

## Corporate Dividends Paid and Received, 2003-2009

By Joseph Rosenberg

Corporate dividends are potentially subject to two layers of tax — first by the corporate income tax at the entity level and then again at the individual level. The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) lowered the maximum individual tax rate on qualified dividend income to 15 percent, a provision that will expire at the end of 2012. Knowing the fraction of dividends that are taxed at the individual level provides a gauge as to how much the second layer of tax matters.

As has been well documented, U.S. corporate dividends — excluding regulated investment companies and real estate investment trusts — increased sharply immediately following JGTRRA. They then remained fairly constant at about \$350

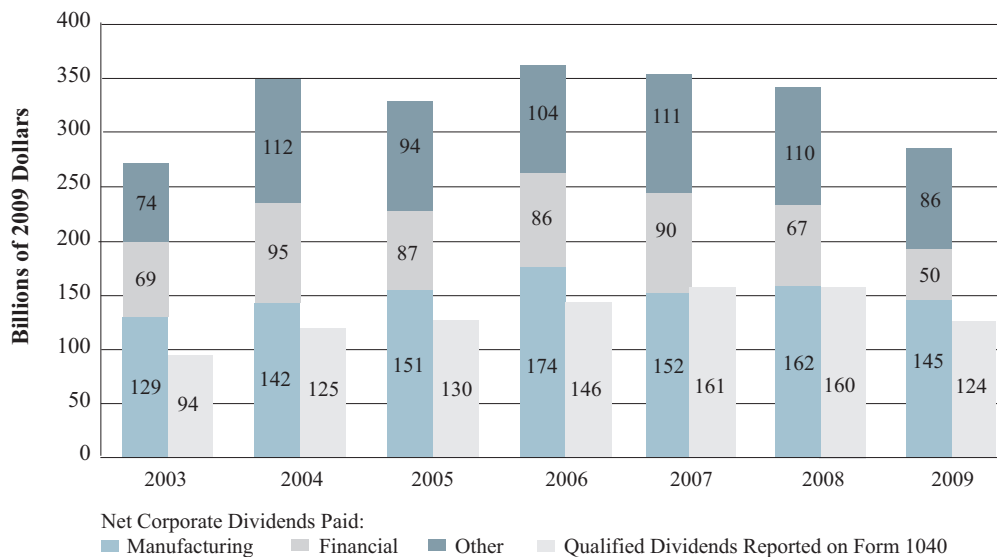
billion (in 2009 dollars) before falling off in 2009, the most recent year published IRS data is available.

Dividends from manufacturing firms comprised 46 percent of all corporate dividend payments, financial firms another 24 percent, and all other industries accounted for the remaining 30 percent.

Over this same period, individual income tax returns reported an average of \$134 billion of qualified dividend income, representing just over 40 percent of total dividends paid. This fraction increased steadily after 2003, peaking at 47 percent for tax year 2008, before falling to 44 percent for tax year 2009.<sup>1</sup>

<sup>1</sup>This is similar to an earlier estimate from William Gale, “About Half of Dividend Payments Do Not Face Double Taxation,” *Tax Notes*, Nov. 11, 2002, p. 839.

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Sources: IRS, Statistics of Income Division, “Corporation Source Book” and “Individual Complete Report” (various years). Net corporate dividends are defined as total distributions of “cash and property except own stock” less dividends received from domestic corporations. Industry classifications are based on North American Industry Classification System: manufacturing (31-33) and financial (52 and 55). Regulated investment companies (525910) and real estate investment trusts (525955, 531115, and 531135) are excluded from the sample.