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INVESTORS ARE AFFECTED BY THE REDUCED RATES FOR CAPITAL GAINS AND DIVIDENDS UNDER THE JOBS AND GROWTH TAX RELIEF RECONCILIATION ACT OF 2003

As you probably know, a new tax law, the Jobs and Growth Tax Relief Reconciliation Act of 2003, was recently passed. An important component of this "economic stimulus" package for investors is the reduction in the taxes on capital gains and dividends. The 2003 Jobs and Growth Act reduces the maximum tax rate on capital gains from 20% to 15%. The capital gains rate for low-income taxpayers is reduced from 10% to 5% (to zero in 2008). Dividends received by an individual, which were taxed as ordinary income (at rates up to 38.6%) are taxed under the 2003 Jobs and Growth Act at a 5% (zero in 2008) and 15% rate.

The purpose of this letter is to provide you with a brief overview of the new capital gains and dividends provisions.

REDUCED RATES FOR CAPITAL GAINS

For sales and exchanges (and installment payments received) after May 5, 2003, the 10% and 20% rates on capital gain are reduced to 5% (zero in 2008) and 15%, respectively. These lower rates apply for both the regular tax and the alternative minimum tax (AMT). The lower rates apply to assets held more than one year.

For example, the impact of this provision can be seen in an individual who sells the home that he purchased many years ago for $500,000 for $2 million, a gain of $1.5 million ($2,000,000 - $500,000). Assuming that he can exclude $250,000 under the exclusion for the sale of a principal residence, he must pay capital gains on $1,250,000 ($1,500,000 - $250,000). If he sold it after May 5, 2003, he would pay a tax of $187,500 (15% of $1,250,000). If he had sold it earlier in the year, say January 1, 2003, he would pay a tax of $250,000 (20% of $1,250,000). The savings because of the 2003 Jobs and Growth Act would be $62,500.

The 5% drop in the capital gains rate under the 2003 Jobs and Growth Act is more than the 3.6% drop in the top individual rate under the 2003 Jobs and Growth Act and the 2% drop in other individual rates. Thus, the advantage of long-term capital gains over other types of taxable income is even greater for high earners than it was before.

REDUCED RATES FOR DIVIDENDS

Effective for dividends received in tax years beginning after 2002, dividends received by an individual shareholder from a domestic corporation (or a "qualified foreign corporation") are taxed at the same rates that apply to capital gains. In other words, the dividends are taxed at rates of 5% (zero in 2008) and 15%, see above. These rates apply for both the regular tax and the AMT. However, some special rules and exclusions apply. For example, if a shareholder does not hold a share of stock for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date (with these periods doubled in the case of preferred stock), dividends received on the stock aren't eligible for capital gain rates.

As a result of this rate reduction for dividends, an investor may want to reallocate his investment portfolio, investing more heavily in stocks paying dividends, which will be taxed at the favorable capital gains rate, rather than investing in non-tax-exempt bonds, the interest on which will continue to be taxable at the high ordinary rates.

REDUCED RATES WON'T APPLY AFTER 2008

A word of caution should also be mentioned. While these reduced rate for capital gains and dividends can result in considerable tax savings, in devising a long-term investment strategy it is important to remember that these rates aren't permanent. They are scheduled to "sunset" (i.e., no longer apply) after 2008.