CORPORATE TAX AND DIVIDEND POLICY OF NIGERIAN DEPOSIT MONEY BANKS

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ABSTRACT

Target dividend payouts have traditionally been explained by taxes and functions of capital providers' decisions, as well as profits made by the banks. This has affected both fund providers, as well dazzled managers' attempt to make dividend payment policies. As a result, it is important to study how taxation relates to dividend policy and how leverage affects the relationship between taxes and dividend policy in contemporary Nigerian economy. Thus, this study evaluated the relationship between corporate tax and dividend policy of listed deposit money banks in Nigeria with consideration of leverage structure. The study adopted panel regression technique to examine data from 9 banks that are purposively selected out of 14 listed deposit money banks on the Nigerian Exchange Group as at 2023. The study revealed that company income tax has a positive and significant relationship with dividend per share of listed deposit money banks in Nigeria while, deferred tax has a positive but insignificant relationship with dividend per share of listed deposit money banks in Nigeria. Further, the study found that leverage ratio has no significant effect on the relationship between taxation (company income and deferred tax) and dividend per share of listed deposit money banks in Nigeria. Thus, the study recommends that bank board members, managers, and shareholders should review their dividend policy in light of the study's findings. They should assess whether adjustments need to be made to optimize the benefits of company income tax on dividend payments. To do to this, they should consider factors such as tax planning, cash flow management, shareholder expectations, and long-term financial sustainability of the banks other than just paying cash dividends.
Keywords: Tax preference theory, dividend payment, company income tax, and deferred tax.

INTRODUCTION

Target dividend payouts have historically been justified by taxes, factors influencing the choices of capital suppliers, and bank profitability. This is confusing, especially given the current situation in Nigeria, where tax laws are constantly changing as a result of annual Finance Act proclamations. Both fund providers and business manager who make decisions on dividend payout practices have been impacted by this. Given the dynamics of Nigeria's taxation system, it has become as important for bank management to establish successful dividend payment policies as it is for investors to anticipate periodic dividend payments. Because of this, it is crucial to understand how taxation influences dividend policy and how leverage modifies this relationship in the modern Nigerian economy. This issue is similarly linked to tax preference theory of dividend policy (Miller & Modigliani, 1961). According to this theory, businesses and investors prefer

certain investment or dividend policies because of the reality of taxes. Since tax preference theory, researchers have concentrated on determining how taxation and other unique circumstances affect dividend policy.

According to Omran and Pointon (2004), dividend policy is the trade-off between keeping profits and giving shareholders cash distributions or new shares. The corporation, as well as shareholders, customers, employees, regulatory agencies, and the government, all see dividend policy as a crucial financial policy (Khan et al. 2017). Companies see dividend decisions importantly because they determine which money goes to investors and which monies are kept by the company for investment (Jukio & Ikenberry, 2005). More importantly, it informs stakeholders about the effectiveness and worth of the organization.

It is important to note that this study considers a company's dividend payout policy to be the amount of money paid out from profits or the shares given to shareholders when examining concerns related to dividend policies. According to Islam and Adnan (2022), a dividend payment is a sum that is paid to stockholders from profits or distributable reserves. However, dividend payments may be provided in cash or through the issuance of extra shares, as in a script dividend. Although, in certain instances, businesses have minimal dividend payouts because the management is confident in the future of the company and wants to keep their earnings for future growth (Ibrahim & Sadiu, 2015). Notwithstanding, it is difficult to overlook taxes as not being determinants of dividend payout policy of companies (Zeeshan et al., 2012).

Due to variable taxing circumstances, such as exemptions and deferment plans, which may impact dividend payouts in various ways, banks do not always pay the same nominal tax. In addition to taxes, banks' indebtedness can occasionally impact tax bill and dividend policy decisions. According to Dewasiri et al. (2019), leverage acts as a tax shelter for businesses, providing them more money for dividend decisions.

According to Mahira (2012), businesses that use external financing have large fixed costs; the higher the leverage ratio, the less likely it is that a dividend will be paid. Advocates of the agency cost theory of dividend policy, such as Lintner (1956), support this claim. The debt-to-equity ratio of banks is the leverage ratio in this context. Therefore, it is possible to investigate the moderating influence of leverage on the relationship between taxes and bank dividend payout, which has not been investigated thoroughly.

Thus, the main objective of the study is to examine the relationship between taxation and dividend payout of listed deposit money banks in Nigeria; as well the influence of leverage on the relationship between taxation and dividend payout. The specific objectives are to:

1) Assess the relationship between corporate income tax and dividend per share of listed deposit money banks in Nigeria.
2) Analyze the relationship between deferred tax and dividend per share of listed deposit money banks in Nigeria.
3) Examine the influence of leverage ratio on the relationship between taxation and dividend per share of listed deposit money banks in Nigeria.

LITERATURE REVIEW

Conceptual of Taxation

One of the key elements that affect a company's valuation and predict future profits is taxation. Discounting anticipated after-tax cash flows, for instance, can be used to determine a company's market value. In this regard, a difference in how capital gains and dividends are taxed may impact investors' after-tax returns, which may in turn, impact investors' demand for dividends. Chetty and Saez (2010) emphasized that taxation is the administration of various forms of taxes to corporations. In a similar vein, Gul et al. (2012)

pointed out that, the major taxes administered to companies include but are not limited to company income tax, capital gain tax, and tax deferment. These three aspects of taxation are explained in this section.

To the International Accounting Standard (IAS) 12, deferred tax refers to the amount of income tax that will need to be paid in the future in connection with taxable temporary differences. Deferred tax might include both deferred tax liabilities and deferred tax assets. According to Hutagaol-Martowidjojo et al. (2019), the revenue created for accounting purposes only, not for tax purposes, constitutes the liability element of deferred tax. Businesses have the option of keeping some of their profits as retained earnings or distributing all of them to shareholders or investors. Thus, high dividend payouts show that businesses are making genuine profits rather than just writing cookbooks.

According to Jensen et al. (1992), debt-to-equity ratio serves as a proxy for financial leverage. Managers of businesses utilize debt as a form of leverage to boost expected returns on equity or examine the firm's capacity to cover debt costs out of profits. However, the leverage ratio of a corporation, which influences the company's tax and dividend policy, is determined by the bigger ratio of funds given by creditors compared to funds contributed by stockholders. Compared to changes in operational income, financial leverage increases changes in net income. Financial leverage can be defined as the extent to which a company or investor uses borrowed funds to finance its economic activity.

Theoretical Framework

The Tax Preference Theory

This study is anchored on Tax Preference Theory (Modigliani & Miller, 1961). According to tax preference theory, a company's attitude toward dividends and overall dividend policy is influenced by tax rates and preferences for current revenue over capital gains. The idea contends that after accounting for the tax implications of various sources of income, decisions about dividend policy are primarily motivated by the desire to increase shareholder value. According to the tax preference theory, a company's tax situation, particularly debt financing, affects the value of the company. This argument contends that the ability to deduct interest payments on debt decreases the cost of debt and boosts the company's profitability, which is then given as a dividend.

The tax preference hypothesis, on the other hand, contends that a company's dividend policy has no bearing on the market value of its shares in a capital market devoid of flaws like taxes, transaction costs, asymmetric information, and agency costs (Fama and Babiak, 1968). It suggests that financial managers are unable to change the value of their companies' stock by changing their dividend payout schedule. The value of a company is increased through investing in productive assets rather than how money is dispersed to shareholders, according to DeAngelo et al. (2004). This is why Miller and Modigliani (1961) claimed that a rational investor does not prefer dividends over capital gains and that dividend policy is immaterial.

Empirical Review

Various studies have been done on taxation and dividend policy from around the globe. The studies are reviewed in this section in descending order from the most recent to the least. In their study published in 2022, Islam and Adnan examine the factors that affect banks' dividend distribution choices. The empirical analysis made use of a panel dataset of 22 banks that were listed on the Dhaka Stock Exchange (DSE) between 1999 and 2018. Using structural equation modelling (SEM), their study's findings are deduced. Their findings demonstrate that while relative tax is negligible when making a dividend decision, leverage is a key factor in determining dividend disbursements.

The decision of dividend policy in Islamic and non-Sharia enterprises in the Indonesian manufacturing sector is examined in Alkhomah (2022). They selected 51 companies as part of their purposive sampling research sample, of which 33 were Islamic and 18 were not, both of which fit under this category. They

discovered using multiple linear regression that the dividend policy of both Islamic and non-Islamic equities in the manufacturing sector is significantly influenced by tax payments. Other studies have been done on taxation and dividend policy in developed and emerging markets (Lintner, 1956; Riad & Touili, 2017; Salvatori et al., 2020).

Despite these extensive studies done on dividend policy, not much has been done in the context of the Nigerian banking sector from 2022 till date. This shows a literature and timeframe gap. Few studies like that of Nnamdi and Enekwe et al. (2015) and Obayagbona and Ogbeide (2018), done in Nigeria and the banking sector only focused on the company income tax, without exploring deferred taxes which might proffer more insight given a more dynamic tax regime; neither do they consider the moderating effect of leverage on the relationship between taxes and dividend payment policy.

METHODOLOGY

The ex-post facto method of research is used in this study. 14 listed deposit money banks on the Nigerian Exchange Group as of March 2023 make up the study's population. The study used purposeful sampling technique to select 9 listed banks. The 9 banks have full annual reports and information about regular payment of dividends and taxes from 2013 until 2022. The descriptive statistics and panel regression techniques are used for data analysis. The study also incorporates the requisite preliminary test for co-linearity occurrences in the model. To check for multicollinearity, use the Skewness test, correlation matrix, and variance inflation factor. The Hausman specification test is used to distinguish between fixed effect and random effect when analyzing the panel regression findings. Making inferential conclusions, therefore, involves using the individual statistical significance test (T-test) and the overall statistical significance test (F-test). Using STATA 13 software, all analyses are performed at a 5% level of significance.

The Model Specification

The study adapts the model used in the work of Hutagaol-Martowidjojo et al. (2019) to guide the specification of model. The model used by Hutagaol-Martowidjojo et al. (2019) is specified thus:

Dividend payout ratio = f(Corporate income tax)…… 1

The study adapts the model used in the earlier work of Hutagaol-Martowidjojo et al. (2019) to include deferred tax, and leverage. The following adapted linear regression model is formulated to guide the study:

Dividend Payout = f (company income tax and deferred tax) * Leverage…… 2

The model is written in its econometric function as follows:

$DPS_{it} = \alpha + \beta_1 CIT_{it} + \beta_2 DFT_{it} + ROA_{it} + \mu_{it}$…… 3

$DPS_{it} = \alpha + \beta_1 CIT_{it} * LEV_{it} + \beta_2 DFT_{it} * LEV_{it} + ROA_{it} + \mu_{it}$…… 4

Where:

DPS= Dividend Per Share for (Reported Dividend Per Share of the Banks in a given year)

CIT = Corporate Income Tax (Total company income tax divided by the total tax of the Banks in a given year)

DFT = Deferred Tax (Total deferred tax expense divided by the total tax of the Banks in a given year).

LEV= Leverage (Total debt divided by the total equity of the Banks in a given year)

ROA= Profitability (Profit after tax divide by total assets as a controlled variable).

α = Model constant

$_I$ = cross-section

$_t$ = time

β_{1-2} = Coefficients of the variable used in the models

μ = The error term in the model

DATA ANALYSIS AND RESULTS

Table 1: Summary Statistics Table

Variable	Obs	Mean	Std. Dev.	Min	Max
DPS	90	.6650333	.8526489	.02	4.09
CIT	90	2291047	5582733	352	3.19e+07
DFT	90	993298.2	2482320	17	1.39e+07
LEV	90	.6750169	.4481105	.0007645	2.09517
ROA	90	.0207843	.0133639	.0014608	.0613066

Source: Authors computation

Table 1 presents the summary statistics of the data for the study. It shows the Mean, Standard deviation (Std. Dev), Minimum (MIN) and Maximum (MAX) of the variables data. Table 1 shows summary statistics of the data collected from 9 sampled banks for 10 years resulting to 90 observations. The summary statistics show that dividend per share (DPS) has a mean of 66 Kobo with a standard deviation (Std. Dev) of 85 Kobo, which is higher than the mean; thus, depicts that the DPS values of the banks are widely dispersed. This indicates a high variation in the DPS of the sampled banks due to banks specific financial performance exerting influence on the DPS. The DPS of the banks also reveal a minimum of 0.2 kobo and a maximum value of 4 Naira.

Table 1 also shows that, Company Income Tax (CIT) of the banks has a mean of N229, 104, 700 and a deviation of N558,273,300, which is higher than the mean. This shows that, banks in Nigeria have higher variance in the profit they make and this results to high variation in the income tax they pay. The table further shows that, the banks record a minimum CIT of N352,000 and a maximum CIT of N3,190,000,000.

Table 1 further reveals that, deferred tax (DFT) has a mean of N993,298 and a deviation of N248,232,000 The deviation is higher than the mean indicating a high variation in tax deferment practices among the sampled banks in the period under study. The mean value on DFT of the banks suggests that, listed deposit banks in Nigeria collectively defer up to N993,298 of their taxes. The statistics also revealed that DFT has a minimum and maximum values of N17,000 and N1,390,000,000 respectively.

Furthermore, Table 1 reveals that, leverage (LEV) has a mean of 0.6750169 with a deviation of 0.4481105 which is below the mean. This indicates a low variation in LEV among the sampled banks for the period under study. The mean value on LEV shows that, listed deposit money banks in Nigeria are funded with 67.5% debt aside the customers' deposit. The statistics also revealed that LEV has a minimum and maximum values of 0.0076 and 2.09517 respectively.

Diagnostic test

To ensure that the data for this study is fit for the model, the study conducted data normality test, and test for multicollinearity. Each test is discussed below:

Table 2: Normality Test

Variable	DPS	CIT	DFT	LEV	ROA	(RAM)
Prob.	0.000	0.000	0.000	0.0089	0.0059	0.8251
Obs	90	90	90	90	90	

Source: Authors' computation 2023

The normality test table result revealed that, the probability values of DPS, CIT, DFT, LEV and ROA are less than 0.05 accepted significance level. This means that, the data for the variables are not normally distributed. The reason for non-normality of the data is due to company specific variance in DPS, CIT,

DFT, LEV and ROA data of banks. This is why the study has opted for the Panel regression technique to take into cognizance the possible effect of company specific variation (random) or time specific variance (fixed effect) on the outcome of the regression result. But to ensure non-spurious result, the study further conducted a Ramsey test re-rest; the outcome (RAM = 0.8251) reveals that, the retest enables a better outcome with spurious result in a case of further panel analysis.

Table 3: Multicollinearity Test

	CIT	DFT	LEV	ROA	(VIF1)	(VIF2)
CIT	1.0000					
DFT	0.6517	1.0000			3.18	4.82
LEV	-0.3405	-0.2520	1.0000			
ROA	0.5825	0.4646	-0.4118	1.0000		

Source: Author's computation 2023

Table 3 presents the strength and type of relationship that exists between the study independent variables. A correlation coefficient of 0.75 and above is considered very high and might cause problems in the result. From Table 3, all the variables reveal low correlations with the highest between CIT and DFT at 65.17%. Also, the VIF result for model 1 reveals mean VIF value of 3.18; with a mean VIF value of 4.82 for model 2. The VIF values are within the benchmark value of <10, this indicates the absence of multicollinearity in the models.

Table 4: Pre regression estimation test for the model

	Statistic	**P-value**
i.	Hausman Test	0.8547
ii.	Lagrangian Test	0.0000
	Decision	Random effect regression

Source: Author's computation 2023

To enable the study choose between pooled model, fixed-effect model, and random effect model, the Hausman, and Lagrangian test are conducted. The result of the Hausman specification test from shows a probability value of 0.8547>0.05 which is insignificant thus informs the preference of the random-effect model. To choose between random effect and pooled model, the Lagrangian test conducted revealed a probability value of 0.0000 which informs the study's final decision to choose the random effect model.

Table 5: Model summary table for DPS and Taxation (i)

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Number of obs      =        90                Number of groups   =         9
R-sq:  Overall     =    0.2508
Wald chi2(3)       =     16.91                Prob > chi2        =    0.0007
         DPS |      Coef.                 z          P>|z|
         CIT |   .1205647                2.11         0.035
         DFT |   .0038466                0.08         0.936
         ROA |   9.554477                1.94         0.053
       _cons |  -1.256376                -5.58        0.000
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Source: Author's computation 2023

Table 5 show an overall R^2 which measures the level of variation of the dependent variable caused by the independent variables stood at 0.2508. The R^2 otherwise known as the coefficient of determination shows the percentage of the total variation of the dependent variable (DPS) that can be explained by the independent or explanatory variables (CIT & DFT) and controlled by ROA. Thus, the R^2 value of approximately 0.251 indicates that 25.1% of the variation in the dividend price per shares of listed deposit

money banks can be explained by a variation in company income tax and deferred tax of the banks, as controlled by their profitability (ROA) while the remaining 74.9% (i.e. 100-R^2) could be accounted by other variables not included in this model like other ownership structure and board decisions.

The regression results as presented in Table 5 to determine the relationship between CIT, DFT, and DPS controlled by ROA of the banks shows that when all the independent variables are held stationary or without the variable intercept model (Constant); the DPS variable is estimated at -1.256376. This simply implies that, when all independent variables are held constant, there will be decrease in the DPS of listed deposit money banks up to the tune of 1.256376 units occasioned by factors not incorporated in this study. Thus, a unit increase in CIT will lead to increase in DPS by 12% when the banks are making profit (ROA). Also, a unit increase in DFT will lead to a increase in DPS by 0.3% when the banks are making profit (ROA). The control variable profitability (ROA) is taking into consideration because it significantly (0.000) determines whether taxes or dividend are to be paid. Finally, the result shows that there is a significant variation of Wald Chi-2 (16.91) at a probability value of 0.0007 which means the model as a whole is statistically fit.

Table 6: Pre regression estimation test for moderating effect

	Statistic	**P-value**
i.	Hausman Test	0.7436
ii.	Lagrangian Test	0.0000
	Decision	Random effect regression

Source: Author's computation 2023

The result of the Hausman specification test from the table above shows a probability value of 0.7436>0.05 which is insignificant thus informs the preference of the random-effect model. The Lagrangian test conducted revealed a probability value of 0.0000 which conforms the study's final decision to choose the random effect model.

Table 7: Moderating model summary Table (ii)

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R-sq:  overall  = 0.2989
Wald chi2(3)       =     11.58                 Prob > chi2        =    0.0089
       DPS |      Coef.                  z              P>|z|
      CITLEV |   .0086647               0.15           0.882
      DFTLEV |  -.0473953              -0.78           0.437
         ROA |   12.60292               2.59           0.010
       _cons |  -.6379999               -3.90          0.000
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Source: Author's computation 2023

From Table 7, the overall R^2 which measures the level of variation of the dependent variable caused by the independent variables stood at 0.2989. The coefficient of determination ($R^{2)}$ shows the percentage of the total variation of the dependent variable (DPS) that can be explained by the moderated-independent variables (CITLEV & DFTLEV) and controlled by ROA. Thus, the R^2 value of approximately 0.299 indicates that 29.9% of the variation in the dividend per shares of listed deposit money banks can be explained by a variation in company income tax and deferred tax of the banks as when the capital structure (leverage) is considered, despite (controlled) the level of profitability (ROA); while the remaining 70.1% (i.e. 100-R^2) could be accounted by other variables not included in this model like other ownership structure and board decisions.

The regression results as presented in Table 7 to determine the moderating effect of leverage on the relationship between CIT, DFT, and DPS controlled by ROA of the banks shows that, when all the independent variables are held stationary or without the variable intercept model (Constant); the DPS

variable is estimated at -0.6379999. This simply implies that, when all independent variables are held constant, there will be decrease in the DPS of listed deposit money banks up to the tune of 0.6379999 units occasioned by factors not incorporated in this study. Thus, a unit increase in CIT as moderated by LEV will lead to increase in DPS by 0.8% when the banks are making profit (ROA). BUT a unit increase in DFT as moderated by LEV will lead to decrease in DPS by 4.7% when the banks are making profit (ROA). The control variable profitability (ROA) is taking into consideration because it significantly (0.010) determines whether taxes or dividend are to be paid. Finally, the result shows that there is a significant variation of Wald Chi-2 (11.58) at a probability value of 0.0089 which means the model as a whole is statistically fit.

Test of Hypotheses

Ho_1: *Corporate income tax has no significant relationship with dividend per share of listed deposit money banks in Nigeria.*

Table (i) shows the z-value and the associated *p*-value for the test of this hypothesis. Given the calculated z-value of 2.11 with *p-value* = 0.035 for CIT which is <5% level of significance; the study rejects the null hypothesis and accept the alternative hypothesis. Therefore, the study concludes that, corporate income tax has a significant relationship with dividend per share of listed deposit money banks in Nigeria.

Ho_2: *Deferred tax has no significant relationship with dividend per share of listed deposit money banks in Nigeria.*

Table (i) shows the z-value and the associated *p*-value for the test of this hypothesis. Given the calculated z-value of 0.08 with *p-value* = 0.936 for DFT which is >5% level of significance; the study accepts the null hypothesis and rejects the alternative hypothesis. Therefore, the study concludes that, deferred tax has no significant relationship with dividend per share of listed deposit money banks in Nigeria.

Ho_3: *Leverage ratio has no significant effect on the relationship between taxation and dividend per share of listed deposit money banks in Nigeria.*

Table (ii) shows the z-value and the associated *p*-value for the test of this hypothesis. Given the calculated z-value of 0.15 (CITLEV) with *p-value* = 0.882 (CITLEV) and the z-value of -0.78 (DFTLEV) with *p-value* = 0.437 (DFTLEV), which are >5% level of significance; the study accepts the null hypothesis and rejects the alternative hypothesis. Therefore, the study concludes that, leverage ratio has no significant effect on the relationship between taxation (CIT and DFT) and dividend per share of listed deposit money banks in Nigeria.

CONCLUSION AND RECOMMENDATIONS

In view of the results obtained, the study concludes that company income tax has a positive and significant relationship with dividend per share of listed deposit money banks in Nigeria; that deferred tax has a positive but insignificant relationship with dividend per share of listed deposit money banks in Nigeria; and that leverage ratio has no significant effect on the relationship between taxation (company income and deferred tax) and dividend per share of listed deposit money banks in Nigeria. The study thus recommends that bank board members, managers, and shareholders should review their dividend policy in light of the study's findings. They should assess whether adjustments need to be made to optimize the benefits of company income tax on dividend payments. To do this, they should consider factors such as tax planning, cash flow management, shareholder expectations, and long-term financial sustainability of the banks other than just paying cash dividends.

The study also recommends that board and managers should communicate with shareholders the need for tax deferment and the future possible consequence it may have on their dividends despite the fact it is not significant in the immediate. This should be done transparently using the prescribed accounting standards to communicate any changes or updates to the dividend policy that may occur when such deferment may

lead to liability and possible adjustment in the profit and dividend payment policy of the banks. This will enable the board of directors, and other relevant stakeholders to clearly explain the rationale behind the adjustments and how they align with the bank's strategic goals.

The study further recommends that banks should regularly assess the impact of revised dividend policy and monitor its effects on financial performance as well as how that may affect the repayment of debt, shareholder value, and overall financial stability. The banks should monitor tax regulations, stay updated on changes in tax laws and regulations that might affect the banks' dividend payments.

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