Dividend Reinvestment Plans (DRIPs)

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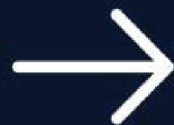

What Is a Dividend Reinvestment Plan (DRIP)?

A dividend reinvestment plan (DRIP) is a program that allows investors to **reinvest** their cash **dividends into additional shares** of the underlying stock.

Most DRIPs allow investors to buy shares commission-free or for a nominal fee, and at a significant discount to the current share price.

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Key Takeaways

- A DRIP, uses the proceeds generated from dividends to purchase more shares of the company.
- Investors can **buy shares commission-free** or at a nominal fee, and at a **discounted rate** compared to the current share price.
- DRIPs are taxed as ordinary dividends even though they are used to purchase shares.
- These benefits allow investors to **compound** their **returns** over time by accumulating more shares.

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There are several advantages of purchasing shares through a DRIP.

Advantages for the Investor

Shareholders can accumulate more shares without having to pay a commission. Many companies offer shares at a discount from 1% to 10% off the current share price.

Advantages for the Company

Dividend-paying companies also benefit from DRIPs in a couple of ways.

- More capital for the company
- Shareholders who participate are less likely to sell

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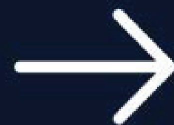

Real-World Example of a DRIP

Plenty of major ASX companies offer dividends, including BHP (ASX: BHP).

If you purchased $10,000 of BHP in July 2003.

With an average dividend of 8% per year, it would now be worth **$49,268**.

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