Abstract
The Job Growth and Taxpayer Relief Reconciliation Act of 2003 lowered dividend taxes to the same rate as capital gains taxes in the United States using the Pecking Order Theory as a framework. This paper develops a model that examines the effect the tax cut will have on corporate investment. The model finds that the dividend rate tax cut will increase the corporate cost of capital and lower investment. Therefore, any increase in the value of the stock market from this act will simply be a response to an increase in after tax returns and not from an increase in production.

Keywords
Corporate Investment, Tax Policy, Dividends, Pecking Order Theory