

The Taxes They Are A'Changing!

The recently enacted tax reform package has profound implications for the tax treatment of stock dividend income and long-term capital gains. First, as you can see from the table below, individuals in the top four federal tax brackets will see their *net* income from dividends rise substantially due to an across the board tax rate reduction. Given that a 10-year U.S. Treasury note currently yields only 3.4%, the attraction of dividend paying stocks is obvious. Second, long term capital gains for wage earners in the top 2 brackets will be reduced from 20% to 15%, and to 5% for others. Once again, the attraction of buying assets with capital gains potential is obvious.

We would also like to point out that past tax reforms have had major impacts on markets. For example, recall the Tax Reform Act of 1986 that lowered personal income tax rates and drastically changed the depreciation schedules of real estate. That set off a multi-year slide in real estate prices, some of which was built based on tax benefits and not need, and underscores the long term effect that tax changes can have on an investment class.

It is our belief that the latest tax change could well set off a multi-year migration of investors looking to increase their income, and wealth, through ownership of dividend paying equities with growth potential. Many investors got mauled in the recent high-tech bubble and ensuing bear market. As these investors tiptoe back into the market, they may well be attracted to the type of investment that is the foundation of the investing philosophy of *Abbot Financial Management*.

	Comparison of Old and New Tax Rates on Dividends and Capital Gains			
Tax Bracket	38.6%/35%	35%/33%	30%/28%	27%/25%
Old Div. Rate	38.6%	35%	30%	27%
New Div. Rate	15%	15%	5%	5%
Old Cap Gain	20%	20%	20%	20%
New Cap Gain	15%	15%	5%	5%

Initially, these changes are scheduled to expire on December 31, 2008. However, depending on economic circumstances, this could change. At the least, we believe this opens up a 4 ½ year window of opportunity for all investors.

As always, we welcome your questions and comments.

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