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Qualified dividend

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Qualified dividends, as defined by the United States Internal Revenue Code, are ordinary dividends that meet specific criteria to be taxed at the lower long-term capital gains tax rate rather than at higher tax rate for an individual's ordinary income. The rates on qualified dividends range from 0 to 23.8%.

To qualify for the qualified dividend rate, the payee must own the stock for a long enough time, generally 60 days for common stock and 90 days for preferred stock.

To qualify for the qualified dividend rate, the dividend must also be paid by a corporation in the U.S. or with certain ties to the U.S.

Requirements

To be taxed at the qualified dividend rate, the dividend must:

- be paid after December 31, 2002
- be paid by a U.S. corporation, by a corporation incorporated in a U.S. possession, by a foreign corporation located in a country that is eligible for benefits under a U.S. tax treaty that meets certain criteria, or on a foreign corporation's stock that can be readily traded on an established U.S. stock market (e.g., an American Depositary Receipt or ADR), and
- meet holding period requirements: You must have held the stock for more than 60 days during the 121-day period that begins 60 days before the ex-dividend date. The ex-dividend date is the first date following the declaration of a dividend on which the buyer of a stock is not entitled to receive the next dividend payment. For calculation purposes, the number of days of ownership includes the day of disposition but not the day of acquisition.

In the case of preferred stock, you must have held the stock more than 90 days during the 181-day period that begins 90 days before the ex-dividend date if the dividends are due to periods totaling more than 366 days[1]

For dividends that do not meet the above criteria, the effective qualified dividend tax rate is determined by the date when the dividend was paid and the individual's ordinary income tax bracket.

Rates

Dividend Taxation in the United States: 2003 + [2]

	2003–2007		2008–2012		2013 +	
Ordinary Income Tax Rate	**Ordinary Dividend Tax Rate**	**Qualified Dividend Tax Rate**	**Ordinary Dividend Tax Rate**	**Qualified Dividend Tax Rate**	**Ordinary Dividend Tax Rate**	**Qualified Dividend Tax Rate**
10%	10%	5%	10%	0%	10%	0%
15%	15%	5%	15%	0%	15%	0%
25%	25%	15%	25%	15%	25%	15-18.8*%
28%	28%	15%	28%	15%	28%	15-18.8*%
33%	33%	15%	33%	15%	33%	15-18.8*%
35%	35%	15%	35%	15%	35%	15-18.8*%
39.6%	N/A	N/A	N/A	N/A	39.6%	20-23.8*%

* 3.8% Net investment income tax enacted in 2013. See IRS Form 8960 (https://www.irs.gov/instructions/i8960/index.html).

History

The Jobs and Growth Tax Relief Reconciliation Act of 2003 ("JGTRRA") reduced all taxpayers' personal income tax rates and cut the tax rate on qualified dividends from the ordinary income tax rates to the lower long-term capital gains tax rates. At the same time the bill reduced the maximum long-term capital gains tax rate from 20% to 15% and established a 5% long-term capital gains tax rate for taxpayers in the 10% and 15% ordinary income tax brackets. The Tax Increase Prevention and Reconciliation Act of 2005 ("TIPRA") prevented several tax provisions of the 2003 bill from sunsetting until 2010 and further lowered the tax rate on qualified dividends and long-term capital gains to 0% from 5% for low to middle income taxpayers in the 10% and 15% ordinary income tax bracket. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended for two additional years the changes enacted to the taxation of qualified dividends in the JGTRRA and TIPRA. The American Taxpayer Relief Act of 2012 (signed on January 2, 2013) made qualified dividends a permanent part of the tax code but added a 20% rate on income in the new highest 39.6% tax bracket.[3]

From 2003 to 2007, qualified dividends were taxed at 15% or 5% depending on the individual's ordinary income tax bracket, and from 2008 to 2012, the tax rate on qualified dividends was reduced to 0% for taxpayers in the 10% and 15% ordinary income tax brackets, and starting in 2013 the rates on qualified dividends are 0%, 15% and 20%. The 20% rate is for taxpayers in the 39.6% tax bracket.[3]

See also

- Form 1099
- Dividend tax

References

1. https://www.irs.gov/publications/p17/ch08.html#en_US_2013_publink1000171584
2. "Tax Law Changes for 2008 - 2017." *Kiplinger's*. <www.kiplinger.com> Published March 2009. Accessed 28 August 2009. (http://www.kiplinger.com/features/archives/2008/11/tax-planning-tax-law-changes4.html?kipad_id=44) Archived (https://web.archive.org/web/20090815005121/http://www.kiplinger.com/features/archives/2008/11/tax-planning-tax-law-changes4.html?kipad_id=44) August 15, 2009, at the Wayback Machine
3. "Higher Tax Rates Give Top U.S. Earners Year-End Headaches" (https://www.bloomberg.com/news/2013-11-07/higher-tax-rates-give-top-u-s-earners-year-end-headaches.html). Bloomberg. November 7, 2013. Retrieved November 13, 2013.

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