

# MONEY 101 EDUCATION

## 12.35 Are Dividend Paying Funds Better?

Investors, especially retirees love to receive dividends as they then withdraw the cash to support their household. But the question is, Are dividend paying funds better than non-dividend paying funds?

The answer is based on what type of account holds the investment: A traditional retirement account or a taxable Non Retirement. If the investor is withdrawing from a

1. Traditional retirement account, all withdrawals will be taxed as ordinary income, so it does not matter if the fund paid dividends or not.

2. NON-retirement fund, if the funds in prior years issued a dividend, the tax due on that dividend was already paid. However if the company did not pay dividends, when cashing-in, the investor may be able to take advantage of a lower tax rate. That is because investments held for more than a year which appreciate in value are taxed at a 20% capital gains tax - which in many cases will be lower than the tax bracket of ordinary income.

	NON DIVIDEND PAYING STOCK	DIVIDEND PAYING STOCK
Buys fund	\$ 100.00	\$ 100.00
Fund Growth	5%	3% fund growth
Market Value	\$ 105.00	\$ 103.00
Dividend Paid During the Year	0%	2% dividend
Dividend Paid During the Year	\$ -	\$ 2.00

**Moringstar - will report performance 5% 5% total returns**

Sells Fund	\$ 105.00	\$ 103.00
Basis = Cost	\$ 100.00	\$ 100.00
1099 Capital Gain	\$ 5.00	\$ 3.00
Tax Rate on Capital Gain	20%	20%
Tax On Capital Gain	\$ 1.00	\$ 0.60

Tax Rate on Dividends (ordinary Income)	28%	28%
1099 Dividend - Ordinary	\$ -	\$ 2.00
Tax on Dividend	\$ -	\$ 0.56

CASH from Sale of fund	\$ 105.00	\$ 103.00
CASH from Dividend	\$ -	\$ 2.00
TOTAL CASH Received	\$ 105.00	\$ 105.00
Less TAX on Capital Gain	\$ (1.00)	\$ (0.60)
Less TAX on Dividend	\$ -	\$ (0.56)
Net Cash in Pocket	\$ 104.00	\$ 103.84