

The Impact of Taxation on Dividends: A Cross-Country Analysis

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Abstract

We analyse the tax systems in the OECD member countries and their impact on dividend distributions. We find that the dividend payout is monotonically distributed across tax regimes as firms in double taxation (classical) tax system countries have significantly lower payouts than companies in partial-imputation system countries, while firms in the full imputation system pay the highest payouts. Our results hold when we control for the other fundamental determinants of dividends through the Lintner's model and the actual payout ratio. In particular, we show that speed of adjustment and target payout ratio are significantly higher in the full or partial taxation system compared to double taxation system. Overall, we report that the type of dividend tax system affect the size of dividend payout while the tax rate differential between dividends and capital gain affect the discrete decision whether to pay, initialize, increase, cut and omit dividends.

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