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Corporate Distributions Before 2011 Are a Worthwhile Consideration

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The maximum 15% income tax rate on qualified dividends now in effect is scheduled to expire at the end of 2010. If Congress does not act, then beginning in 2011 dividends will be taxed at ordinary income rates (ie, at a maximum rate of 39.6%, assuming that rate returns as the top rate). For this reason, clients with available cash in a C corporation should consider corporate distributions to shareholders before year-end to take advantage of the lower income tax rates.

There is of course a possibility that the preferential income tax rate on dividends could be continued. If so, a taxpayer who makes a 2010 corporate distribution could trigger a tax unnecessarily. Some taxpayers may adopt a wait and see approach, at least until shortly before year-end, to reduce this risk. At the present time, Congressional leaders have said they do not expect a tax bill to be introduced or voted on prior to the November elections.

If you have questions about this potential tax saving opportunity, please contact us.

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