

Categorizing Dividends According To Types

Dividends are a portion of the company's earnings to be distributed to its shareholders, based on the board of directors' decision. Dividends are quoted as Dividend Per Share (DPS) or dividend yield. Most companies having stable and secure growth offer dividends when their share prices become stagnant. However several companies do not offer dividends since all their profits are reinvested to ensure faster, better-than-average growth. The board of directors decides the percentage of the profit to be distributed as dividends. Dividends are issued quarterly or annually, and companies are not under any obligation to pay dividends every quarter and the company may stop paying dividends at any point in time. But if the company stops paying dividends its market value is affected. Hence a reason why dividends are usually paid regularly and even if there is no increase in the dividend at least they will get dividends on a fairly regular basis. The board of directors declare dividends each time they are paid. There are three important dividend-related dates: declaration date, date of record and payment date. On the declaration date the company opens a book of liabilities in terms of the cash dividends it owes to the shareholders, and on this date both the other dates are decided and declared. Date of record indicates the dividends paid only to shareholders who are the owners of the share on or before the date of record. Payment date is the date the dividend is paid out.

Types Of Dividends

Companies offer three regular kinds of dividends as well as special forms of dividends

1.Cash Dividends:

This is the most common and popular method of sharing a company's profits. The company pays portion of profits to shareholders as dollar per share. However cash dividends are subject to double taxation in the US. This is a reason used by many companies to justify not paying dividends. The government taxes at a maximum rate of 15%. The company distributes dividends after the company has paid income tax and the government taxes the shareholders once they receive the dividends.

2.Stock Dividends:

Companies pay stock dividends in the form of additional shares of the same company or its subsidiary corporation according to the proportion of the shares owned.

3.Property Dividends:

Companies pay property dividends in the form of products or services provided by the corporation. These take the form of assets such as gold, silver, cocoa beans etc. distributed by companies.

4.Special Dividends:

Companies offer special dividends rarely, such as when the company wins litigation and when the company sells a business or liquidation of investments. Some companies also offer special dividends when they have high amount of excess cash, in order to boost the market value of their stocks. Sometimes they document these special dividends as return of capital, meaning the company is returning a portion of the money invested by the shareholders. They call these dividends capital dividends, and these dividends are tax-free.

Reinvested Dividends

Shareholders can reinvest dividends received partially or totally in the company's stock if the shareholder does not depend on the dividends to make ends meet. Shareholders accumulate wealth consistently this way and enrolling in a dividend reinvestment plan can make the whole process of reinvesting easier since everything is automated, thanks to the various types of software that have commendable features, making everything concerned with dividends just a mouse click away. From the convenience of your home you can find out the latest statistics about dividends and reinvestment options.

Source: <http://www.articlecircle.com>

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