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Dividend drop-off estimates of the value of dividend imputation tax credits

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ABSTRACT

The value of dividend imputation tax credits is the product of two components: the proportion of credits that are distributed to shareholders and the market value of those distributed credits. We employ a large sample and improved econometric techniques to estimate the value of both cash dividends and distributed imputation credits using dividend drop-off analysis. Our sample period begins in July 2000 to coincide with an important amendment to the dividend imputation legislation that allows residents to claim a cash rebate for excess credits, ends in June 2016, and covers 4,690 ex-dividend events. Our results indicate that the market values distributed imputation credits at approximately 35% of the face amount.

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Key Words: Dividend Imputation; ex-dividend day; Cost of Capital.
JEL Classifications: G31; G38

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