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**The relationship between share repurchases and dividends in an
imputation tax environment**

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ABSTRACT

This paper examines the relationship between share repurchases and dividend changes in a non-classical tax environment, where dividends are not tax disadvantaged relative to capital gains. Using a sample containing on- and off-market repurchases conducted by Australian companies over the 1996-2003 period we explore the determinants of repurchase yield. We find that repurchase yield is positively related to dividend increases, suggesting that firms are not buying back shares with funds generated by altering dividend policy. In the US, which operates a classical tax system, Grullon and Michaely (2002) find that firms are financing repurchases with funds that would otherwise have been used to increase dividends. In contrast our findings indicate that Australian firms are not substituting from dividends towards repurchases.

KEYWORDS: payout, imputation, franking, buyback, repurchase, off-market, equal access

JEL CLASSIFICATION: G30, G32, G35

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