

# Cross-Border Investing with Tax Arbitrage: The Case of German Dividend Tax Credits

[Get access >](#)

Robert L. McDonald

*The Review of Financial Studies*, Volume 14, Issue 3, 1 July 2001, Pages 617–657,  
<https://doi.org/10.1093/rfs/14.3.617>

**Published:** 22 June 2015

## Abstract

German dividends typically carry a tax credit which makes the dividend worth 42.86% more to a taxable German shareholder than to a tax-exempt or foreign shareholder. This results in a penalty for foreign investors who buy and hold German dividend-paying stocks. I document that, as a result of the credit, the ex-day drop exceeds the dividend by more than one-half of the tax credit, and show that futures and option prices embed more than one-half of the tax credit. The existence of the credit creates opportunities for cross-border tax arbitrage—in which foreign holders of German stock transfer the dividend to German shareholders—and implies that it is tax efficient for foreign investors to hold derivatives rather than investing directly in German stocks. The empirical findings are consistent with costly tax arbitrage activity by German investors, who face tax risk due to antiarbitrage rules. Since dividend tax credits exist in many other countries, the findings are potentially of broad interest.

Copyright The Society for Financial Studies 2001

**Issue Section:** [Regular](#)

**Collection:** [SFS Journals](#)

You do not currently have access to this article.

**Sign in**

 [Get help with access](#)

## Personal account

- Sign in with email/username & password
- Get email alerts
- Save searches
- Purchase content
- Activate your purchase/trial code
- Add your ORCID iD

Sign in >

Register

## Institutional access



Sign in through your institution



Sign in through your institution >

Sign in with a library card

Sign in with username/password

Recommend to your librarian

## Institutional account management

Sign in as administrator

## Purchase

[Subscription prices and ordering for this journal](#)

[Purchasing options for books and journals across Oxford Academic](#)

## Short-term Access

To purchase short-term access, please sign in to your personal account above.

Don't already have a personal account? [Register](#)

Cross-Border Investing with Tax Arbitrage: The Case of German Dividend Tax Credits - 24 Hours access

EUR €53.00

GBP £44.00

USD \$58.00

## Rental



This article is also available for rental through DeepDyve.