

## What Are Dividends?

When considering the profit they make on stocks, many investors assess the gains they have obtained based on the appreciation of the stock on the open market or the gains they obtained after selling the stock for more than the original purchase price. However, it's also wise to include the income acquired from stock dividends, if any.

Dividends are taxable payments to shareholders from a company's earnings. These payments generally come from retail profits and tend to be distributed in the form of cash or stock. They are usually paid quarterly, and the amount is determined by the company's board of directors.

Dividends are most often quoted by the dollar amount each share receives, put simply, the dividends per share. They can also be stated in terms of a percent of the current market price, designated as a dividend yield. The dividend yield is the annual dividend income per share divided by the current stock price.

Many mature, profitable companies offer regular dividends to shareholders. However, if a company experiences losses during the year or needs any earnings to be reinvested back into the business, it's always possible that it could decide to suspend dividends. It's important to remember that a company can decide to increase, decrease, or stop paying dividends at any time.

Rather than pay dividends to shareholders, many companies with current high growth rates choose to reinvest their earnings back into their businesses. On the other hand, some stable companies that haven't experienced much growth might pay dividends to provide an incentive for investors to purchase their stock.

Before 2003, dividends were taxed at ordinary income tax rates reaching as high as 35%. The American Taxpayer Relief Act of 2012 instituted a 20% tax rate for qualified dividends for taxpayers in the 39.6% federal income tax bracket. The act extended both the 0% qualified dividend tax rate for individuals in the 10% and 15% federal income tax brackets and the 15% qualified dividend tax rate for all other federal income tax brackets.

Higher-income taxpayers should be aware that they may be subject to an additional 3.8% Medicare unearned income tax on net investment income (unearned income includes dividends) if their adjusted gross income exceeds \$200,000 (single filers) or \$250,000 (married joint filers). This is an outcome of the Patient Protection and Affordable Care Act of 2010.

When investing in the stock market, it's important to remember that the return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

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