Look who is the new twinkle in your eye… Dividends!

It is nicer today than yesterday. Nicer, that is, to invest in certain types of investments. And all because the new tax law has reduced the tax you pay on qualified dividend distributions. The question now becomes; "Is your current investment strategy still working for you?"

The impact the new tax law has on your investment process can be quite significant, especially if your portfolio includes blue chip and income stocks. These stocks are generally purchased because a large component of their total return comes in the form of consistent and steady dividend distributions.

Under the new tax law, the top tax bracket for qualified dividends has been dramatically reduced. Beginning in 2003, the tax rate for taxpayers above the 15 percent tax bracket was reduced from 38.6 percent to 15 percent. For 2003 through 2007, taxpayers in the two lowest tax brackets are taxed at 5%. For 2008 and 2009, the rate is reduced to 0%. Therefore, taxpayers in the 10 and 15 percent tax brackets will pay no taxes on qualified dividend income received in 2008 or 2009.

However simple this one change seems, the potential tax savings it presents may open up new opportunities for you regardless of whether you are saving for a child's education or for your own retirement. For example, you may want to explore repositioning your assets to take full advantage of the change.

In fact, the new dividend tax law may have cracked one of the old cornerstones of the accumulation phase in financial planning. In the past, it was tax savvy to hold an investor's dividend paying stocks in their tax-deferred accounts such as an IRA or 401(k). That old cornerstone may need to be adjusted. It may now make more sense for a given investor to hold bonds and other fixed-income investments into IRA and 401(k) accounts and hold dividend paying stocks into taxable investment accounts to take advantage of the new, lower tax rates on dividends.

The process for determining if, when and how you should take advantage of the new tax law changes has many moving parts. The decision making process continues to be based upon the determination of your time horizon, along with your potential tax exposure, and your risk tolerance level.

Timing, of course, is everything. This new more favorable tax treatment may only be available for a short period of time. Unless Congress makes this tax cut permanent, the new, more favorable tax rates will revert back to the old, higher rates and this window period of opportunity will close.

As always, in making any investment decision, you should not let the tax tail wag the investment dog. It is important that investment decisions are not focused solely on the new tax law. Before making any significant changes to your investment strategy, consider consulting with your financial advisor or tax preparer.

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