

**THE IMPACT OF DIVIDEND TAX CHANGES ON THE  
PERFORMANCE OF MALAYSIAN REITS**

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**THE IMPACT OF DIVIDEND TAX CHANGES ON THE PERFORMANCE  
OF MALAYSIAN REITS**

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**In Fulfilment of the Requirement for the Degree of Master of Finance**

## **DECLARATION**

I declare that the substance of this project paper has never been submitted for any degree or postgraduate program and qualifications.

I certify that all the support and assistance received in preparing this project paper and the entire source abstracted have been acknowledged in this stated project paper.

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## **ABSTRAK**

Karya ini merupakan kajian empirikal yang pertama untuk mengkaji kesan cukai dividen terhadap prestasi REIT di Malaysia. Bajet tahunan 2007, 2009 dan 2011 yang diumumkan oleh kerajaan Malaysia memaklumkan bahawa potongan cukai dividen bagi sektor REIT menawarkan peluang kepada penyelidik untuk mengkaji kesan cukai ke atas prestasi harga dan kecairan REIT. Daripada hasil keputusan yang telah dilakukan, penyelidik mendapati bahawa pengumuman pemotongan cukai dividen yang dibuat pada tahun 2006 dan 2008 mengakibatkan reaksi harga saham yang positif. Justeru, CAARs adalah signifikan pada aras 10% dalam pengumuman pertama dan kedua. Manakala, CAARs untuk pengumuman ketiga bagi cukai dividen pada tahun 2011 adalah tidak signifikan. Keputusan ini menyokong hipotesis bahawa pengumuman pemotongan cukai dividen akan meningkatkan kekayaan REIT kerana cukai adalah salah satu bentuk kos urusniaga. CAARs untuk pengumuman ketiga tidak signifikan mungkin disebabkan oleh tiada pemotongan cukai dividen yang dikenakan dan tiada maklumat baru diumumkan oleh pihak kerajaan. Pengumuman ketiga hanya memanjangkan tempoh cukai dividen pada kadar yang sama untuk empat tahun yang seterusnya sehingga tahun 2016. Walau bagaimanapun, saya tidak mendapati sebarang bukti untuk menyokong hipotesis bahawa pemotongan cukai dividen akan meningkatkan kecairan REIT.

Kata kunci: cukai, volum dagangan, CAAR, pengumuman, saham bebas, pemilikan, saiz, tahun, turun naik, prestasi.

## ABSTRACT

This is the first empirical research examining the effects of dividend taxes on the performance of real estate investment trusts (REITs) in Malaysia. The Malaysian government's announcement of remissions of dividend tax for the REIT sector under the 2007, 2009 and 2011 budgets, provide an excellent but rare opportunity to examine the impact of taxation on stock price performance and stock liquidity. It can be concluded that dividend tax cut announcements made in 2006 and 2008 resulted in a positive stock price reaction from the stock market. The cumulative average abnormal returns (CAARs) are significant at the 10% level across the three event windows. The CAARs for dividend tax remission announced in 2011, on the other hand, are not significantly different from zero. These results support the hypothesis that the announcement of dividend tax reductions increases the wealth of REITs because tax is a form of transaction cost. The insignificance of third announcement CAARs could possible due to lack of new information as it merely extended the dividend tax benefits for another 4 years until 2016. It is also verified that there were no evidence to support the hypothesis that dividend tax cuts will increase the liquidity of REIT shares as proxied by shares trading volume.

Keywords: Dividend Tax, Trading Volume, REITs, Liquidity, Performance

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## **CHAPTER ONE: Introduction**

### **1.0 Introduction**

This chapter presents the overview and background of Real Estate Investment Trusts (REITs), problem statement of the study, research objectives which consist of general and specific objectives, research questions, hypotheses of the study, significance of the study, scope and limitation of the study and chapter layout.

REITs are entities that own income producing real estate such as commercial buildings and apartments and derive most of their income from rentals. REITs provide investors a stable stream of dividend income since rental incomes tend to be fixed in the short-run. Similar to other unit trust funds, REITs offer diversification benefits and long term capital appreciation. REITs facilitate retail investors to invest in commercial properties through the purchase of REIT shares. Investors could earn a share of the income produced through REITs without having to own the property.

One of the uniqueness of REITs as compared to general stocks, is that it has conditional tax exemption status. REITs do not have to pay corporate taxes as long as they distribute 90% of their taxable income as dividends to the shareholders. The tax exemption status has been used by regulators world-wide to spur the growth of the REIT sector in their respective countries. Malaysia is the first Asian country to introduce property trusts. The first property trust was listed on the Kuala Lumpur Stock Exchange (KLSE) in year 1989. The purpose of introducing this investment vehicle was to provide the small investors an avenue to invest in the local property sector. However, the property trust sector never really took off due to the absence of

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