Law and Dividend Taxation

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Abstract

We document a combined effect of investor protection and taxation on dividends across OECD countries. We find that, in strong protection countries, firms maximise the after-tax dividend returns, as they pay less cash dividends but repurchase more, in a classical dividend tax system, compared to the partial or full imputation system, where the payouts and the probability of paying and increasing cash dividends are higher. The tax differential between dividends and capital gain also affects the probability to pay and change dividends, and to buyback stocks. In low protection countries, the relationship between cash dividends and taxation is weak.

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