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THOMAS MC CLUSKEY

Dublin City University, Ireland

EVIDENCE ON THE EX-DIV REACTION IN THE IRISH STOCK MARKET

Abstract:

The findings of studies on US data indicate a statistical relationship between the dividend policy of firms and the tax bracket of their shareholders while studies on UK data concluded that taxation does effect the valuation of dividend income in the UK. However a recent Irish study, based on interviews with Irish stockbrokers and funds managers, appears to contradict the widely held view among academics that taxation effects the valuation of dividend income. This study considers, in the light of that evidence, whether Irish shareholders are indeed indifferent to the differential taxation treatment of dividends and retained profits by examining the impact of a major change in the taxation of capital gains and dividend income in Ireland on 3rd December 1997 after which dividends were and continue to be taxed at more than double the tax rate on capital gains. We conclude that consistent with recent qualitative evidence Irish shareholders appear indifferent to the differential taxation treatment of dividends and retained profits and therefore the notion that a particular company may appeal to a particular clientele of shareholders is not supported in an Irish context.

Keywords:

Ex- Dividend Day Reaction in the Irish Stock Market

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