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AUSTRALIA'S HOME BIAS AND CROSS BORDER TAXATION

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Abstract

The paper examines the impact of cross border taxation on Australia's free float home bias. The paper controls for various sources of home bias including familiarity, explicit cost, diversification motives and governance issues when examining the impact of cross border tax variables. In our sample of 44 foreign countries where Australia invests over the period 2001 to 2009, about sixty six percent (eighty two percent) withhold taxes on realized capital gains (dividends) of foreign investors. A tax credit variable for foreign taxes paid on dividends is constructed and found to be statistically significant in reducing home bias.

Keywords: Cross Border Taxation, Float Home Bias, Dividend Tax Credit, Dividend Imputation

JEL Classification: G11, G15

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