Congress of the United States
Washington, DC 20515

Reduced Tax Rates on Dividends and Long-Term Capital Gains are Working.

Cosponsor Legislation to Make Them Permanent.

Dear Colleague:

Two years ago, Congress temporarily lowered the top tax rate on dividends and long-term capital gains to 15%. Doing so has spurred more companies to offer larger dividends, put more money in the hands of consumers, contributed to rising stock market values, and promoted responsible corporate governance.

<u>We have introduce legislation to make permanent these lower tax rates on dividends and capital gains and invite you to become an original cosponsor of this important measure.</u>

Under prior law, dividends were taxed at ordinary income rates, while long-term capital gains were subject to a maximum tax of 20%. In 2003, President Bush proposed to reduce to zero the tax rate on dividends, since they are a non-deductible expense and therefore already subject to corporate-level tax. The eventual outcome was to reduce this double-taxation by capping the dividend tax rate at 15%, and it has been remarkably successful:

- **<u>More and Larger Dividends</u>**: In the year following passage, 113 publicly traded companies began paying dividends, compared to an average of 22 companies in prior years. And, in each of the three quarters following enactment, an average of 65 companies increased the size of their dividends by at least 20%, compared to an average of only 32 companies in prior years.

- **<u>More Money in the Hands of Investors</u>**: Total dividend payments by American companies have jumped sharply since the law was passed. The Securities Industry Association estimates that gross dividend payments in 2004 totaled $555 billion, an increase of $81 billion from 2002. After-tax dividend income in 2004, just from stocks in the S&P 500, was $56.6 billion, an increase of just under 60% from the level two years ago.

- **<u>Benefits a Broad Range of Families</u>**: Among taxable returns reporting dividend income in 2002 (the last year for which IRS data is available), nearly 60% had adjusted gross incomes below $75,000. The average dividend among those returns was more than $1,700.

- **Increasing Equity Values**: The lower tax rate, which has driven companies to offer more and larger dividends, has increased the value of shares. Whether equities are held directly or indirectly through mutual funds, in taxable accounts or in tax-preferred savings vehicles, stock prices rose following enactment of the 15% rate. One estimate suggested that the tax cut would increase the value of the stock market by $690 billion, a 6% increase over the market's value as of March of 2003. Others have suggested that a much greater share of the market's rise since 2003 can be attributed to lowering taxes on capital gains and dividends.

- **Improved Corporate Governance**: The lower rate is also an important step in tax reform toward improving corporate governance. Reducing the amount of cash at the discretion of management encourages firms to undertake only the most productive investments that increase shareholder value. And unlike other measures of profitability that can be subject to manipulation, companies paying dividends offer investors concrete proof, in the form of cash.

These benefits, however, are limited by the looming expiration of the law. Unlike other expiring tax provisions, the uncertainty caused by this sunset threatens to introduce significant volatility into the financial markets. Accordingly, it is important that this beneficial change in the tax code encouraging savings and investment be made permanent as soon as possible.

We hope you will join us as an original cosponsor of this legislation. If you have any questions or need additional information, please don't hesitate to contact Shimmy Stein at 52815.

Sincerely,

Eric Cantor

Paul Ryan

Phil English