

[DOI: 10.20472/IAC.2019.052.048](https://doi.org/10.20472/IAC.2019.052.048)

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## **TAX PREFERENCE FOR DIFFERENT PAYOUT METHODS OVER A PERIOD OF TAX REFORM IN SOUTH AFRICA**

### **Abstract:**

Tax reform in South Africa has been extensive since 2011, with the amendment of “dividend” as defined, followed by the introduction of dividends tax and consecutive increases in the applicable tax rates. Extant literature predominantly focuses on periods prior to these reforms and understates the role of taxes in a choice between dividends and share repurchases. The purpose of this article is to enunciate the increased role of taxes in a preference for different payout methods a result of tax reform. An exploratory study was performed in which the nominal after-tax value of a R100 of different payout methods was calculated for an individual, corporate and fund investor over a period of tax reform. A tax differential was then calculated to quantify the magnitude of changes over the different periods. Evidence of higher tax differentials from tax reform in 2011, which also resulted in certain tax-induced preferences for dividends and share repurchases. The change in tax-induced preferences is submitted as an indication of the increased role of taxes as a result of the reform. It is submitted that a corporate shareholder is the most affected by the tax reform based on the category taxpayer with the highest tax differentials since the tax reform in 2011.

### **Keywords:**

Tax preferences; tax differential; dividends; share repurchases; tax reform, dividends tax

**JEL Classification:** H24, H25