

# Benchmark

Financial Group

## Capital Gains and Dividend Taxation

The capital gains and dividend taxation provisions of the 2003 Tax Act (Jobs and Growth Tax Relief Reconciliation Act), scheduled to expire at the end of 2008, were extended through 2010 by the Tax Increase Prevention and Reconciliation Act of 2005 and, subsequently, through 2012 by the 2010 Tax Relief Act.

### Long-Term Capital Gains Tax Rates

A **capital gain** results when an asset is sold or exchanged for more than its cost basis. Capital gains realized on assets held for one year or less are **short-term capital gains** and are taxed at **ordinary income tax rates**. **Long-term capital gains** resulting from the sale or exchange of an asset held more than one year, however, **receive more favorable tax treatment**.

In 2011, capital gains taxes were scheduled to return to the rates in effect prior to the passage of the 2003 Tax Act. As part of the 2010 Tax Relief Act, however, **Congress extended the lower capital gains tax rates through 2012**.

For Long-Term Capital Gains Realized:		
Tax Rates:	In 2011 and 2012	In 2013 and later
Maximum Tax Rate	15%	20%
Tax Rate (10% and 15% tax brackets)	0%	10%

### Dividend Tax Rates

Prior to the passage of the 2003 Tax Act, dividends were taxed at ordinary income tax rates. With the passage of the 2003 Tax Act, **dividends paid by a domestic or qualified foreign corporation to individual shareholders are taxed at the new lower capital gains tax rates (15% or 5%)**. Beginning on January 1, 2011, dividends were scheduled to again be taxed at ordinary income tax rates. The 2010 Tax Relief Act, however, extended use of the lower capital gains tax rates for dividends received by individuals **through December 31, 2012**.

For Dividends Received by Individuals:		
Tax Rates:	In 2011 and 2012	In 2013 and later
Maximum Tax Rate	15%	Ordinary income tax rates
Tax Rate (10% and 15% tax brackets)	0%	Ordinary income tax rates

**Planning Notes:**

1. The individual shareholder must own the dividend-paying stock for at least 60 days in the 120-day day period surrounding the ex-dividend date to receive the favorable tax rate.

- Generally speaking, the 15% top rate makes dividend-paying stocks more attractive from a tax
2. standpoint than investments that pay out ordinary income, such as REITs and taxable bonds. Tax treatment, however, should not be the sole determining factor in investment selection.

**If you would like additional information on this topic, please call my office.**