

'Dividends' aren't tax free datebook

I understood dividends on selected utility stock are fully or partially not taxable. To non-taxable dividends paid from less stocks must be subtracted from the purchase price of the stock when it is sold.

I plan of buying some utility stock and would like to know if I should select a utility company that distributes non-taxable dividends or taxable dividends.

The dividends you are referring to are not fully tax exempt. While they are paid to you as dividends, they then are recaptured as "dividends" but as "return of capital."

The proration allows the utility, as a result of the construction and building program it has had, to make payments to shareholders and classify them as return of capital rather than as dividends.

For several years, electric utilities have been building extensive new facilities and as a result, have had substantial funds available for this type of treatment. In some cases, almost 100 percent of the company's dividend has been covered by these credits.

SINCE MANY UTILITIES are now reducing their building programs, it seems likely that the amount of these tax-free dividends in the future will be less.

It is not really correct to call the payment a tax-free dividend because it



today's investor

Thomas E. O'Hara

of the National Association of Investment Clubs

is really a return of capital. As such, you do not pay tax on it as a dividend, but, as you state, you reduce the amount you have paid for the stock by the part of the dividend that is classified as return of capital.

When you eventually sell the stock, your tax base has been reduced, and if you sell the stock for more than you paid for it, your capital gains tax will be bigger.

I WOULD NOT base my decision on whether to buy the electric utility on whether it has been paying a part of its dividend as a return of capital.

The only likely good that suggests it is that the company has been building a lot of new capacity. But some utilities have gotten themselves into a dangerous financial position in doing so.

If I were buying stock in an electric utility, I would pay more attention to whether the regular commission allows it to earn a fair return, and whether earnings and dividends have

been growing regularly.

If return of capital dividends are important to you, some insurance companies also qualify a part of their dividends for such treatment.

Thomas E. O'Hara of Bloomfield Hills is chairman of the board of trustees of the National Association of Investment Clubs and editor of Better Investing magazine. O'Hara welcomes questions and comments but will answer them only through this column. Readers who send in questions on a general investment subject or on a corporation with broad investor interest and whose questions are used will receive a free one-year subscription to the investment magazine Better Investing. O'Hara will send a free copy of Better Investing magazine or information about investment clubs to any reader requesting it. Send 50 cents for postage and write Today's Investor, P.O. Box 220, Royal Oak 48068.

● **CENSUS SURVEY**
Thursday-Saturday, Aug. 18-20 — The Bureau of Census will conduct a survey of employment. Employment and unemployment statistics based on results of the survey will be used to provide a continuing measure of the economic state of the nation.

● **WOMEN BUSINESS OWNERS**
Saturday, Aug. 20 — The National Association of Women Business Owners will hold a Texas barbecue fundraiser at 7 p.m. in Detroit. Tickets are \$50 per couple and \$35 per person. For more information, call Lynn Portnoy at 964-0339.

● **SMALL BUSINESS TRAINING**
Saturday, Aug. 20 — To introduce business owners to Michigan State University's small business management programs, MSU and Small Business Management Schools of Royal Oak will hold a free workshop at 10 a.m. at the MSU Management Center in Troy. For more information, call Small Business Management Schools at 542-4220.

● **GOVERNMENT ACCOUNTANTS**
Monday, Aug. 22 — The Association of Government Accountants, Metro Detroit Chapter, will meet at 11:30 a.m. at the Warren Chateau to discuss goals and plans for the coming year. For more information, call Yonina Ware at 226-3919.

● **FREE ENTERPRISE COMPANIES**
Tuesday, Aug. 23 — The Alliance of Free Enterprise Companies will meet for cocktails and dinner at 6:30 p.m. at Machus Sly Fox in Birmingham. "An Analysis of a Contractor's Contract . . . by an Attorney" will begin at 8:30 p.m. Price is \$25 per person.

● **BUSINESS WOMEN**
Wednesday, Aug. 24 — The American Business Women's Association, Motor City Charter Chapter, will hold its monthly dinner meeting at the Apollo Hall in Detroit. Speaker will be director of public relations for Detroit Receiving Hospital and University Health Center. For reservations, call Lois Buck at 399-1590.

● **SMALL BUSINESS TRAINING**
Wednesday, Aug. 24 — To introduce business owners to Michigan State University's small business management programs, MSU and Small Business Management Schools of Royal Oak will hold a free workshop at 7 p.m. at the MSU Management Center in Troy. For more information, call Small Business Management Schools at 542-4220.

● **SMALL BUSINESS TRAINING**
Saturday, Aug. 27 — To introduce business owners to Michigan State University's small business management programs, MSU and Small Business Management Schools of Royal Oak will

held a free workshop at 10 a.m. at the MSU Management Center in Troy. For more information, call Small Business Management Schools at 542-4220.

● **NEIGHBORHOOD IMPROVEMENT**
Wednesday, Aug. 31 — Manufacturers Bank and the Neighborhood Resource Center Project will sponsor a seminar to help neighborhood organizations and individuals improve their neighborhoods. The seminar will begin at 6:30 p.m. at the Main Library in Detroit and conclude at 8:45 p.m. For more information, call Manufacturers Bank at 232-5831.

● **WOMEN IN TELECOMMUNICATIONS**
Monday, Sept. 5 — International Organization of Women in Telecommunications Inc. meets at 6 p.m. at American Bell Inc. in Southfield. Program: first of three parts of "Basic Data." Price: \$1 for members, \$4 for non-members. For reservations, call Donna Seligman at 649-4454.

● **SMALL BUSINESS SUCCESS**
Monday, Sept. 5 — "How to Start a Successful Small Business," a six-week course, will be offered 7-10 p.m. by the Michigan State University's School of Business and Small Business Management Schools of Royal Oak. For reservations for more information, call 542-4220.

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