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## Impact of Corporate Taxation on Dividend Payments: Evidence from Nigerian Deposit Money Banks

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### **Abstract**

*This study focused on the impact of corporate taxation on dividend payments of selected deposit money banks in Nigeria. The study was set out to determine if there is any significant relationship between corporate taxation and dividend payments of deposit money banks in Nigeria. In addition, the study sought to determine the relationship between corporate tax and profitability of deposit money banks in Nigeria. It also sought to examine the relationship between profit, dividend and taxes and to investigate the factors that affect dividend payments particularly in the Nigerian banking sector. The standard multiple regression analyses was applied in testing the hypotheses. On the basis of the empirical analysis of the two (2) hypotheses tested, the researcher found out that profit will bring a positive increase in dividend payments of deposit money banks while corporate taxes will cause a decrease in dividend payments of deposit money banks in Nigeria. Based on the findings, it was recommended that adoption of a dividend policy by deposit money banks in Nigeria should be strictly considered on the unique circumstances of the banks not necessarily based on age long traditional factors often formulated by academics. This is essential in order to maintain a steady and reasonable dividend payment.*

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**Keywords:** Dividend; Payments; Profit; Tax

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### **1.1 Introduction**

Dividend policy is primarily concerned with the methods and procedures relating to dividends in the organization (Okpara, 2010). Dividend policy can be regarded as a set of rules which guide companies Board of Directors in its decision as to what proportion of the company's annual profit should be distributed to the shareholders as dividend and also to keep as reserve by the finance manager of the company (Adesola and Okwong, 2009). Dividend decision involves the determination of the proportion of a company's earnings (profit) to pay out as dividend to the shareholders or retained (reserves) within the firm for self-financing.

Dividend policy is the core of a firm's overall policy. It comprises of a series of decisions regarding how the firms distribute profits to their shareholders and include basic contents about the selection of dividend policy, dividend pay-out ratio and pay-out channel etc. Since the dividend policy determines whether to distribute the earnings to shareholders or self-finance through retained earnings, it is an important issue that receives attention these days from both academics and practitioners (li, Ying-Feng, Song and Man-shu, 2006). Corporate (company) income tax is one of the major sources of revenue to all governments. In Nigeria, it is a factor to be reckoned with within the federal government budget. According to Ola (2005), the taxes so collected come back to the taxpayers in the form of services and to either encourage or

discourage some activities in the private sector: though, this depends on whether the policy of the government is towards discouraging or encouraging such companies.

According to Omran and Pointon (2010), dividend policy is the trade-off between retaining earnings and paying out cash or issuing new shares. Some companies may have low dividend payment because management is optimistic about the company's future and therefore wishes to retain their earnings for further expansion (Adelegan, 2003). It is hard to deny that taxes are important to investors. Although dividend affects the shareholders' tax liability, it does not in general alter the taxes that must be paid regardless of whether the company distributes or retains its profit and that tax is not an assessment of benefit; it is a means of distributing the burden of the cost of government (Scholes, Woltson, Erickson, Maydew and Shevlin, 2005). In the words of Hamid, Harit, Sait-Ui-Maloon and Wasimullah (2012), a dividend is the money a company pays to its shareholder from the profit made over a period of time.

From the investor's perspective, dividends are beneficial since they represent a regular stream of income which will enhance self-control by avoiding irrational behaviour. Fama and French (2001) stated that dividends reflect the characteristics of the firm especially profitability, investment opportunity and size. Allen and Michaely (2002) reveal that the payment policy is important not only because of the substantial amount of the decisions but it is closely related to and interacts with most of the financial and investment decision of the firm. According to Osiegbu and Nwakanma (2005), it is a usual practice for the financial manager to recommend to shareholders whether to distribute all the profits made, retain some or distribute a portion and retain the balance. Dividend decisions has serious implications for share prices and hence returns to investors, the financing of internal growth and equity base through retentions together with its gearing and leverage. Some experts like Brennam (1970), Masulis and Truman (1988), have argued that companies use dividends as mechanisms for financial signalling regarding the stability and growth prospective of the firm. Kolb and Rodriguez (2006) further argue that retained earnings are the most important internal sources of financing growth of company.

Supporters of corporate taxation propose that companies are distinct entities and should be taxed separately from their shareholders; that companies should pay a fee, tax, for the special privileges they enjoy; and that corporate taxation prevents the sheltering of individual income from taxation (Rosen, 2002). As opined by Azubuikwe (2007), taxation is not a new word in Nigeria or the world as a whole. In Nigeria, taxation has been in existence even before the coming of the colonial masters. Taxation can be defined as the system of imposing a compulsory levy on all incomes, goods, services and properties of individuals, partnership, trustees, executorship and companies by the government (Yunusa, 2003).

According to Nwadihoha (2011), tax can be defined as a compulsory levy imposed by a public authority on incomes, consumption and production of goods and services and such levies are made on personal income (consisting of salaries, business profits, interest income, dividends, royalties, etc), company profits, petroleum profits, capital gains and capital transfers. Soyode and Kajola (2006) see taxation as a system of raising money for the purpose of government by means of contributions from individual persons or corporate body. Agbo (2014) describe tax as a compulsory contribution imposed by the government and he concluded that though tax payers may receive nothing identifiable in return for their contribution, they nevertheless have the benefit of living in a relatively educated, healthy and safe society. Ama (2011) sees tax as a compulsory levy imposed on a subject or upon his property by the government having authority over him. A lot of controversies surround the relationship

between taxes and dividend policies. Starting from Miller and Modigliani popularly known as M and M (1961), dividend irrelevance proposition which argues that in perfect and complete capital market, a firm's dividend policy does not affect its value and only the investment policy matters, a lot of researchers have tried to resolve the puzzle. Similarly, the impact of taxes on dividends has been debated by scholars for decades (Dharmapala, 2008).

Several postulations and assumptions have been made regarding whether taxes paid by organizations affect their pattern of dividend payment. In fact, corporate tax integration has been projected as a means of reducing the distortions to organizational form, pay-out policy and financing decisions (Hubbard, 2005). Brennan (1970), Masulis and Trueman (1988) argue that taxes affect the dividend payment of organizations. In fact, changes in corporate dividend payment would be expected whenever the government changes her tax policy (Wu, 1996).

### **1.2: Statement of the problem**

A lot of controversies regarding taxes and dividend payment have attracted many academic interests. Financial theorists such as Brennan (1970), Masulis and Truman (1988) have stipulated that taxes affect organizational corporate dividend policy. If this speculation were true, changes in corporate dividend payment would be expected whenever the government changes its income tax policy (Wu, 1996). However, this does not always apply especially in the banking industry. The debates regarding dividend payment is unending. Empirical studies on the impact of corporate taxation on dividend payments of deposit money banks have not reached a definite conclusion. Also, the fluctuations of the dividend payments of deposit money banks in Nigeria have been attributed by the management of such deposit money banks, to the amount of corporate tax paid by such banks particularly as occasioned by changes in government tax policies (rate). The low dividend payments of deposit money banks have caused a lot of agitations from the shareholders and have become a source of discouragement to investors (shareholders) and prospective (intending) investors. Dividends are usually paid to the shareholders or owners of the business at specific periods and if profit is not made, dividends are not declared, but when profits are made, the company is obliged to pay corporate tax to the government. This is an essential corporate responsibility, particularly for profit making companies. By implication, dividend is normally paid after corporate tax has been paid. The declining dividend payments occasioned by corporate taxation prompted this research.

### **1.3 Objectives of the study**

The main objective of this study is to determine the impact of corporate taxation on dividend payments of deposit money banks in Nigeria. Specifically, the objectives of this study are to:

1. determine if there is a relationship between corporate taxation and dividend payments of deposit money banks in Nigeria;
2. find the impact of corporate profit on dividend payments of deposit money banks in Nigeria;

### **1.4: Research questions**

Having stated the objectives of this study, the following questions were asked in this study:

1. To what extent do corporate tax and dividend payments of deposit money banks significantly relate?
2. How does profit after tax impact on dividend payments of deposit money banks in Nigeria?

### **1.5: Research hypotheses**

The following hypotheses were tested in the course of this study:

1.  $H_0$ : There is no significant relationship between corporate taxation and dividend payments of deposit money banks in Nigeria.

2. **H<sub>0</sub>:** Corporate profitability does not have any significant impact on the dividend payments of deposit money banks in Nigeria.

## 2.0 Review of related literature

### 2.1 Factors affecting dividend policy

According to Free MBA resources (2014), a number of considerations affect the dividend policy of a company. These factors are:

1. **Stability of earnings:** The nature of business has an important bearing on the dividend policy. Industrial units having stability of earning may formulate a more consistent dividend policy than those having an uneven flow of incomes because they can predict easily their savings and earnings. Usually, enterprises dealing in necessities suffer less from oscillating earnings than those dealing in luxuries or fancy goods.
2. **Age of corporation:** Age of the corporation counts much in deciding the dividend policy. A newly established company may require much of its earnings for expansion and plant improvement and may adopt a rigid while, on other hand, an older company can formulate a clear cut and more consistent policy regarding dividend.
3. **Liquidity of fund:** Availability of cash and sound financial position is also an important factor in dividend decisions. A dividend represents a cash outflow, the greater the funds and the liquidity of the firm the better the ability to pay dividend. The liquidity of a firm depends very much on the investment and financial decisions of the firm which in turn determines the rate of expansion and the manner of financing. If cash position is weak, stock dividend will be distributed and if cash position is good, company can distribute the cash dividend.
4. **Extent of share distribution:** Nature of ownership also affects the dividend decisions. A closely held company is likely to get the assent of the shareholders for the suspension of dividend or for following a conservative dividend policy. On the other hand, a company having a good number of shareholders widely distributed and forming low or medium income group would face a great difficulty in securing such assent because they will emphasize to distribute higher dividend.
5. **Need for additional capital for companies:** A company may retain a part of their profits for strengthening their financial position. The income may be conserved for meeting the increased requirements of working capital or for future expansion. Small companies usually find difficulties in raising finance for their needs of increased working capital for expansion programmes. They, having no other alternative, use their ploughed back profits. Thus, such companies distribute dividend at low rates and retain a big part of profits.
6. **Trade cycles:** Business cycles also exercise influence upon dividend policy. Dividend policy is adjusted according to the business oscillations. During the boom, prudent management creates good reserves for contingencies which follow the inflationary period. Higher rates of dividend can be used as a tool for marketing the securities in an otherwise depressed market. The financial solvency can be proved and maintained by the companies in dull years if the adequate reserves have been built up.
7. **Government policies:** The earning capacity of the enterprise is widely affected by the change in fiscal, industrial, labour, control and other government policies. Sometimes government restricts the distribution of dividend beyond a certain percentage in a particular industry or in all spheres of business activity as was done in emergency. The dividend policy has to be modified or formulated accordingly in those enterprises.
8. **Taxation policy:** High taxation reduces the earnings of the companies and consequently the rate of dividend is lowered down. Sometimes government levies dividend-tax of distribution of dividend beyond certain limits. It also affects the capital formation.

9. **Legal requirement:** In deciding on the dividend, the directors take the legal requirements too into consideration. In order to protect the interests of creditors/outsideers, the companies Act 1956 prescribes certain guidelines in respect of the distribution and payment of dividend. Moreover, a company is required to provide for depreciation on its fixed and tangible assets before declaring dividend on shares. Likewise contractual obligation should be fulfilled, for example, payment of dividend on preference shares in priority over ordinary dividend.
10. **Past dividend rates:** While formulating the dividend policy, the directors must keep in mind the dividend paid in past years. The current rate should be around the average past rate. If it has been abnormally increased the shares will be subjected to speculation. In a new concern, the company should consider the dividend policy of the rival organization.
11. **Ability to borrow:** Well established and large firms have better access to capital market than the new companies and may borrow funds from the external sources if there arises any need.
12. **Policy of control:** Policy of control is another determining factor in so far as dividends are concerned. If the directors want to have control on company, they would not like to add new shareholders and therefore, declare a dividend at low rate. Because by adding new shareholders they fear dilution of control and diversion of policies and programmes of the existing management. So they prefer to meet the needs through retained earnings. If the directors do not bother about the control of affairs they will follow a liberal dividend policy. Thus control is an influencing factor in framing the dividend policy.
13. **Repayments of loan:** A company having loan indebtedness are vowed to a high rate of retention earnings, unless other arrangements are made for the redemption of debt on maturity. It will naturally lower down the rate of dividend. Sometimes, the lenders (mostly institutional lenders) put restrictions on the dividend distribution. Formal loan contracts generally provide a certain standard of liquidity and solvency to be maintained. Management is bound to honour such restriction and to limit the rate of dividend pay-out.
14. **Time for payment of dividend:** When should the dividend mean outflow of cash? It is, therefore, desirable to distribute dividend at a time when cash is least needed by the company because there are peak times as well as lean periods of expenditure. Wise management should plan the payment of dividend in such a manner that there is no cash outflow at a time when the undertaking is already in need of urgent finances.
15. **Regularity and stability in dividend payment:** Dividends should be paid regularly because each investor is interested in the regular payment of dividend. The management should, in spite of regular payment of dividend, consider that the rate of dividend should be all the most constant. For this purpose sometimes companies maintain dividend equalization fund.

## 2.2. Theoretical framework

The following theories were used in this work:

### 2.2.1 Dividend irrelevance theory:

Talmor and Titman (2010), Modigliani and Miller (M&M), (1961) theorized that with no taxes or bankruptcy costs, dividend policy is irrelevant. This is known as the “dividend irrelevance theory” indicating that there is no effect from dividends on a company’s capital structure or share price.

According to Nnadi and Akpomi (2008), M&M’s dividend-irrelevance theory states that investors can affect their return on a share regardless of the share’s dividend. Modigliani and Miller’s dividend irrelevance theory argues that the value of a company is determined by the

Net Present Value (NPV) of the investments undertaken by the company and not by any distribution policy (Frankfurter and Wood, 2000).

According to Gill, Biger and Tibrewala (2010), Modigliani and Miller showed that changes in the value of firm's shares are not dependent on the actual pattern of dividends paid.

Modigliani and Miller (1961), argue that if a company issues a dividend from retained earnings and then needs to raise cash for an investment, the loss on shares of the additional finance is exactly equal to the dividend paid and a company should therefore be indifferent as to its dividend policy. Moreover, whilst accepting the existence of the clientele effect, M&M state that the type of clientele a firm has will have no effect on a firm's value. This argument assumes perfect capital markets and rational investors. Other assumptions are:

1. Taxes do not exist.
2. The firm has a fixed investment policy.
3. Risk of uncertainty does not exist. That is, investors are able to forecast future prices and dividends with certainty and one discount rate is appropriate for all securities and all time periods. Thus,  $r=k=k_t$  for all  $t$ .

### **2.2.2 Bird-in-the-hand theory**

According to Ahmed and Javid (2009), the bird-in-the-hand theory states that dividends are relevant. Remembering that return ( $k$ ) is equal to dividend yield plus capital gains, Gordon and Lintner (1996), took this equation and assumed that  $k$  would decrease as a company's pay-out increased. As such as a company increases its pay-out ratio, investors become concerned that the company's future capital gains will dissipate since the retained earnings that the company reinvests into the business will be less (Akbar and Baig, 2010)

Gordon and Linter (1996) argued that investors value dividends more than capital gains when making decisions related to shares. The bird-in-the-hand may sound familiar as it is taken from old saying: "a bird in the hand is worth two in the bush". In this story "the bird in the hand" is referring to dividends and "the bush" is referring to capital gain.

### **2.2.3 Tax-preference theory**

Taxes are important considerations for investors. This is known as the "tax-preference theory" (Holder, Langrehr and Hextex, 2008).

Additionally, capital gain is not paid until an investment is actually sold. Investors can control their investment when capital gains are realized but, they can't control dividend payments, over which the related company has control (Casey and Dicken, 2000)

### **2.2.4 Fundamental theory of share values**

According to Samuel and Inyada (2010), this model also known as the traditional model states that the level (amount) of dividends paid is important. The fundamental theory of share values (which assumes that the market value of the company depends on the size and growth rate of dividends paid and the rate of return required by shareholders) values the company using the dividend growth model. The implications of this theory are that shareholders will want management to pursue a distribution/retention policy which will maximize the level and growth in dividends.

### **2.2.5 The benefits theory**

According to Yunusa (2003), the benefit theory was propounded by William Petty in 1692. According to the benefits theory, the state should levy taxes on individuals according to benefit conferred on them. This mean that, the more benefits a person derives from the activities of the state, the more he should pay to the government. This theory seeks to ensure that each individual's or

company tax obligations are as far as possible based on the benefits that he or she receives from the enjoyment of public services. The application of these theories in Nigeria is such that there are various taxes (levies) that are collected in the local jurisdictions example, in market, bus stands which are collected by various local government authorities, at the end this fund is further used to develop various social facilities which results to social benefit to the society members. However, this theory faces various critics such as:

Firstly, if the state maintains a certain connection between the benefits conferred and the benefits derived, it will be against the basic principle of the tax. A tax is a compulsory contribution made to the public authorities to meet the expenses of the government and the provisions of general benefit. There is no direct *quid pro quo* in the case of a tax.

Secondly, most of the expenditure incurred by the state is for the general benefit of its citizens. It is not possible to estimate the benefit enjoyed by a particular individual every year

Thirdly, if we apply this principle in practice, then the poor will have to pay the heaviest taxes, because they benefit more from the services of the state. Thus, if we get more from the poor by way of taxes, it is against the principle of justice

### **2.2.5 The sacrifice theory**

In the words of Plesko (2004), the sacrifice theory was developed by McCullah in 1845. The sacrifice theory attempts to determine the burden that rests upon an individual by virtue of his payment of taxes and how much of his or her income remains for purpose of his own subsistence. According to this theory payment of tax is a sacrifice that an individual or company makes towards the support of the government. The measure of such sacrifice is found in the giving up of enjoyments, which is, giving up a portion of individuals' means (income) of satisfying wants (consumption). Practically the sacrifice theory demands that individuals should only pay tax on that portion of individuals' means over and above subsistence.

Applicability of this theory is conceptually difficult unless it is expressed in terms of income and consumption

### **2.2.6 The ability to pay theory**

Ability to pay theory was developed in 1939 by Kandrick (Pandey, 2010). The ability to pay theory was developed due to inadequacies in benefit and sacrifice theories of taxation. This is the most popular and commonly accepted principle of equity or in accordance with their ability to pay. It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual. For instance, if the taxable capacity of a person A is greater than the person B, the former should be asked to pay more taxes than the latter.

### **2.2.7 The cost of service theory**

According to Pandey (2010), the cost of service theory was made popular by Van Hock. Some economists were of the view that, if the state charges actual cost of the service rendered to the people, it will satisfy the idea of equity justice in taxation. The cost of service principle can no doubt be applied to some extent in those cases where the services are rendered out of prices. Also, the theory is rejected because there no *quid pro quo* in a tax.

### **2.2.8 The proportionate theory/principle**

Classical economists were of the opinion that if taxes are levied in proportion to the incomes of the individuals, it will extract equal sacrifice. The modern economists, however, differ with this view. They assert that when income increases, the marginal utility of income decreases. The equality of sacrifice can only be achieved if the persons with higher income are taxed at higher rates and those with low income at lower rates. They favour progressive system of taxation, in all modern tax systems.

### **2.2.9 Theory of optimal taxation**

The standard theory of optimal taxation posits that a tax system should be chosen to maximize a social welfare function subject to a set of constraints (Aranson, 1990). The literature on optimal taxation typically treats the social planner as a utilitarian: that is, the social welfare function is based on the utilities of individuals in the society. In its most general analyses, this literature uses a social welfare function that is a nonlinear function of individual utilities. Nonlinearity allows for a social planner who prefers, for example, more equal distributions of utility. However, some studies in this literature assume that the social planner cares solely about average utility, implying a social welfare function that is linear in individual utilities.

### **2.3 Empirical review**

Several researches aimed at correlating tax and dividends have been conducted with intriguing results.

Miller and Modigliani's (M&M) theory assumes that taxes do not affect dividend payment of the firm in a perfect market. Thus investor decisions are independent of dividend consideration. However, when the tax on dividend is higher than that of capital gain of the investor the issue of dividend payment of the firm becomes a provocative factor for the investors.

Wu (1996) also studied the effect of tax on personal income and posits that dividend tends to expose investors to more tax ability than capital gains. Therefore firms will opt to pay lower dividend to minimize the tax liability on investment. The findings also shows that the after tax income of shareholders is greater when the firm pays no dividends, where the capital gains is lower than the tax consequential on the dividend. Most of the researches were carried out in the US to investigate the effect of the various tax reforms on corporate dividend policy.

Bolster and Junjigian (1991) researched on the 1956 tax laws in US but found no concrete evidence of any correlation of any increase in dividend following the reform.

However Paparioannou and Savarese (1994) found increase in dividend payment for average firms after such reforms. This is attributed to the reduction in income tax which the reform injected in the tax system.

One outstanding contribution at correlating dividend and taxes was made by Rozeff (1982) in his dividend pay-out model. He attempted to correlate the dividend pay-out with the effect of changes in tax policies using value lines. This model was later replicated in a study by Casey and Dickens (2000) in which banks were used in the research. The result indicated a series of sequence of effect following change in capital gain tax, which consequently increased the likelihood of no change in dividend payment. It was found out that five variables were very significant in dividend pay-out policies of firms and these variables include beta, percentage of insider ownership, past revenue growth rate, forecasted revenue growth rate and the number of ordinary shareholders.

Osuala (2005) in his study, determinants of corporate dividend policy in Nigeria found that profitability as measured by earnings after tax (EAT) and return on equity (ROE) affect dividend payment.

Graham (2000) conducted the study on the determinants and dynamics of dividend policy of Tunisia stock exchange. He selected 48 firms (non-financial) and examined whether the managers of the listed firms distribute their dividend or not. He attempted to explain if the Tunisian firms follow stable dividend policy. Do dividend yield differ across the industry sector? What are the mean factors that determine the dividend polices in Tunisia? He revealed managers distribute their dividend and that dividend yield differs across the industry sector.



Baker, Dutta and Gandhi (2007) conducted the study on the perception of dividend by Canadian managers by taking the sample of 291 listed firms on Toronto Stock Exchange (TSE). The results of the study regarding the factors influencing dividend policy, matters involving with dividend policy and explanation of why firms pay dividend show that most important factors for determinant of dividend are level of expected future earnings, stable earning, pattern of past dividend and level of current earnings. The evidence of the study suggests that mostly managers of TSE listed firm are still making decision regarding the dividends consistent with survey results and behavioral model of lintner.

Adelegan (2013) tested lintner's model as modified on the impact of growth prospect, leverage and firm size on dividend behaviour of corporate firms in Nigeria. A total sample of 63 quoted firms in Nigeria were empirically examined over a testing period from 1984-1997. The study also introduced dummy variable to capture dividend policy change.

Okpara (2010) used factor analytical approach to diagnose the determinant of dividend pay-out policy in Nigeria. Using principal component analysis, he isolated four variables-profits after tax, earning per share, current rate and past dividend and applied OLS over the period 1980-2006. The study found that the variables impacted significantly on the dividend pay-out and dividend yield in Nigeria.

Onuorah and Chigbu (2013) conducted a research on comparative analysis of the impact of taxation on company's reserve and dividend policy in Nigeria over the period 2000-2011. The research was conducted using mainly secondary data from selected banking, construction and allied companies, insurance, petroleum and marketing, breweries, food and beverages covering the period 2000-2011. The objectives of the study were to understand the impact earnings per share have on the dividend of firms and to empirically study the impact of corporate taxation and retained earnings on dividend pay-out policy in Nigeria. The hypothesis tested was; there is no significant relationship reserves and dividend payment of quoted companies in Nigeria. A correlation analysis was used in analysing the data. The research reveals that there are varying degrees of direction and magnitude response of aggregate cumulative total dividend pay-out policy. The study also reveals that the models perform differently with highest performance in the banking sectors and poor performance in the food and beverages sectors in Nigeria.

Nnadi and Akpomi (2011) conducted a research on the effect of taxes on dividend policy of banks in Nigeria. The study was set to examine the relationship of profit, dividend and taxes especially in the banking sector. The study made use of all the banks in Nigeria that are quoted in the Nigeria stock Exchange (NSE) and systematic sampling technique. The analyses of the study show a significant correlation between taxes and dividend structure of the banks and also suggest that profit is a major variable in the formation of dividend policy of the organization.

DeAngelo, DeAngelo and Skinner (2004) conducted a study on dividend policy agency cost and earned equity using twenty (20) firms in five sectors. The study consists on why firms pay dividend? If they did not have their assets and capital structure would eventually become unsustainable as the earnings of successful firm exceed their investment opportunities using factor analysis. They found that dividend payment prevented significant agency problems since the retention of the earning would have given the Managers command over an additional amount without accessing better investment opportunities and without any monitoring. This sense suggests that firms with high retained earnings are especially likely to pay dividends. In this view, firms pay high dividend when earned equity, total equity is high and decline when this is zero or near to zero, meaning that firms do not have the earned equity. They finally found that the highly significant association between the decision to pay dividends and the ratio of

earned equity to total equity controlling for size of the firm, profitability, growth, leverage, cash balance and history of dividends.

Ahmed and Javid (2009) in their study on the determinants of dividend policy show that Pakistan's listed firms rely more on the current earnings and prior dividends.

Adesola and Okwong (2009) conducted an empirical study of dividend policy of quoted companies in Nigeria. They identified the factors that influence the dividend policy of a cross section of quoted firms between 1996 and 2006. Another objective they sought to address was the applicability of dividend theories to share price behaviour in Nigeria. They utilized a modified Lintner's (1956) adjustment model and studied 27 companies drawn across 15 sectors of the Nigeria Stock Exchange market. The analysis was done on a year by year basis. They found significant relationship between past dividend pay-out for 2001; 2006 earnings and past dividend were significant determinants of pay-out policy. They also found that current dividend and earnings per share explained the observed differentials in the prices of firm with negative and positive relationship respectively.

Westerfield (2001) utilizes the parsimonious multiple regression model to investigate the dividend payment of a cross-section of 53 firms quoted on the Nigeria stock exchange (NSE) during the period 1993 to 2002. The model employ five (5) metric variables-previous dividend, current earnings, cash flow, investment and net current assets, and three dummy variables for growth, firm size and industry classification, in order to explain as well as predict dividend policy of quoted firms in Nigeria. The empirical results reveal that the five metric variables have significant aggregate impact on the dividend payment of the quoted firms. The tests find none of the three non-metric variables, provides a statistically significant improvement in the base model. The results further show that the sampled firms in Nigeria do not consider investment as a significant factor in decision to vary dividend payment from one year to another.

Samuel and Inyada (2010) examine effect of company income tax on dividend policy of financial institutions in Nigeria using survey research method. The main objective of the study was to appraise the effect of corporate tax on dividend policy of financial institutions in Nigeria. The hypothesis of the study was there is no significant relationship between company income tax and dividend policy of financial institutions in Nigeria. The major source of data was through the published accounts of financial institutions in Nigeria. The analytical tools used in analysing the data collected for the study was regression and analytical techniques. They find a significant relationship between corporate income tax and dividend policy of financial institutions in Nigeria and conclude that a change in corporate income tax rate will significantly affect the dividend policy of financial institution in Nigeria.

Hamid, Hanif, Saif-UI-Malook and Wasimullah (2012), investigated the effect of taxes on the dividend policy in the Pakistan banking sector from 2006 to 2010. They find a significant relationship correlation between taxes and the dividend income of banks and concluded that the tax rate is an important determinant of the dividend policies of the banking sector.

Sajid, Muhammed, Bilal, Shafiq and Mehran (2012) investigated different firm specific factors that influence the decision relating to corporate dividend policy. They also investigated the association between taxes and dividend policy as well as the association between dividends, profits and taxes using 120 listed companies in Karachi Stock Exchange (KSC) from 2000 to 2011. The hypothesis for the study was there is no association between dividend and taxes. The sources of data used were from Karachi Stock Exchange, Security and Exchange Commission of Pakistan, State Bank of Pakistan and audited annual reports from companies' official

websites. Using panel data technique the results indicate that variable liquidity, size and profitability have significant positive, whereas leverage has significant negative influence on dividend payments of companies. They found a statistically insignificant but positive link between profits and tax using standard multiple regression. On the other hand they found that dividend has direct positive correlation with profit.

Rohaya, Nor'Azem and NurSyazawani (2010) conducted a study on corporate income taxes and revealed an association between income tax liabilities and profitability of corporate institutions. The study related to the impact of corporate income tax liabilities on different variables of a firm as gross profit, cost of sales, expenses etc. A sample of 7,306 companies was taken from hotels and restaurants sector, includes 6594 in business services and 1,484 in transport manufacturing sectors, for accounting periods 1995 to 2000. The conclusion was that corporate income tax adversely affects the profitability of corporate institutions but has a positive relationship with the firm size and age of companies.

Onuorah and Okorafor in 2013 conducted a research on investigating causality effect of tax measures on dividend policy of quoted companies in Nigeria Stock Exchange (2000-2011). The objectives of the study were to examine the model under lining the controversy of dividend and corporate taxation, to identify the relationship of corporate income tax and dividend pay-out policy of quoted companies in Nigeria and to understand casual and influencing factors of dividend policy in Nigeria. The study made use of secondary data or annual reports from selected public quoted companies in different sectors listed on the Nigerian Stock Exchange. A probability sampling method was used to choose the sample from all sectors. Five companies were selected from seven sectors making the sample size to be thirty five. The hypotheses tested were corporate taxation is not significantly correlated to dividend payment of quoted companies in Nigeria based on pooled annual record and there is no causal effect of pooled corporate tax, pooled earnings per share and pooled return earning per share of sectors on the pooled dividend payment policy. The study reveals that pooled corporate tax is significantly related to pooled return earning per share and that pooled dividend payment policy has inverse relationship with the pooled corporate tax.

De Mooji, Rund and Ederveen (2001) and Meg (2008) all found a negative relationship between corporate taxation and financial performance.

James and Killian (2013) conducted a research on the effect of corporate taxes on dividend policy of banks in Nigeria. The objective of the study was to examine the effect of corporate taxes on dividend policy of banks in Nigeria and also to find out whether there is a significant relationship between profitability and the dividend pay-out of banks in Nigeria. The hypotheses tested were; there is no significant relationship between the dividend pay-out and the profitability of banks in Nigeria and there is no significant relationship between dividend pay-out and taxation of banks in Nigeria. The study covered nineteen banks from 2000-2008 and made use Pearson correlation and ordinary least square regression analyses. The study reveals a positive and significant relationship between dividend and the profitability of banks and taxation has a negative and insignificant negative impact on dividend policy of banks.

It is important to note that in all the research studies and survey conducted and reviewed so far on the impact (effect) of corporate taxation on dividend payment, there have not been a definite conclusion as to the impact corporate taxation has on dividend payment of firms. This is evidence in the divergent views of different researchers on the subject matter.

### 3.0 Methodology

This research focuses on a broad range of issues with the collection of a diversity of data in the field of corporate taxation and dividend payments. The methodology was empirical as it used statistical tools in analysing data obtained for the study. Data obtained from the financial statements of the banks in Nigeria were be used in the analyses of the study.

The sample for this study consists of 10 deposit money banks quoted on the Nigeria stock Exchange (NSE). The sample size was determined logically. The researcher used two-thirds of the adjusted population size and believes that the sample size is a good representation of the population.

The data analysis techniques used in this study were the regression analysis. The choice of the regression analysis for the study is justified on the merit of its strength in determining the variability of the variables in a study.

### 3.1 Model specifications:

The dividend payment of deposit money banks is expressed as a function of profitability and taxation. That is:

$$DPDMB = f(\text{PROFIT}, \text{TAXES})$$

Where;

DPDMB = dividend payment of deposit money banks

The relationship expressed in equation form is

$$DPDMB_t = \theta_0 + \theta_1 \text{PROFIT}_t + \theta_2 \text{TAXES}_t + U_t$$

Where;  $\theta_1, \theta_2 > 0$

### 4.0 Results and discussion

Hypotheses 1 and 2 were tested using multiple regression model for PAT, CT, and DPDMB in the model.

MULTIPLE REGRESSION MODEL FOR PAT, CT, AND DPDMB

Dependent variable(Y) is DPDMB

Independent variables are PAT ( $X_1$ ), CT( $x_2$ ).

$$DPDMB(Y) = \vartheta_0 + \vartheta_1 \text{PAT}(X_1) + \vartheta_2 \text{CT}(X_2).$$

Where: PAT = Profit After Tax

CT = Corporate Tax

DPDMB = Dividend Payment of Deposit Money Bank

### SPSS OUTPUT

Variables Entered/Removed			
Model	Variables Entered	Variables Removed	Method
1	CT, PAT <sup>a</sup>	.	Enter
a. All requested variables entered.			

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.804 <sup>a</sup>	.646	.545	2.574E7	1.723
a. Predictors: (Constant), CT, PAT					
b. Dependent Variable: DP					

**ANOVA<sup>b</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.478E15	2	4.239E15	6.400	.026 <sup>a</sup>
	Residual	4.637E15	7	6.624E14		
	Total	1.311E16	9			
a. Predictors: (Constant), CT, PAT						
b. Dependent Variable: DP						

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	14934417	1.994E7		.749	.478
	PAT	.289	.096	.938	2.995	.020
	CT	-.436	.641	-.213	-.680	.518
a. Dependent Variable: DP						

The regression line for the model becomes:

$$DPMB(Y) = 14934417 + 0.289 \text{ PROFIT} - 0.436 \text{ TAXES}$$

$$T_{\text{tab}(10,0.05)} = 1.813$$

$$R^2 = 0.646 = 64.6\%$$

From the SPSS output above,  $R^2 = 0.646 = 64.6\%$ . This means that the explanatory variables [PAT( $X_1$ ) and CT( $x_2$ )] explain changes in the Dividend Payment of Deposit Money banks in Nigeria (DPDMB) as high as 64.6%, while the remaining 35.4% is accounted for by disturbance terms (error) which are accommodated in the model specified. This implies that the Independent variables Profitability of Deposit Money Bank [PAT( $x_1$ )] and Corporate Taxation [CT ( $x_2$ )] explain very high variations in the dependent variable Dividend Payment of Deposit Money banks in Nigeria (DPDMB) and showed a good relationship among the variables.

Also the regression line for model 1 which is  $DPDMB(Y) = 14934417 + 0.289\text{PROFIT} - 0.436\text{TAXES}$ , indicates that profit will bring a positive increase to the dependent variable Dividend Payments of Deposit Money banks in Nigeria (DPDMB) while taxes will cause a

decrease to dependent variable Dividend Payments of Deposit Money banks in Nigeria (DPDMB) based on the model fit.

Considering the stated Hypotheses of this work, using the generally accepted statistical rejection rule of Reject  $H_0$  if calculated t-value is greater than tabulated t-value or Reject  $H_0$  if Sig-value  $< \alpha = 0.05$ , otherwise accept  $H_1$ .

Based on the data before us, we have sufficient evidence to accept the null of hypothesis one since  $t_{cal} = -0.680 < t_{tab} = 1.813$  and Sig-value  $= 0.518 > \alpha = 0.05$ , and conclude that there is no significant relationship between corporate taxation and Dividend Payments of Deposit Money banks in Nigeria. This means that there may be relationship between the variables, but it is not significant.

The T-test which is used to ascertain statistical significance for small sampling theory (that is when  $n \leq 30$ ) for hypothesis 2 showed that corporate profitability is statistically significant at  $\alpha = 0.05$ , based on the data collected and analysed. Since  $t_{cal} = 2.995 > t_{tab} = 1.813$  and Sig-value  $= 0.020 < \alpha = 0.05$ , the Researcher reject the null of hypothesis 2 and accept the alternative. Therefore, the researcher concludes that corporate profitability has significant impact on the Dividend Payments of Deposit Money banks in Nigeria.

Durbin-Watson statistic of 1.723 indicates the presence of colinearity among the variables

## 5.0 Conclusion

The profitability of a business is a major variable in the dividend formation of the organization. Where a business does not have good performance indicators, its dividend policy will be twisted and hardly stable. Profit though, does not always determine the structure of the dividend. Companies may maintain a constant dividend payment to impress investors. Thus, dividend payment is considered as a hallmark of good performance.

The financial statements of some banks used in the study indicate that profit is not ultimately the crucial factor in the dividend formulation of the banks.

Corporate taxes have a significant impact on dividend payment of deposit money banks. The implication is that reduction or increase in taxes will make for a different dividend structure. Alternatives to cash dividend are optimally sought for by managers in order to alleviate the impact to corporate taxes on dividend payment.

The study established a significant correlation between profit and dividend payment of the banks.

Despite the findings that corporate taxation reduces profit and consequently dividend, there is steady increase in profitability of deposit money banks selected for the period under review.

As stated in the statement of the problem, the debate on whether corporate taxation has impact on dividend payments of companies is unending. The result of the study is consistent with the findings of scholars and researchers with similar interest such as Jensen and Johnson (1995); Miller and Scholes (1978, 1982). The study provides additional evidence that corporate taxation affects the dividend payments of deposit money banks in Nigeria.

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