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Statement of Hilary J. Kramer

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The Imperative Case for Abolishing the Double Taxation of Dividends

Mr. Chairman and Members of the Committee, I am very thankful that you have invited me to testify on the relationship between corporate governance and the double taxation of dividends. This is an extremely important issue at this moment in our nation's history. Improving trust in our financial markets is critical to all investors. However, for our current retirees already living on fixed incomes as well as for our country's workers planning for their retirement, the need to restore confidence in our stock market is critical.

My name is Hilary Kramer. I am the Senior Strategist and Advisor at Montgomery Asset Management and also appear as a Business Analyst and Commentator on the Fox News Channel. Again, I am pleased to have the opportunity to share my analysis, research and conclusions with the Committee today.

Allowing companies to keep the money they have earned---instead of issuing dividends to shareholders---has promoted a dangerous and inefficient system in which senior management has been able to exercise creative control over the actual financial results they report to the public and has provided them the freedom to stray and wander away from their core competencies. Abolishing the double taxation on dividends is about keeping companies honest, competent and resourceful and allowing shareholders to enjoy the financial returns they rightfully deserve as owners of the companies in which they have invested.

With a reduction in the taxation of dividends, the interest of corporate management would become better aligned with the interest of the shareholders. A significant portion of management compensation in many companies today is through stock options rather than actual ownership of shares. Since an option holder does not receive dividends, but instead receives all of his benefit from appreciation of the stock, an incentive of management is to use cash---not for dividend distribution---but to grow the business, in many cases into areas where the company lacks all expertise and synergistic potential.

Companies also use the cash to buy back stock, or simply to horde it for future opportunities. In many cases, none of these actions is as good for shareholders as would be receiving a dividend and having the discretion to spend it as the recipient wished. But, with the current punitive tax treatment of dividends, management has significantly less pressure to change this damaging and negative behavior.

Finally, with the present double taxation of dividends, most companies have a major incentive to raise a significant amount of their capital as debt rather than as equity. This resulting high leverage creates instability in the company's balance sheet and makes companies more vulnerable to any downturn in economic activity.

The bottom line: implementing President Bush's tax reform proposal promises a wide scale positive impact on the stock market. It will help boost stock prices, encourage more responsible investing, strengthen corporate governance and responsibility, provide investors with more income opportunities and prevent stock bubbles ---like the Internet Bubble of the 90's---that can ultimately lead to massive corrections---such as the one we have been experiencing since the second quarter of 2000.

How Companies Behave Now:

Current tax policy encourages corporations to hold on to shareholders' money forever. By taxing earnings initially at the corporate level, then taxing earnings again when distributing dividends to shareholders, the state and federal governments claim up to 65 percent of earned income. Since over half of that tax expense can be avoided if the corporation simply retains the earnings, shareholders have traditionally been more willing to allow management to perpetually reinvest their money-- *and management has been even more willing to comply*. This policy has enticed corporations to find increasingly creative uses for their shareholders' money, including stock repurchase plans that often benefit executives who hold stock options rather than the public shareholders of the stock.

The Internal Revenue Code has traditionally and unwisely favored reinvesting corporate profits over distributing them. The first time that income taxes were raised high enough to produce major economic effects was back when the country was still fighting World War II. At that time, the finer points of corporate finance weren't even part of the public agenda. After the war, however, when tax policy became a high-profile issue, there was widespread concern that an economic state of depression might return unless investment was vigorously encouraged. With dividends taxed at rates over 90 percent throughout the 1950s, there was the strongest incentive for businesses to plow every cent back into their companies.

Even so, the average dividend yield on public companies remained fairly high throughout the second half of the 20^{th} century. Economists were puzzled over the persistence of high dividend yields in the face of such tax inefficiency, and many correctly predicted that dividends would eventually disappear altogether. But until about 10 years ago, stock dividend rates for large, well-established firms held up reasonably well, both as a percentage of profit ---known as *the payout rate*---and as a percentage of the value of the stock---*the yield*.

In one sense, however, dividend yields have been falling steadily since the 1950s. In fact, the last time the dividend yield on the S & P 500 was actually higher than the yield on high-quality corporate bonds was in 1958. This condition reflected the popular view at the time that investors needed higher equity yields to compensate for the additional risk they bore. Since then, the decline in yield has been both steady and dramatic. In fact, the absolute drop in the dividend yield from 1990 to 2000 declined a fairly consistent 25 basis points per year throughout the decade.

As dividends from major companies declined, the number of firms that pay no dividends whatsoever rose dramatically, from under 30 percent of all public companies in 1960 to over 65 percent today. Shareholders' appetites for dividends decreased as they became more convinced that when the time came to sell, they could expect large capital stock gains instead. Meanwhile, corporations have also become more aggressive in repurchasing their own stock, since this has been the more tax-efficient way of placing earnings into shareholders' hands. Of course, share buy-back programs are like dating while a dividend payout is really a marriage---in terms of commitment, consistency and responsibility.

The Abolishment of the Double Taxation of Dividends will Strengthen Corporate Governance and Promote Healthier Companies:

Dividends show the truth about a company's financial status. Jeremy Siegel of the Wharton School implies that our tax laws helped provide the incentive for management to play with the accounting of their companies which, in turn, heralded in the stock market bubble. What did the stock market bubble give us? Full scale corporate scandals and, ultimately, bankruptcies and portfolio-poor investors. Siegel states, "Nothing could possibly excuse Enron, Arthur Andersen from their deceptive and fraudulent practices. But cries for accounting reform, transparent earnings reports, and auditor independence will not amount to anything if our tax system encourages firms to do just the opposite. Why should we rail against accountants who do not provide investors with a clear view of their clients' earnings and balance sheets when many are also getting paid as consultants to minimize their clients' taxes and exploit loopholes in our Byzantine tax laws?" Whereas current tax law rewards policies that are more likely to conceal the inefficient use of earnings, a greater emphasis on dividend payments makes it more difficult for companies to perpetrate fraudulent earnings.

A focus on dividends would prevent stock bubbles. Legislation eliminating dividend taxes will help avert stock bubbles by preventing companies from over-investing cash in risky ventures just to boost stock prices. The money is spread throughout the economy (via dividends to investors) instead of being used to buy back company stock or invested in potentially dangerous non-related businesses. Thirty years ago, large companies that paid sizable dividends were expected to continue doing so. But as newer companies like Microsoft started to grow large, investors' expectations changed. It became acceptable for even the biggest firms to retain earnings for future growth, seemingly in perpetuity. A majority of the huge technology companies, including Cisco, Sun Microsystems, Oracle, and Dell, have paid insignificant dividends or no dividends at all on their common shares. Instead, these companies used their earnings to fund activities tangentially related to their core businesses. The late 1990s saw a massive over-investment in websites, web hosting centers, internet infrastructure, and software solutions-- from which the economy is only now starting to recover. If earnings had been distributed to shareholders who made their own investment decisions, it's possible that the same over-funding might have occurred. But it's very likely that the Internet bubble would not have been so enormous without the initial credibility achieved from so many large companies spreading so much seed money to so many unproven ventures.

Companies would be prevented from hoarding cash and engaging in investment schemes where they don't belong. Microsoft has $36 billion in cash but has never paid a dividend on its common shares. Yet it is becoming more difficult for Microsoft to deploy its earnings profitably without incurring further charges of anti-competitive behavior. In recent years, a primary avenue of investment for Microsoft has been telecommunications. The company put $5 billion into AT&T, several billion into Comcast, and lesser amounts into WebTV and other cable ventures. The profitability of its new investments remains very much in doubt. There are some who would rather Microsoft just start paying big dividends. One of the most vocal is Ralph Nader, who claims the company's no dividend policy actually runs afoul of the tax code's provision against the unreasonable accumulation of earnings. In a public letter to Microsoft, he also suggested that the interests of Bill Gates and other major insiders are at odds with the bulk of Microsoft's shareholders. Eliminating an excuse for companies to hoard cash gives them greater incentive to consider shareholder interests in their governance decisions.

Management would be aligned with the interests of their shareholders. Encouraging larger dividend payments would signal to shareholders that managers are willing to let them participate in decisions regarding corporate investment. It would also give shareholders a degree of confidence in the future distribution of cash flows. As Morgan Stanley strategist Steven Galbraith noted, share buybacks are like dating, while dividends are like the commitment of marriage. Marrying corporate manager's interests to those of shareholders promotes solid corporate governance.

- **A more level playing field would be created.** Pressuring traditionally high stock growth firms (like tech companies) to pay dividends could mean a more level corporate playing field. Consistent, stable old-line firms such as Dupont Co., Eastman Kodak Co. and General Electric Co., which have long paid dividends, might be viewed more favorably relative to these firms. And the old-line companies might be expected to raise their dividends even further. Both high growth and mature companies would correctly be judged by both their current payments to investors in the form of dividends and their future returns in the form of stock value, instead of investors heavily overvaluing stock prices alone.

Firms would be encouraged to compensate managers with stock grants rather than options. The current methodology of valuing stock appreciation over corporate earnings encourages companies to use stock options rather than stock grants as employee incentives. A greater emphasis on dividends may compel companies to issue stock grants to its managers instead of stock options. Managers would hold the same stock instruments as shareholders, thus ensuring that management benefits only when their actions are in the long-run interests of the corporation and its shareholders.

Companies would be reigned in from taking on dangerously high leverage---that is, *debt*. For years now, experts have been calling for a repeal of the double taxation on dividends. A major rationale is that the current system has encouraged a dangerous buildup of debt at the expense of equity financing. Because interest is tax deductible to businesses, the cost of debt financing is made artificially low relative to equity financing, and firms are encouraged to adopt a leveraged capital structure. High debt levels make companies and the economy as a whole less stable. Any protracted weakness in economic activity can turn a heavy debt burden into a bankruptcy. In fact, high debt levels have been associated with many of the large bankruptcies during the recent two years. While interest rates today are at 40-year lows, risk spreads in the corporate bond market are at 40-year highs.

Management will focus on the company's operations and results. Eliminating the dividend tax amplifies the importance of dividend payments, and this increases companies' incentives to issue stock. But increased use of dividend payments could also force companies to focus more on their operations instead of their stock price alone. For some time now, ratings agencies have been pushing for companies to concentrate on cash generated rather than reported earnings. This concept encourages more prudent investment in the stock market, where a company's worth is clearly spelled out by the amount of cash it earns and a company's dividend payment authenticates its profitability.

Companies would focus on creating healthy balance sheets. Companies can be judged by dividend payment rather than easily manipulated balance sheets that may contain complex, fraudulent schemes. For companies, the proposal could dramatically change how they structure their finances. To raise money, issuing certain types of new stock could become more appealing than issuing debt. And pressure almost certainly would grow on all firms to increase the share of profits they pay to shareholders via dividends. John Lonski, chief economist at Moody's Investors Service. "Anything that might reduce balance sheet leveraging will be in the long-term interest of bondholders."

The Proposal does not penalize growth companies. There is a provision in the dividend plan that could reduce capital-gains taxes. With potential dividend cuts coming, the Bush Administration didn't want to make businesses overly favor payouts instead of retaining earnings for investment and expansion purposes. So they dangled this carrot: If corporations decide to retain earnings instead of paying out dividends, a subsequent increase in its share price would be used to offset the investor's cost. The result: Investors won't be penalized for buying shares of a growing company that needs cash to expand. Let's say a company decides to retain its earnings and its share price rose to reflect a higher stash of profits, say from $2 to $21. If the investor bought the stock at $18 before the move and decides to sell at $21, he or she would owe $2 a share in taxes, not $3. The $1 dollar gain in the stock would be added to the investor's cost.

The Tax Reform Would Create Positive Momentum and Ignite the Besieged and Fraught Stock Market---Investors would be Lured in and Stock Prices would Rise:

- **Historically, cutting taxes has inspired a surge of money into the stock market.** Cutting taxes on long-term capital gains reinvigorated the American economy in the 1980s and pulled the stock market out of a decade long slump. In 1997, the capital gains tax rate was cut again to a more appropriate rate of 20%, which spurred even more investment into the market. For this reason, the DJIA average gained 4.8% in the first four trading days of the New Year upon anticipation of this legislation. Fundamentally, the best way to determine if an idea will bring value to the market, is to watch the effect that it has =on the market during the expectation phase alone. The stock market never lies---over the long term.

- **The stock market should significantly benefit from the tax reform:** The standard valuation model for equity securities provides that the value of a security is equal to the after tax dividends that the holder will receive over the life of the security, discounted by the risk adjusted cost of capital. If after tax dividends on a stock are increased for the life of the stock by a constant, *the value of that security should go up, theoretically by as much as the amount of the constant.* Thus, the after tax dividend received by a taxpayer in the 30% tax bracket will go up by 43%, due to the proposed change, and finance theory says the value of that security should likewise increase by as much as 43%. Furthermore, even prices for stocks that are not current dividend payers should rise as the market will assume that these companies will begin to pay dividends at some point, and at that time every shareholder will benefit.

- **There will be a significant reduction in the volatility of stock prices---it will be about long-term holding and not short term trading.** The benefit received by a holder from a dividend paying stock is less volatile than the benefit that holder enjoys from holding a stock whose return is dependent solely on future appreciation. This should further increase the value of dividend paying stocks because people will be willing to pay a higher price for less volatility. For example, drug companies can provide a much more stable long term relationship it their shareholders by paying dividends as opposed to forcing the investors to rely exclusively on sporadic announcements of research breakthroughs. For example, Bristol Meyers saw its stock price crater in the past six months with concerns over a dry pipeline and "inventory stuffing". Over the long term, Bristol Meyers is a healthy and productive----research committed company---and this should not have happened, but the investors today have more of an incentive to think about making a "quick buck" than being a long-term owner of a company.

There is wide-scale Wall Street support. The stock market has been on a rally ever since speculation about the Bush proposal began in early January. The Dow Jones Industrial Average gained 4.8% in the first four trading days of the New Year following public reports about the legislation. There is every indication that Wall Street's acceptance of the proposal will sustain higher stock values.

Creates investor demand for dividend-paying stocks. "All things being equal, you'd have to expect that individuals would increase their demand for equities, which would bid up the price and create more incentive for corporations to look toward the equity markets as being a preferential area of financing," said Timothy Fogarty, who chairs the accounting department at the Weatherhead School of Management at Case Western Reserve University. He called the different tax treatment for issuing debt and equity "one of the fundamental discrepancies in financing."

Evidence of earnings attracts investors. After three years of falling share prices, Americans are demanding a regular payment from companies in return for risking capital in the firms. The Bush plan could all but assure that those payments would be more substantial, money managers and other experts say. Jeremy Siegel, Professor of Finance at the Wharton

School says, “The dividend yield, and thus the concrete evidence of real earnings, has declined dramatically in recent years. In the 19th century and first half of the 20th century, the average dividend yield on stocks was 5.8%. It was not until 1958 that the dividend yield on stocks fell below the interest rate on long-term government bonds, and even through the 1980s the dividend yield averaged 4.3%. But during the great bull market of the 1990s, dividends fell out of favor. The dividend yield sunk to 1.2% at the market peak in March 2000 and has subsequently risen to only 1.6%.” Eliminating the dividend tax encourages companies to pay out dividends again and attracts investors back to the stock market.

- **Invigorates newer investors while teaching them investment responsibility.** Current tax policy has transformed the newer generation of investors into a generation of gamblers. Many of these investors need to learn that the value of investing in stocks is derived from high returns *over time* rather than short-term gains in stock price. Eliminating the dividend tax boosts the stock prices of fundamentally sound, dividend-paying companies. Newer investors will follow other investors back into the stock market. But this time, they’ll invest with a focus on companies with solid earnings rather than simply speculating on companies with potential for huge future stock price appreciation.

New legislation would repair the current negative Wall Street investor environment. Eliminating the double taxation of dividends would lead to a powerful rally in stock prices and would do much to lift the penumbra of uncertainty that has bedeviled both consumers and corporate managers. Positive investor sentiment about stock values will support a healthier investment atmosphere. A change in dividends' tax status is likely to spur the brokerage industry to embark on a huge sales campaign touting dividend-paying stocks. "It's fantastic for stock brokers," said Lehman's Willens. "Now they have something to sell." Anand Iyer, global head of convertible research at Morgan Stanley, said companies with household names could potentially tap individual investor demand with traditional convertible preferred securities. Going forward, this presents an opportunity for issuers to access the convertible market to raise capital with the traditional preferred stock structure, particularly for companies with consumer brand name familiarity," he said. From 1926 to 1993, blue-chip stocks produced an average return of about 10% a year for investors, according to data tracker Ibbotson Associates. Of that total, 5.4% a year was from capital appreciation and 4.9% was from dividends.

An Abolishment of the Double Taxation of Dividends Provides More Money to the Entire Investor Population which, in turn, Provides them with More Money to buy Goods and Services---which ultimately serves to Improve Corporate Profitability:

The Multiplier Effect of more money in consumer’s hands magnifies the benefit to the economy: A significant benefit from this proposed legislation is what I call the *multiplier*. Up until now, many companies with ample cash have been reluctant to pay dividends because the tax treatment to the recipient is punitive. With this proposed legislation, such would no longer be the case, and corporate management---encouraged by their boards---should now be inclined to increase their present dividend, if they are currently paying one, or if not, to institute one. This will put more money in people's hands either to spend on consumption or to reinvest in other securities in the market. The reason I call it the multiplier is that, unlike any other proposal in this package, the benefits to the economy exceed the amount of the tax cut. For example, if the average dividend recipient is in a 30% tax bracket, for every $100 of dividends that this recipient receives, he will now have $100 to spend rather than $70, due to the elimination of the tax. In addition, if companies increase their dividends by 20% because of this tax law change, now the holder will receive $120, all of which is after tax. Thus, his after tax cash to spend and invest has risen by $50, on a $30 tax cut. The size of the multiplier is the amount of the stimulus provided to the economy, divided by the amount of the tax cut (in this case $50 divided by $30, or 1.67x). In other words, Uncle Sam and we taxpayers receive more stimulus bang for our tax cut buck from this change than from any other proposed tax law change that I know.

Senior citizens depend on dividend income. The Congressional Budget Office says that senior citizens are more likely to invest in stocks that pay out their income in dividends. It is also important to note that aside from social security, dividend income makes up the greatest percentage of senior citizens' income over capital gains, wages, and other income-- especially for the lowest income senior citizens. Accordingly, eliminating the double taxation of dividends will significantly help seniors who depend on dividends for income during their retirement. Under Bush's plan, seniors who currently weight their savings in effectively lower tax investments could turn instead to dividend yielding stocks as an alternative and complement to bonds and certificates of deposit.

Higher dividend payout ratios would exist. Companies would be happy to pay dividends again, once taxes on dividends are eliminated. For instance, last year a Cisco Systems Inc. (CSCO) shareholder proposed that the San Jose, California network equipment maker begin paying a dividend, explaining that it would be an effective way to utilize part of the company's $21 billion in cash and marketable securities. But at their annual meeting in November, shareholders overwhelmingly defeated the measure. Cisco executives cited the double taxation principle as the reason for the defeat. John Chambers, President and CEO of Cisco, has even made it clear that Cisco would reconsider its "no dividend" policy if the tax law were changed.

Investors Deserve Alternative Investments Options that are all on a Level-Playing Field:

Increases attractiveness of stocks over other financial instruments. Eliminating dividend taxes could boost the appeal of stocks compared to bonds. Ten-year Treasury notes, for example, currently pay an annualized yield of 4.01%, and the interest is subject to normal tax rates. Du Pont (DD) common stock pays an annual dividend of $1.40 a share. Based on the firm's recent stock price of $44.58, the dividend results in a 3.1% annual yield. But for an investor in the top 38.6% federal tax bracket, a tax-free 3.1% yield is equivalent to a taxable yield of 5.05%. Furthermore, while bond interest payments remain fixed for the bond's entire life, dividends are expected to increase as a business grows and its earnings rise. The combination of these factors makes stocks an even more attractive option for investors if dividend taxes are eliminated.

More equity alternatives for investors. In a world free of a double taxation on dividends, fixed-income investors that shift into equities can expect preferred stock instruments to provide attractive equity alternatives. With debt instruments, investors pay income taxes on the interest payments they receive. So, if an investor in the 35% tax bracket holds a bond that pays 9% interest, that investor will yield an after-tax return of just 6%. Preferred shares, on the other hand, combine characteristics of bonds with those of common stocks. So eliminating dividend taxes for preferred stock creates a financial instrument with essentially tax-free interest. This is an instrument that many Wall Street professionals believe companies may begin offering with increasing frequency if dividend taxes are eliminated. Preferred stock is less risky than common shares because of several features: its face value is repaid at maturity, it offers a fixed dividend, and it typically ranks higher in the capital structure and is therefore better protected in the case of bankruptcy.

The tax reform actually would help corporate bonds. "Anything that's done to improve a corporate balance sheet and its credit structure benefits corporate bonds," said Mitchell Stapley, chief fixed income officer at Fifth Third Investment Advisors of Grand Rapids, Michigan. "A lot of the problems we had this past year were with companies like Tyco. And others basically centered on their inability to access the debt markets or [to] rollover debt," said Stapley. "So if the capital structure of companies improves in quality, as a bondholder, I sleep easier at night. And believe me after last year, that's a good thing," said Stapley. In a bid to avert a year-end cash crunch, Tyco International Ltd. (TCY) recently sold $3.75 billion of convertible bonds, to help pay down maturing debt. The firm has to repay as much as $11.3 billion of debt this year, including nearly $6 billion in February. "It really comes back to the fact that if you miss a coupon payment on a bond, the bondholders could drive the company into bankruptcy," Stapley said. "If you miss a dividend payment in equity, in most cases you don't drag the firm into bankruptcy-- you can avoid that." Portfolio managers agree that if equity issuance becomes a more attractive financing option than debt (as it likely would if taxes are eliminated on dividends), the potential drop in the supply of corporate debt would go far toward narrowing spreads in the secondary market as demand grows for secondary corporate debt. "Already, we're going into a year where there are expectations for corporate issuance [of debt] to fall off by 15 percent or so from last year's levels. From a technical standpoint, that sets up corporate debt to do better," said Christopher Mahony, portfolio manager at J&W Seligman & Co. "If, in fact, the elimination of the double taxation of stock dividends leads to less corporate issuance, that makes things even more appealing for corporates."

More investment choices and fewer tax shelters. Eliminating the double taxation on dividends would effectively allow investors to have more freedom in selecting the ways in which they save for retirement. Wider choices make for better markets.

Stocks that already pay high dividend yields: Utility funds, Real Estate Investment Trusts (REIT's,) and the "Dogs of the Dow." Utility funds invest in companies providing power and phone service that traditionally pay relatively high dividends. As a group, they currently pay dividends averaging about 3%. REIT funds invest in real estate properties and as a fund sector, have been paying dividends averaging 7%. The Dogs of the Dow are the ten stocks of the Dow Jones Industrial Average that pay the highest dividend percentage. Currently, the list includes several household names and pay an average dividend of about 4%. As a case in point, the dividend paying Dogs of the Dow, during the tech bubble of the late 90s, was up 28.6% in 1996, up 22.2% in 1997, up 10.7% in 1998, and up 4.0% in 1999. During the difficult bear market years of 2000 - 2002, the Dogs of the Dow was up 6.4% in 2000, down 4.9% in 2001, and down 8.9% in 2002, and that was enough to significantly outperform the Dow, S&P 500, and NASDAQ.

More companies that pay dividends: ChevronTexaco 4.1%, Bank of America 3.6%, SBC Communications 3.6%, Emerson Electric 3.0%, General Electric, 2.9%, ExxonMobil 2.6%, Abbott Laboratories 2.4%, Wells Fargo 2.3%, 3M 2.0%, Procter & Gamble 1.9%, Pfizer 1.9%, Anheuser Busch 1.6%, Johnson & Johnson 1.5%, Sysco 1.4%. For a point of reference, Coca-Cola currently pays its shareholders $.60 a share annually. So if the stock is priced at $64 a share, the 60 cents represents about a 1% dividend. Although 60 cents may not sound like much, if you own 10,000 shares you earn $6,000 a year on your investment.

The Elimination of the Double Taxation of Dividends Creates a More Reasonable Tax Code:

Most industrialized nations do not have a double taxation of dividends. The punitive taxation of dividends is not a policy pursued by most industrial economies. In a recent study by the American Council for Capital Formation, 62.5% of all countries provided complete or partial offsets to the double taxation of dividends on the corporate level. An additional 25% of those countries gave shareholders a break on dividend taxation. Even the U.S. once gave exemptions for dividend income. In 1954, there was a $100 exemption per couple, which doubled to $200 in 1964 and doubled again to $400 in 1980 (almost $1,000 in today's prices). The 1986 Tax Reform Act repealed this exemption, and it hasn't been restored. The U.S. is one of the few countries in the world where dividends are taxed at both the corporate and the individual level. Treating debt and equity in an equivalent fashion will eliminate a major distortion in the tax code.

A New Life Would be Created for the Beleaguered Technology Companies---Investors would Return and the Approach would be Long-Term in Focus and not the *Quick Trade* of the 1990's:

Indeed, cash-rich technology leaders such as networking firm Cisco Systems Inc. and software giant Oracle Corp., which have never paid any of their profits to shareholders through dividends, would reconsider those policies under the Bush plan. Oracle has $5.5 billion in cash and investments, while Dell has about $4 billion. Jeff Henley, Oracle's chief financial officer, told investors at a recent conference that the end of dividend taxes "would have a significant impact on our thought process" about cash payments to investors. Some big tech companies already pay dividends, including Intel Corp. (INTC), Hewlett-Packard Co. (HPQ) and International Business Machines Corp. (IBM). Certainly, these technology companies may be encouraged to increase their dividend pay-outs.

Again, Mr. Chairman, thank you for the opportunity to share my thoughts on the President's proposal to end the double taxation of dividends.

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