Dividend Clientele under the New Zealand Full Imputation Tax Regime

Under the New Zealand imputation tax regime, and in contrast to the classical tax regime, investors are to large extent indifferent between receiving their income in the form of cash dividends or capital gains. This study capitalizes on the unique features of the imputation tax regime with regard to tax neutrality, the minimum effect of discreteness, the homogeneity of investors relative to a classical tax regime, and the introduction of FITC, to examine the tax-induced dividend clientele.

The results indicate that share prices drop by less than the amount of dividend on the ex-dividend day. The implication of this finding is that the behaviour of share prices on the ex-dividend day is not due to tax differential between dividend and capital gains.