

Q JEL CLASSIFICATION: H24 G11 H31

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Disclosure statement

No potential conflict of interest was reported by the author.

Notes

¹ The exception years were 1913–1936 and 1939–1953 when dividends were taxexempt dividends. ² Divide ed foreign onditions are corporat ation of not satis qualifi Il gains does not affec ⁴ When ds, the subscrip <u>(3)</u>. The

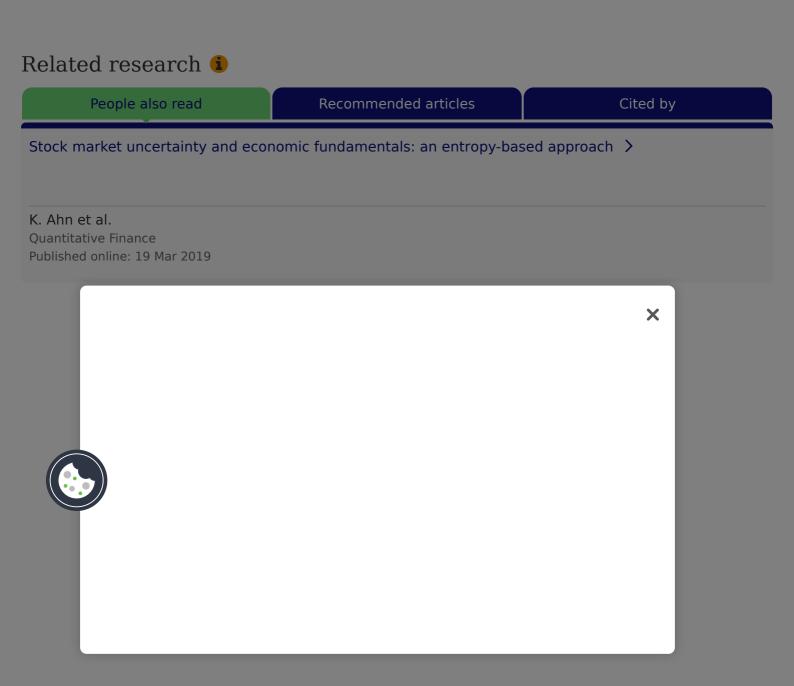
derivative of the share of qualified dividends with respect to the tax rate differentials is positive; that is, $\partial IQD*/IQD*+IOY*/\partial \tau OY-\tau QD>0$.

- ⁵ TAXSIM is the NBER's FORTRAN program that calculates tax liabilities and marginal tax rates under U.S. federal and state income tax laws from individual data (http://www.nber.org/~taxsim/). For more details on marginal tax rates, see Appendix 2.
- ⁶ Several cut-off levels (1%, 3% and 5%) are tested in the sensitivity analysis, and the empirical results verify that the main estimates are robust to the different cut-off levels.
- ⁷ All averages are weighted by the Public Use Tax File sampling weights, and all the dollar values for financial income are adjusted to 2006 U.S. dollars.
- ⁸ According to the IRS tax stipulation, if net capital gains are positive, households pay either 5% or 15% long-term capital gains tax depending on their ordinary income tax bracket. If net capital gains are negative (i.e. net capital losses), tax filers' long-term capital gains tax rates are 0%, and they deduct these net capital losses from their other types of taxable income up to \$3000 for joint filers and \$1500 for singles per year.
- ⁹ Dividends refer to total dividends, including ordinary and qualified for the post-2003 tax act period.
- ¹⁰ Because JGTRRA reduced capital gains tax rates as well, long-term capital gains realizations may also have changed in addition to the composition of stock portfolio. As a robustness check, I use only dividends as the dependent variable for the analysis; the results were substantively similar to those obtained from the main model.



variable by the mst donar method

- ¹⁵ 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.
- ¹⁶ 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.
- ¹⁷ This is because the analysis was based on the post-2003 tax data.
- ¹⁸ All the estimates in section 'Robustness check' are available on request.



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