

**Dividend Initiations and Information Content -
The Impact of the 2003 Dividend Tax Cut**

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Abstract

We re-examine the information content of dividend initiation regarding future earnings and whether they are reflected in long term price reactions. We further examine whether this effect differs between the periods pre- and post-the dividend tax cut in 2003. We find strong (weak) evidence of information content for dividends initiated by firms subsequent (prior) to the 2003 tax cut. The information content of dividend initiation regarding future earnings is more pronounced for firms with higher free cash flows and higher growth opportunities in the post-tax cut period. Further, we find that abnormal operating performances are positively related to post announcement long run abnormal returns for both the pre- and post-tax periods, indicating that the information content of dividend initiation regarding future earnings is reflected in the long-term reaction.

Speaker Profile

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