

EFFECT OF COMPANY INCOME TAX ON DIVIDEND POLICY OF FIRMS IN NIGERIA.

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Abstract

The study examines the effect of company income tax on dividend policy of firms in Nigeria. Data for the study were collected from the annual reports of the nine selected firms listed in the Nigerian Stock Exchange Data for 2011 and 2015 were analyzed using the Pearson correlation and Ordinary least squares (OLS) regression analysis. The analyses of the results revealed that profitability is a core determinant of the dividend policy as there is significant relationship between dividend and profitability. Also taxes have negative and non- significant effect on the dividend policy of the firms. It was recommended that since high taxes scared investors and businessmen away, government should make tax policies that would attract and keep them on track. The paper concludes that there are other factors that determine the dividends of Nigerian firms other than profitability and taxes.

Keywords: Dividend, taxes, firms, dividend policy

Introduction

For many years, investors have thought of dividends as a way to value equities and the justification for using dividends to value a company stock is that dividends represent the actual cash flows going to the shareholder. These stocks have been attractive not only for the value of regular income they provide but also because of their generally lower price variability compared with other stocks. Yet over past 30 years, dividends- whether measured by the number of companies paying them, the dividend yield have generally been falling. Many investors have grown concern about this long-term downstream and have questioned whether it implies lower equity returns in the future. (Hubbard, 2003).

If a firm wish to make cash payments to its investors, but to avoid or minimize the overall dividend tax burden of such payments, it has several options. One possibility is to take on more debt, so that the firm's cash payments to its investors take the form of interest payments, which are tax deductible from corporate income. However, unforeseen calamities can trigger bankruptcies of highly levered firms, while skipping or cutting a dividend triggers lesser corporate crises. Another option is for firms to make cash payments to shareholders by repurchasing their own shares. (Bagwell & Shoven, 2004). Repurchases subject individual investors to capital gains taxes, which usually have lower effective rates than dividend taxes.

Also, many firms only begin paying dividends when they are a decade or two old. For example, Microsoft, founded in 1976 and listed on the stock exchange in 1986, paid its first dividend in 2003. But young firms ought to be hardest for investors to value and so ought to need signalling the most.(Berzins, 2012).

Dividend is the core component of a firms overall financial policy. It is comprised of a series of decisions regarding how the firms distribute profits to their shareholders and it mostly includes basic content about the selection policy, dividend payout ratio and payout channel etc. since the policy determines whether to distribute the earnings to shareholders or self-finance through retained earnings, so it is an important issue that receives more attention these days from both academics and practitioners (Allen & Franklin, 2006).

Dividend policy is primarily concerned with the decisions regarding dividend payout and retention. It is a decision that considers the amounts of profits to be retained by the company and that to be distributed to the shareholders of the company (Allen & Bernardo, 2004). Dividend policy is the core component of a firm's overall financial policy and it gives an idea for growth and investment

opportunities and is comprised of a series of decisions regarding how the firms distribute profits to their shareholders and it mostly includes basic contents about the selection of dividend policy, dividend payout ratio and payout channel etc. Since the dividend policy determines whether to distribute the earnings to shareholders or self-finance through retained earnings, so it is an important issue that receives more attention these days from both academics and practitioners (Bennard, 2006). Dividend payout depends on many factors, such as earnings, size, and growth in addition to the tax rate.

Tax is a compulsory payment imposed by government on the people residing in the country. It is a levy imposed by the government against the income, profit or wealth of the individuals, partnership and corporate organizations. (Ochiogu, 2001). It must be for common good. A tax must be for common good, the government uses the revenue collected from taxes for providing hospitals, schools, public utility services etc. Corporate income tax is one of the major sources of revenue to all governments. In Nigeria, it is a factor to be reckoned with in Federal Government's budget. The taxes so collected come back to the taxpayers in form of services and to either encouraged or discouraged some activities in the private sector; though, this depends on whether the policy of the government is towards discouraging or encouraging such companies (Ola, 1999).

Statement of Problem

Taxing individuals' dividend income makes stocks relatively unattractive to taxable individual investors and relatively attractive to tax-exempt institutional investors. Institutional investors can potentially overcome the collective action problems that plague corporate governance in widely held corporations, where each individual shareholder rationally opts to free ride on other shareholders' efforts to improve governance. Retaining a tax on individual dividend income preserves this advantage for tax-exempt institutional investors. (Hubbard, 2003).

Traditional arguments about dividend taxes focus on the economic distortions they induce, rather than on how they constrain or encourage deviations from value maximization. Thus, the traditional dividend taxation literature largely turns on dividends being part of the return on capital (Auerbach, 2002).

The main problem concerning dividend policy is whether to pay out profits as dividends or to plough the money back into the company as reinvestment. It seems that several factors influence firms' dividend policy: risk, taxes, costs, information, shareholders, clienteles, shareholders' behaviour etc. From the late 2000s, a new school emerged which actually brought the minimization of the dividend into the foreground, the so-called radical leftwing. Their argumentation focused on the different rates of capital gains taxes and taxes on dividends. In the United States, tax was imposed on dividends in a similar way as to the Hungarian personal income tax consolidated tax base, and only capital gains tax was thought of as being related to separate incomes. Due to this fact, dividends were taxed progressively along with the investor's other income streams, including wages and salaries from labour relations. The point of the radical dividend-cutting position was that, as long as the owners of the company paid more taxes on dividends than on capital gains, any dividend pay-out meant losses of assets for shareholders to the extent which corresponded to the actual tax disadvantages. Therefore, it seemed expedient to minimize dividend payments on taxes, or defer them to optimal cases, and furthermore to eliminate them fully in extreme cases, and to completely re-orient shareholders towards preferring cash withdrawals through selling their shares.

Objectives of the Study

The main objective of the study is to examine the effect of company income tax on dividend policy of firms in Nigeria. While the specific objectives are as follows: To determine whether there is a significant relationship between profitability and dividend policy of firms. To examine the relationship between company income tax and dividend policy of firms.

Research Hypotheses

In order to give direction to the study, the following hypotheses were formulated and tested.

1. H01: There is no significant relationship between dividend pay-out and the profitability of firms in Nigeria.
2. H02: There is no significant relationship between dividend pay-out and taxation in Nigeria.
3. H03: There is no significant relationship between the profitability and taxation of firms in Nigeria.

Review of Literature Review

Conceptual framework

The essence of good governance is to improve the welfare of the generality of the populace which is carried with resources raised through taxation. Taxes built capacity, legitimacy and consent. Thus, the imposition of tax is statutory to enable government meet its obligations. The constitution of the Federal Republic of Nigeria 1999 (as amended) under section 24(f) stipulates that, it shall be the duty of every citizen to declare his income honestly to appropriate and lawful agencies and pay his tax promptly.

Companies fall within the categories of persons that are taxable in Nigeria. Companies are taxed under the companies income tax introduced in 1961 with modification in 2007. The administration of the companies' income tax in Nigeria is vested on the Federal Inland Revenue Services. The tax is payable by all companies at the rate defined by the Companies Income Tax Act (CITA).

Taxation is defined from elementary economics as the act of imposing a compulsory levy by the government or its agency on individuals, firms, goods and services. Taxes imposed on individuals is known as personal income tax while those imposed on companies could take various forms like Companies Income Tax, Education tax, Petroleum profit tax, or Capital Gains Tax. Value Added Tax is imposed on goods and services. The amount and time of tax to be paid by an individual or business organization is guided by the enabling act governing the type of tax. For example, the amount of tax payable by an individual is governed by the Personal Income Tax Act, while the income tax payable by a company is regulated by the Company Income Tax Act

Company Income Tax.

The first legislative enactment of company income tax in Nigerian was introduced in 1939 through the instrumentality of companies' income tax ordinance. Before the law came into effect, the regulation of both personal and business taxation was vested in one and the same legal regime. The company income tax vested administration of the tax in a commissioner to be appointed for that purpose by the Governor and the proceeds from the tax were to be remitted to the treasury to form part of the general revenue of Nigeria. This ordinance was found to be ineffective as it failed to bring individuals onto tax net. Due to this weakness, the Companies Income Tax Ordinance of 1939 was repealed a year after it's passed by the income tax ordinance 1940. The ordinance regulated both personal business taxation and carried on for 21 years when the second separate enactment on companies' income tax was again enacted.

The company income act was in force until 1979 when it was repealed by the Companies Income Tax Act No. 28 1979. During its eighteen years it underwent series of amendments. The administration of the tax was vested in the then Federal Inland Revenue which was established under section 1 of the decree. The duties and powers of the Board included the assessment, collection and accounting for all taxes under the Act, the power to hold and dispose property, the power to delegate some of its powers to another person to exercise on its behalf and the power to sue and be sued in its official name.

Objectives of the Nigerian tax system

The objectives of a tax system as identified by the Nigerian Tax Policy are as follows:

1. To promote fiscal responsibility and accountability.

2. To provide resources stability for the government while the government use the resources provide goods and services for the public.
3. Economic development and growth facilitation.
4. To ensure that the issues of income distribution inequalities is addressed.
5. To ensure stability of the economy.
6. To correct disappointments and faultiness in the market. (National Tax Policy)

Theoretical Review

The theory of taxation could be based on the activities between tax liability and the state, the primary purpose of taxation is to generate revenue for the government to settle its expenditure and for the provision of social amenities and welfare for the populace. According to Ogbonna (2012), this reasoning justifies the imposition of taxes for financing stage activities and for the provision of a basis for apportioning the tax burden between members of the society.

The M & M theory posits the irrelevance in a tax-less society in remarkable fictitious on its assumption of taxes. Tax is a recurrent factor in investors and the firm especially in the dividend policies. Tax plays an important point in dividend decisions particularly for the shareholders in attempt to make tax saving.

Dynamic models

A forerunner of the modeling of this dynamic strategy was Kalay (1998). In his model, if a perfect market is assumed (or to be more precise, if market imperfections are embodied only in the form of taxes), i.e., there are no transaction costs, access to information is perfect, and no institutional contracts for trading exist, then through trading investors can fully eliminate the tax disadvantages of the tax on dividends. In this approach, as trading associated with dividend payment is limited to just a few days, no considerable time risks arise, and the given situation in fact turns into arbitrage. In this context, it is perfect arbitrage options that ensure that the drop in the ex-dividend price should correspond to the actual volume of the dividend, but cannot be smaller. Kalay (1998) claimed that conventional (i.e. static) dividend-based clientele models were non-existent, because at the time of dividend payment, investors relied on arbitrage activities to get rid of their tax payment obligations on dividends. It has been observed through a number of studies of capital markets throughout the world – for instance, in the United States, Italy, Japan, Sweden, and Norway – that significant turnover occurs at dividend payment time. This turnover positively correlates with the amounts of dividends paid, but negatively correlates with transaction costs and the risks of the interim period. Bhattacharya (1979) and others have built a large literature in which dividends are signals from corporate insiders to shareholders about the expected future profits of the firm. Since dividend hikes raise share prices and dividend cuts lower them, a signalling role for dividends seems plausible. However, the theory that firms use dividends to send signals about future profits raises some difficult questions. Why don't firms devise less costly but equally informative signals?

The model explained by Kalay (1998) has substantial practical consequences. The model concerns dynamic tax minimization, meaning that at dividend payment time, investors in various tax brackets are able to effectuate tax arbitrage by means of trading activities. The associated effects can be perceived, e.g., in Hungary, at dividend payment time, on shares with considerable dividend yields. For this reason, this theory is explained in detail.

Hereunder, tax arbitrage is defined as a type of share trading activity executed for the purpose of reducing the aggregate tax payment obligation (sum of the tax on dividend and capital gains tax) of the participants. As a result of the arbitrage, all participating actors typically see their tax payment obligations reduced, yet within the context of the model it is sufficient to assume that the obligations of at least one stakeholder decrease, while none of the actors are subject to increased payable taxes. Kalay's conclusion is based on the fact that there are no obstacles to arbitrage - for instance, trading is not hindered by capacity (position) problems. Arbitrage occurs due to the fact that there are at

least two groups of investors whose circumstances differ regarding taxes on dividends. In most of the capital markets, corporate investors are taxed under different principles in comparison with private actors: for dividends received from other companies, corporate investors are generally granted tax benefits (such as in the United States and Germany), and furthermore, sometimes benefit from complete exemption from tax (Hungary).

Static models analyse the influences within a given investment environment— how investors can adapt themselves to given tax rates with any specific corporate dividend policy, and how this is reflected in share prices. This means that with an unchanged dividend policy in equilibrium, investors do not trade their securities, but maintain their positions. (Gul, 2012)

Tax effect theory

Tax preference theory was first developed by Litzenberger and Ramaswamy in 1973. This theory claims that investors prefer lower payout companies for tax reasons. Litzenberger and Ramaswamy based this theory on observation of American stock market. They presented three major reasons why investors might prefer lower payout companies. Firstly, unlike dividend, long-term capital gains allow the investor to defer tax payment until they decide to sell the stock. Because of time value effects, tax paid immediately has a higher effective capital cost than the same tax paid in the future. Secondly, up until 1986 all dividend and only 40 percent of capital gains were taxed. At a taxation rate of 50%, this gives us a 50% tax rate on dividends and $(0, 4) (0, 5) = 20\%$ on long-term capital gains. Therefore, investors might want the companies to retain their earnings in order to avoid higher taxes. As of 1989 dividend and capital gains tax rates are equal but deferral issue still remains. Finally, if a stockholder dies, no capital gains tax is collected at all. Those who inherit the stocks can sell them on the death day at their base costs and avoid capital gains tax payment.

Empirical Review

Different studies have been conducted in developed and developing countries on effects of taxation on dividend policy of firms but this work will focus on effect of company income tax on dividend policy of firms in Nigeria. Auerbach, (2002), showed that companies use repurchases in lieu of extraordinary dividends, but not ordinary dividends. One survey of financial executive's reports that manager sare willing to substitute stock repurchases for dividends, but that believe "individual investors have a strong preference for dividends, even if dividends are tax disadvantaged. Williams and Bernheim (2001) proposed that high taxes actually make dividends better signals because only healthy firms can afford to pay dividends high enough to offset the taxes. Nonetheless, Brittain (2003) found a negative correlation between personal tax rates and dividends from 1995 to 2014 in the United States. Elton and Gruber (2005), they examined to the extent the dividend yields of shares and the dividend payout ratio determine the scope of owners of shares. In their hypotheses, investors with higher tax rates would choose securities with small dividend payouts, while investors with lower tax rates would prefer securities with large dividend yields in order to realize their respective tax benefits.

Berzins (2012) reported a higher and more stable dividend from operating companies than from holding companies when the operating companies face more severe agency conflicts. It is consistent that stockholder choose organizational firms that separate tax effects from agency effects in dividend policy. Aivazian (2003) stated that profitability and investment opportunities play a significant role in determining dividends. Similarly Hu and Liu (2005) found a positive relationship between the current earnings of a company and the cash dividend they pay to their shareholders, and a significant negative relationship between the debt to total assets and dividends. Baker (2007) found that profitable and larger Canadian firms pay higher dividends. A similar study was conducted by Ho (2002) in the context of Australia and Japan and found that size and dividend policy has positive correlation in Australia whereas liquidity and dividend policy and positively correlated in Japan. Most of the prior literature suggests that large companies due to greater access to capital have better opportunity to raise funds comparatively at lower cost. Therefore they do not rely on their retained

earnings and pay higher dividends to their shareholders. Holder and Booth (2001) found that large firms are more mature and have easy access to capital markets and thus have little dependence on internal funds and allow high dividend paying ratios. Gul (2012) previous studies suggest positive association between dividend pay-out ratio and size because large firms face higher agency costs and inferior issuing costs. Earned equity and dividend policy was conducted by Angelo, (2004) who focused on why the firms pay dividends. They found that there is a significant relationship between the choices to pay or not pay dividends and the leverage, profitability, cash balance, firm size, growth and past dividends. A similar study in the context of Ghana was conducted by Amidu and Abor (2006). The results indicated that there is positive association between profitability and dividend policy, and liquidity and dividend policy. They found a positive association between the dividend payout ratio, cash flows, profitability and corporate tax.

Companies with slow growth rate and few investment opportunities have a greater ability to pay higher dividends. This inverse associated has been supported by a large number of studies, Holder (1998); Dempsey and Laber (2005); Jenson (2009). Moreover this relationship is also consistent with the pecking order theory presented by Migers and Majluf (1999) in their study report that, current and past year profits are important factors in influencing dividend payments find that a major determinant of dividend payment was the anticipated level of future earnings. Alstadsater and Erik (2009) analysed the Norwegian 2006 tax reform, the result indicate that the number of holding companies increases around which dividend payout increase prior to the reform and drops just after the reform. Poterba (2004) examined the increase in the dividend income taxes relative to capital taxes, dividends is used as incentives to repurchases as a cheaper substitute by stockholders, it makes the dividend payout sensitive to changes in the relative taxation of dividend and capital gains. Alli, (1998) reveal that dividend payments depend more on cash flows, which reflect the company's ability to pay dividends, than on current earnings, which are less heavily influenced by accounting practices. He claimed current earnings do not really reflect the firm's ability to pay dividends. The liquidity or cash-flow position is also an important determinant of dividend policies. A poor liquidity position means less generous dividend due to shortage of cash.

Miller and Scholes (1978) argued that taxes on dividends can be avoided by investing in stocks through retirement plans or by offsetting deductions of personal interest payments. Firm value is not affected in their model because dividend and capital gains are priced as if they are tax-free. Nnadi and Apkomi (2008) evaluated the tax effect on dividend policy of Nigerian banks and proposed in their study that various factors influenced the dividend pattern of companies. Due to the accessibility of the profit, the dividend policy of the banks is to frequently sustain a low but constant payout. The most important factor of the dividend structure is the liquidity position of the company. However, Eades, Hess and Kim (2010) opined that a negative tax effect in the pricing of dividend predicts a positive relationship between expected stock return and the proportion of the expected return received as dividend, usually proxied by the dividend/price ratio. Poterba & Summers (2009) observed that price drops due to dividend payments were smaller than the volumes of the associated dividends, meaning that the arbitrage effectuated in order to eliminate the disadvantages of the tax on dividend did not function perfectly. Michaely and Vila (1998) found that at dividend payment time only a very small proportion of shares – in general less than 1% of the outstanding shares – were transferred, furthermore, some of these transactions took place within the same tax group. Lang and Litzenberger (2007) found that dividend hikes raise share prices the most in firms with ample cash flows and few profitable investment opportunities. Such dividend hikes might signal better governance.

Desai, Foley and Hines (2002) examine dividends that unlisted foreign subsidiaries pay to their U.S. parents. Although these dividends trigger a tax liability for the parent, they are typically steady or rising, like the dividends of listed firms. They concluded that dividend policies are largely driven by the need to control managers of foreign affiliates. Parent firms are more willing to incur tax penalties

when their foreign affiliates are partially owned, located far from the United States, or in jurisdictions in which property rights are weak.” Thus, the head office insists on higher dividends from subsidiaries located where its property rights are weaker and local managers might be more able to misappropriate free cash flow.

Shleifer and Vishny (1998) showed that many other countries, even with otherwise highly developed legal systems, provide few legal rights to public shareholders harmed by self-interested corporate insiders. Laporta and Salines, (2000) found higher average dividend payout ratios in countries where public shareholders’ rights are stronger. They also found a bigger difference between the dividends of high-growth and low-growth firms in countries with stronger shareholder rights. Reasoning that low-growth firms have fewer investment opportunities, they found that stronger shareholder rights promote higher dividends in firms with greater free cash flows. Hines (2000) suggest that parent companies mandate higher dividends from subsidiaries in countries with poor ambient governance standards.

Methodology

The study adopts secondary data covering the period 2011-2015 using nine (9) selected companies in Nigeria Stock Exchange. Descriptive statistics is employed to determine the wide variation of the model that will be used in the analysis. The study utilizes multiple regression analysis technique. It adopts a panel data to fully capture the inter-relationship among the variables and also across the selected companies.

Panel data of Dividend, Company Income Tax (CIT) and Profits are extracted from the comprehensive income statements and financial position of the selected companies in Nigeria.

Model Specification

In order to examine the impact of taxation on dividend policy of selected companies in Nigeria, a multiple linear model was used. The model captured the effect of company income tax on dividend policy of the firms.

Thus, the functional form of the model is expressed as follows:

$$\text{Dividend} = f(\text{profit, taxes}) \dots \dots \dots (1)$$

The mathematical specification is thus:

$$\text{DPR}_{it} = \beta_0 + \beta_1 \text{profit}_{it} + \beta_2 \text{taxes}_{it} \dots \dots \dots (2)$$

The stochastic variable is introduced to account for the error term.

$$\text{DPR}_{it} = \beta_0 + \beta_1 \text{profit}_{it} + \beta_2 \text{taxes}_{it} + U_{it} \dots \dots \dots (3)$$

Where:

- DV = Dividend
- CIT = Company income tax
- PT = Profit
- β_0 = Intercept Term (Parameter)
- β_1 to β_2 = these are parameters known as partial Regression Coefficient
- μ_t = Unexplained variables or Error term
- T = Denotes the value of the variable at Time t

The relationship expressed in the equation form as:

$$\text{Dividend} = \beta_0 + \beta_1 \text{Profit}_t + \beta_2 \text{Taxes}_t + U_t$$

Where $\beta_1, \beta_2 > 0$, moreover, the relationship between profitability and taxation is given as:

Profit= f (Taxes) is specified as:

$$\text{Profit} = \beta_0 + \beta_1 \text{Taxes}_t + U_t$$

Where: Profit = Profit after Tax of companies for period t, Dividend of companies for period t, Taxes_t = Corporate taxes of companies for period t

Table 1 Descriptive Statistics

Descriptive statistics of annual value of company income tax on dividend policy of selected companies in Nigeria. (2011 - 2015).

The descriptive statistics of company income tax and corporate dividend policy in Nigeria variables used in the analysis is presented in table 1.

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. error	Statistic	Std. error
Dividend	9	206784	1497865	7834259	395654455.	3.210	.503	16.675	1.012
Profit	9	45322807	521	6.3	77	1.211	.503	1.691	1.012
Taxes	9	13224564	1213892	5349076	287699345.	1.876	.503	3.874	1.012
			56	2.5	01				
			4535237	3690294	197453709.				
			8	1.7	34				

Table 2: Pearson correlation

Pearson correlation matrix of the association between value of company income tax and company dividend policy of selected firms in Nigeria (2011 - 2015).

The linear and symmetry relationship the value of company income tax and corporate dividend policy of selected firms in Nigeria (2011 - 2015) was captured by the Pearson correlation coefficient. Table 2 presents the correlation matrix of the association between value of company income tax and their dividend policy in Nigeria.

	DIVIDEND	PROFIT	TAXES
Pearson correlation	1	.165	0.31
DIVIDEND Sig. (2-tailed)		.377	.587
N	9	9	9
Pearson correlation	.165	1	.735**
PROFIT Sig. (2-tailed)	.377		.004
N	9	9	9
Pearson correlation	0.31	.735**	1
TAXES Sig. (2-tailed)	.587	.004	
N	9	9	9

Table 3. Modal Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin - Watson
					R Square Change	F Change	df1	df2	Sig.F Change	
1	.324 ^a	.188	.077	25488975.3	.188	1.812	2	4	.197	2.375

Table 4. Panel Data Regression Results

Impact of Company Income Tax on Dividend Policy of Selected Firms in Nigeria

To examine the impact of company income tax on dividend policy of firms in Nigeria between 2011 and 2015, the research conduct a regression analysis using EVIEW 8 and the result is depicted in Table 4

Dependent Variable: DIVIDEND	Unstandardized Coefficients		Standardized coefficients	T	Sig	Collinearity statistics	
	B	Std. error	Beta			Tolerance	VIF
(Constant)	54365698.62	2343845.435		-528	.798		
PROFIT	2	5.962	1.335	1.688	.065	.142	6.355
TAXES	10.774	11.256	-1.063	-	.107	.142	6.355
	-18.273			1.600			

Data Analysis and Interpretation

Table 1 showed the mean and standard deviation of dividend, profitability and taxes of manufacturing firms in Nigeria. The mean of dividend, taxes and profits were 78342596.3, 53490762.5 and 36902941.7 respectively, while the standard deviations were 395654455.77, 287699345.01 and 197453709.34 respectively. Pearson Correlation coefficient was employed to determine whether relationship exists between taxes and dividend

Table 2 showed weak and insignificant correlation between the dividend, profitability and the taxes as well. From the results it was observed that both taxes and profitability are positive but insignificantly related to the dividend. But there exist a positive and significant relationship between profitability and taxes

Regression Results.

The model summary in table 3 shows that about 18.8% of the systematic variation in dividend is explained by the two independent variables of profitability and taxes. The R^2 value of 7.7% after adjusting for error in the degree of freedom. The F value of 1.812 is not significant at the 5% level and reveals that there is significant relationship between dividend, profit and taxation.

The Durbin-Watson value of 2.375 indicates there is no problem of auto-correlation. The regression results in table 4 indicates the linearity between the dependent and independent variables. Apriori signs shows positive effect on profit and taxes on dividend. The t- value of 1.688 shows that profitability has significant relationship with dividend policy at the 10%. The t- value of -1.600 indicates that taxes have negative and no significant relationship with the dividend policy of firms in Nigeria. Therefore, as taxes increase, the dividend pay-out reduces.

Conclusion and Recommendation

The profitability of a business plays a vital role in the dividend formation of a firm, where a business does not have good performance indicators, its dividend will be unstable, although profit is not a determinant of the structure of the dividend. Companies may maintain a constant dividend to encourage investors. Thus, dividend is considered as a hallmark of good performance. Our study reveals there is a positive and significant relationship between dividend and the profitability of firms. That is, the dividend structure and profitability payout by firms is very much influenced by the profitability of firms in Nigeria. Similarly, taxation has a negative and insignificant impact on the dividend policy of firms. The implication is that increase in taxes will have negative effect on the dividend. Alternative to cash dividends are optimally sought for by managers in order to alleviate the impact of taxes on the dividend. Hence, shareholders may want to opt for capital gain or script dividends and other tax avoidance technicalities in order to reduce the taxes on their dividends. The recommend that government should make and implement tax policies that would encourage investors thereby leading to economic growth and development in the country.

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APPENDIX 1

Flour Mills Nigeria Limited Plc. RC 2343

	Dividend declared	Dividend per share (kobo)	Taxation	Profit after taxation
2011	200,000	75	(6,995,211)	9,450,000

2012	160,000	95	(4,041,532)	8,146,715
2013	200,000	121	(3,337,038)	7,052,174
2014	210,000	67	(2,860,108)	6,058,367
2015	205,000	67	(1,896,345)	5,760,443

Berger Paints Nigeria Plc. RC: 1837

Year	Dividend declared	Dividend per share (kobo)	Taxation	Profit after tax
2011	152,157.309	70	(53,478)	227,816
2012	152,157.309	70	(67,453)	192,009
2013	152,157.309	52	(72,453)	257,580
2014	202,876.643	70	(111,511)	148,808
2015	245,128.512	70	(111,675)	197,857

Capital Oil Plc.

Year2	Dividend declared	Dividend per share (kobo)	Taxation	Profit after Tax
2011	0	-	(13,308.760)	(324,782.247)
2012	0	-	(58,656.900)	(53,532.380)
2013	0	-	(65,004.693)	(23,047.537)
2014	0	-	(16,208.957)	(475,580.107)
2015	0	-	(17,926.064)	(131,161.367)

Forte Oil Plc.

Year	Dividend declared	Dividend per share (kobo)	Taxation	Profit after Tax
2011	0	-	(1,193,780)	(1,193,780)
2012	0	-	(1,336,690)	(1,337,505)
2013	0	-	(1,178,025)	(1,178,386)
2014	0	-	(754,523)	(793,945)
2015	0	-	(893,523)	(902,340)

Honeywell Flour Mill Plc.

Year	Dividend	Dividend per share (kobo)	Taxation	Profit after Tax
2011	(986,670)	-	(835,483)	2,346,112
2012	(1,030,926)	-	(970,960)	2,693,975
2013	(1,189,538)	-	(971,079)	2,843,500
2014	(1,349)	-	(866)	3,352
2015	(1,348)	-	(315)	1,435

Unilever Nigeria Plc. RC: 113

Year	Dividend declared	Dividend per share (kobo)	Tax	Profit after Tax
2011	-	-	(2,502,906)	5,515,213
2012	-	-	(2,588,374)	5,597,613
2013	-	-	(2,069,186)	4,724,429
2014	-	-	(460,892)	2,412,343
2015	-	-	(1,804,613)	3,875,198

Guinness Nigeria Plc. RC: 771

Year	Dividend declared	Dividend per share (kobo)	Taxation	Profit after Tax
2011	14,749,255.190	1,000	(10,435,118.675)	17,927,933.821
2012	11,779,404.152	800	(8,872,422.540)	14,671,194.963
2013	10,541,217.309	700	(5,102,663.000)	11,863,726.504
2014	4,818,842.202	320	(3,504,468.000)	9,570,223.809
2015	1,999,546.967	150	(1,675,879.114)	4,230,887.564

Cadbury Nigeria Plc. RC: 4151

Year	Dividend declared	Dividend per share (kobo)	Taxation	Profit after tax
2011	-	-	(1,382,467)	3,670,550
2012	-	-	(2,011,579)	3,454,991
2013	-	-	(1,398,258)	6,023,219
2014	-	-	45,373	1,512,687
2015	-	-	(980,778)	2,718,001

Charms Nigeria Plc.

Year	Dividend declared	Dividend per share (kobo)	Taxation	Profit after tax
2011	-	-	(36,054)	(632,672)
2012	-	-	(77,586)	637,344
2013	-	-	(89,106)	723,282
2014	-	-	(31,201)	446,338
2015	-	-	(2,399)	(2,519,174)