

From the Tax Expert: Why you should sell Weyerhaeuser today

By Robert N. Gordon

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Most taxable investors who wish to continue to hold shares of Weyerhaeuser Co. Ticker: (WY) should probably sell today and buy it back again tomorrow after the stock has gone ex-dividend.

Last Monday, the company declared a special dividend of \$5.6 billion, which works out to roughly \$26.47 per share and is expected to be treated as an ordinary dividend for tax purposes. The dividend will have a record date of July 22 (the shares go ex-dividend July 20) and will be paid in September. The company capped the total cash portion at \$560 million, or about 10% of the total amount. Thus 90% of the dividend will be paid in stock, resulting in nothing more than a giant stock split granting no added value to the holder. Worse, unlike a regular stock split, which usually does not come attached with a tax bill, this stock distribution does.

For simplicity's sake, let's assume that an investor bought a share today for \$40 and sold tomorrow for \$13.53, breaking even. For tax purposes, the investor would have to pay tax on \$26.47, while receiving only \$2.65 in cash and additional shares in a now heavily diluted capital structure. The investor would also have a capital loss of \$26.47 on the share, which would be treated as a long-term loss under the rules of the Internal Revenue Code governing "extraordinary dividends." Taxable investors would be wise to take note that capital losses can be utilized only against gains, not dividend income. Those without gains could wind up with quite an unexpected tax bill.

My next column will go into the whys and wherefores that got Weyerhaeuser to make such a large "distribution."

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