

Dividends and Interest Are Different

Dividends are distributions of company earnings to shareholders in the form of cash, shares of stock, or property. A mutual fund may label its distribution as a dividend, but the distribution may also include short-term capital gains and interest income — important to know because dividends and long-term capital gains are taxed at rates of 15 percent or less. Short-term capital gains and interest income are taxed at your usual income tax rate. Note: the lower capital-gains rates have no impact on investments held in tax-deferred retirement accounts. Capital gains accumulated in these accounts will be taxed at your regular tax rate when withdrawn.

Interest is the cash paid regularly — usually semi-annually — at a particular rate for the use of lent money. You'll find interest rates quoted on bonds and Treasury Bills.

Dividends from stock and interest from bonds generated in retirement savings plan accounts are typically deposited in a money market fund or other interest-bearing vehicle within the accounts.

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