

How JGTRRA Dividend Changes May Impact Your Margin Account

JGTRRA, the Jobs and Growth Tax Relief Reconciliation Act of 2003, which was signed into law by President Bush on May 28, 2003, reduces the federal tax rate to a maximum of 15% for "qualified dividends" paid to individual shareholders (5% for taxpayers in the two bottom ordinary income tax brackets).

Unfortunately, when you have a margin account with a margin loan balance and your shares are on loan over a record date, you receive a "substitute payment" rather than a qualified dividend. These substitute payments are taxed as ordinary income (at federal rates as high as 35%).

To reduce any potential negative impact this may have on you, our clearing firm, National Financial Services LLC (NFS), may, where appropriate, try to take steps to reduce the number of instances when margin account holders with margin loan balances may receive substitute payments by refraining from loaning dividend-paying stocks over record dates as well as by recalling certain dividend-paying securities loaned to third parties prior to the record date.

If you still receive a substitute payment in lieu of a qualified dividend, NFS currently intends to provide an annual credit adjustment designed to help cover any additional federal tax burden.¹

1. The annual credit adjustment program is not guaranteed to remain in effect indefinitely, and NFS reserves the right to amend or terminate the program. The account receiving the substitute payment or an eligible successor account must be open at the time the adjustments are made in order to receive the adjustment. NFS reserves the right to deny a credit adjustment to any account holder that NFS determines will be ineligible to receive the tax benefit of the new reduced qualified dividend tax rates. The tax information contained herein is general in nature, is provided for informational purposes only, and should not be construed as legal or tax advice. Neither Muriel Siebert & Co., Inc. nor NFS provides legal or tax advice. Always consult an attorney or tax professional regarding your specific legal or tax situation.