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## Taxes, Transaction Cost and Dividend Policy in Nigerian Quoted Firms

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### Abstract

**Purpose:** This study examined corporate taxes, transaction cost, and dividend policy in Nigeria quoted firms. The main purpose of this research is to ascertain the relationship between taxes, transaction cost, and the dividend policy of quoted firms in Nigeria.

**Materials and Methods:** The research adopted both statistical and econometric techniques to analyze data obtained from the Nigeria Stock Exchange between 2018 to 2022. The research work employed an ex-post facto research design to obtain, analyze, and interpret the relevant data for hypotheses testing. Simple random sampling and proportionate stratified random sampling was used to select 36 firms quoted in the Nigerian Stock Exchange to ensure all sectors are represented in the sample size. The data was analyzed and presented using E-views 12 statistical software. Using the OLS panel model, the fixed effect OLS model was considered the most appropriate for the empirical modeling and analysis of the equations.

**Findings:** Our findings in this study indicated that dividend payout ratio (DPR) has a negative and insignificant relationship with current income taxes (CIT), deferred taxes (DTL). Company size (SIZE) has positive but not significant relationship with dividend payout while assets growth (GHT) and leverage ratio (LEV) have positive and insignificant relationship with dividend payout (DPR). Also, dividend per share (DPS) has a positive relationship with company income taxes (CIT) but negative relationship with deferred tax liabilities (DTL).

**Implications to Theory, Practice and Policy:** The study was informed by the “Dividend Policy Theory” The debate on whether corporate taxes 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 (1982). It is, therefore, recommended that companies should concentrate on other determinants of dividend policy and not corporate taxes and transaction cost, since corporate taxes and transaction cost have no significant effect on dividend policy. Management should design a dividend payout policy that maximizes market value of quoted firms.

**Keywords:** *Dividend Policy, Corporate Taxes, Transaction Costs, Profitability, Return on Equity*

## 1.0 INTRODUCTION

The decisions of corporate financial managers fall into three broad categories: investment decisions, financing decisions, and dividend decisions (Baker and Powell, 2005). Investment decisions involve determining the type and amount of assets that the firm wants to hold, reflected on the non-current assets side of its Statement of financial position. Financing decisions concern the acquisition of funds in the form of both debt and equity to support a firm's operating and investment activities. The Equity and Liabilities side of a firm's statement of financial position reflects these sources of financing. Dividend decisions, as determined by a firm's dividend policy, are a type of decision that affects the amount of earnings that a firm distributes to shareholders versus the amount it retains and reinvests. Dividend policy refers to the payout policy that a firm follows in determining the size and pattern of cash distributions to shareholders over time. A company's board of directors, with the input of senior management, sets a corporation's dividend policy.

Corporate tax is paid directly on profit made, whether or not the company pays dividends to its shareholders. Finance Acts 2019 reclassified companies into three categories- small-sized with an annual turnover of less than 25 million naira, medium-sized with a turnover of 25 to 100 million naira, and large-sized companies with above 100 million naira. While the small sized companies are exempted from taxes, medium sized companies pay 20% on taxable profit and large companies pay 30% on taxable profits. Another such tax paid by the corporation in Nigeria, on profit made, is the Education tax, which is 2% of assessable profits to the year 2022 is now 2.5%. Since such taxes are paid before profit available for possible dividend payment is known, they reduce the amount of profit available for dividend payment.

Consequently, it becomes obvious that taxes are important to investors, policymakers and corporate managers and may impact on the dividend policy to be adopted. This study attempts to examine the level of such impact. For decades, several postulations and assumptions have been made regarding whether corporate taxes paid by organizations affect their pattern of dividend policy. Dividend policy is the trade-off between retaining earnings and paying out cash or issuing new shares to shareholders. Some firms may have low dividend payout because management is optimistic about the firm's future and therefore wishes to retain their earnings for further expansion. It is hard to deny that taxes are important to investors, policymakers, and corporate managers. 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 (Brealey, Myers & Marcus 1999).

### Statement of the Problem

Many research have been conducted on corporate taxation and dividend policy in developed countries which include Abrutyn & Turner (1990), and Desai and Dharmapala (2008)). However, there are few empirical studies in Nigeria on the effect of tax on dividends. The most common of these studies are the ones conducted by Nnadi and Akpomi (2008) and Odia and Ogiedu (2013) on the effects of taxes on the dividend policy of banks in Nigeria using different years and methods. None of the studies with similar topics have taken into consideration non-financial firms where cross-sectional analysis of the effect of corporate taxation on dividend policy was done using panel data methodology. Arguably, the few studies (Uwuigbe and Olowe, 2013; Odia, and Ogiedu, 2013; Nnadi, and Akpomi, 2008; Samuel, and Inyada, 2010) that focused on the impact of corporate

taxation on dividend policy in Nigeria, did not take into consideration the uniqueness of sampled firms. Hence, this study analyzed the connection between corporate taxes, transaction cost, and dividend policy of quoted firms in Nigeria. Therefore, the essence of this study is to find out the effect of corporate taxes, and transaction cost on dividend policy by relating corporate tax, transaction cost, dividend policy, and profitability in Nigeria quoted firms. This is done with a view to understanding whether dividend payout is affected by corporate tax and transaction cost.

## 2.0 LITERATURE REVIEW

### Theoretical Review

#### MM's Dividend Irrelevance

The most important precursor to MM (1961) was another paper they authored about debt versus equity financing. In this paper, MM (1958) proves that under certain assumptions, a firm's total value does not depend on the mixture of debt and equity, demonstrating capital structure irrelevancy. According to Asaolu (2021). Capital structure irrelevance theory was theoretically very sound but was based on unrealistic set of assumptions. Therefore, the theory led to a plenty of research on capital structure. Capital structure and dividend policy are closely related. Cash paid as dividends leaves the firm with less equity and potentially a greater need to raise additional stock or debt in the future. Consequently, MM's capital structure result is so crucial to dividend irrelevance that their proof is presented here. MM (1958) rely on arbitrage arguments and assume perfect capital markets, which includes zero taxes, one market wide constant interest rate, and unlimited borrowing. Their use of arbitrage arguments for prices would later prove to be as important to financial theory as their irrelevancy result. For example, Ross (1976) also relies on arbitrage arguments in his famous arbitrage pricing model. Stiglitz (1969, 1974) argues that borrowing and lending must occur at the risk-free rate, although this argument is controversial (see, for example, Fama, 1978). Implicit in MM's framework is the assumption that both companies have the same assets, an assumption that holds the investment decision neutral. This assumption is crucial because it allows them to claim that if two firms have the same assets, the simple balance sheet equation (assets equal liabilities plus equity) must hold regardless of the mix of debt and equity.

MM (1961) make three explicit assumptions: perfect capital markets, rational behavior, and perfect certainty. They further define each assumption. Perfect capital markets imply price-taking behavior, costless pricing information, zero transaction costs (including zero taxes and issuance costs), and no tax differentials between dividends and capital gains. Rational behavior indicates that investors prefer more to less wealth and are indifferent between dividends and capital gains. Perfect certainty implies that no information asymmetry exists between firm management and outside investors, as investors know all relevant future cash flows and profits. Under these assumptions, MM (1961) define the rate of return ( $r_e$ ) for any firm as the sum of dividends ( $d_t$ ), and capital gains divided by the current price ( $p_t$ ). They hold ( $R_e$ ) constant over their time period:

$$r_e = \frac{d_1 + p_{t+1} - p_t}{p_t} \quad (1)$$

Solving for  $p_t$  gives the following result:

$$p_t = \frac{d_1 + p_{t+1}}{1 + r_e} \quad (2)$$

Equation 1 states that the per-share price today is equal to the dividends per share to be paid in time  $t$  plus the price at time  $t+1$  all discounted to the present. They then restate Equation 2.1 in terms of firm value as opposed to price per share as

$$V_t = \frac{D_1 + n_1 p_{t+1}}{1+r_e} \quad (3)$$

where  $V_t$  equals total firm value at time  $t$ ,  $n_t$  equals the number of shares outstanding, and  $D_t$  equals the total dividends paid during time period  $t$ . MM restate value as a function of the total dividends paid and the firm value at time  $t+1$  less any new shares issued,  $m_{t+1}$ , times their ex-dividend price,  $p_{t+1}$ .

$$V_t = \frac{D_1 + V_{t+1} - m_{t+1} p_{t+1}}{1+r_e} \quad (4)$$

Aside from the discount rate ( $r_e$ ), in Equation 2.4, three variables can affect the value of the firm: current dividends, the total firm value at the future period, and the value of any new shares issued. MM recognize that any increase in dividends ( $D_t$ ) necessarily increases the dollar amount of new shares issued ( $m_{t+1} p_{t+1}$ ). They prove this by expressing  $m_{t+1} p_{t+1}$  in terms of  $D_t$ . Defining  $I_t$  as the level of investment and  $X_t$  as the total net profit, they describe the amount of new capital needed:

$$m_{t+1} p_{t+1} = I_t - (X_t - D_t) \quad (5)$$

Finally, MM substitute Equation 2.4 into Equation 2.3 to get the result here:

$$V_t = \frac{D_1 + V_{t+1} - I_t + X_t - D_t}{1+r_e} = \frac{V_{t+1} - I_t + X_t}{1+r_e} \quad (6)$$

Equation 2.5 establishes dividend irrelevance, as the value of the firm does not depend on dividends ( $D_t$ ). Instead, value is dependent upon the level of investment and future profits.

### **Bird-in-the-Hand Dividend Theory**

Bird-in-the-hand theory is one of the leading theories of dividend policy in the 1960's. advocates of this theory include Gordon (1963), Lintner (1962). The basis for this theory is that in a world of uncertainty and imperfect information, dividends are valued differently to retained earnings (or capital gains). Investors prefer the "bird in the hand" of cash dividends rather than the "two in the bush" of future capital gains. Increasing dividend payments, *ceteris paribus*, may then be associated with increases in firm value. As a higher current dividend reduces uncertainty about future cash flows, a high payout ratio will reduce the cost of capital, and hence increase share value. That is, according to the so-called "bird-in-the hand" hypothesis. High dividend payout ratios maximize a firm's value (Al-Malkawi Rafferty & Pillai, 2010). Gordon and Lintner claimed that Modigliani and Miller made a mistake assuming lack of impact of dividend policy on firm's cost of capital. They argued that lower payouts result in higher costs of capital. They suggested that investors prefer dividend as it is more certain than capital gains that might or might not appear if they let the firm retain its earnings.

The authors indicated that the higher capital gains/dividend ratio is the larger total return is required by investors due to increased risk. In other words, Gordon and Lintner claimed that one percent drop in dividend payout has to be offset by more than one percent of additional growth (Gordon, 1963; Lintner, 1962). Investors are risk averse and believe that incomes from dividends

are certain rather than incomes from future capital gains; therefore, they predict future capital gains to be risky propositions.

### **Taxes Effects Theory**

According to tax preference theory, rational investors prefer that firms retain cash instead of paying dividends when tax rates are higher on dividends than on long term capital gains. Thus, firms should keep dividend payments low if they want to maximize share price. Supporters of this theory also contend that investors in high tax brackets prefer stocks with low dividend yields while investors in low brackets prefer stocks with high dividend yields. These situations represent clientele effects. Studies often use variations in the tax rates on dividend income and capital gains to examine the effects of taxation on dividend policy. Given a lack of compelling tax changes and fully convincing research designs, previous studies provide conflicting results. More recent studies offer new insights by showing that a firm's ownership and governance structure affect the relationship between taxation and payout policy. Allen, F., Bernardo, A. E., & Welch, I. (2000) argued that firms paying dividends attract relatively more institutions, which have a relative advantage in detecting high firm quality and in ensuring firms are well managed.

Brennan (1970) developed an after-tax version of the capital asset pricing model (CAPM) to test the relationship between tax risk-adjusted returns and dividend yield. Brennan's model maintains that a stock's pre-tax returns should be positively and linearly related to its dividend yield and to its systematic risk. Higher pre-tax risk adjusted returns are associated with higher dividend yield stocks to compensate investors for the tax disadvantages of these returns. This suggests that, all thing being equal, a stock with higher dividend yield will sell at lower prices because of the disadvantage of higher taxes associated with dividend income. The Brennan model can be described as:

$$E(R_{it} - R_{ft}) = \gamma_0 + \gamma_1 \beta_{it} + \gamma_2 (D_{it} - R_{ft}) \quad (7)$$

where,

$R_{it}$  is the return on stock  $i$  in period  $t$ ,

$R_{ft}$  is the riskless rate of interest,  $it$

$B_{it}$  is beta coefficient for stock  $i$  in period  $t$  (systematic risk), and

$D_{it}$  is the dividend yield of stock  $i$  in period  $t$ .

It is assumed that the coefficient  $\gamma_2$  is interpreted as an implicit tax bracket and is independent of the level of the dividend yield  $D$ . If the coefficient of dividend yield  $\gamma_2$  is statistically different from zero and positive, the results are interpreted as evidence of a tax effect. That is, higher pre-tax risk-adjusted returns are necessary to compensate investors for holding high dividend-paying stocks because of the disadvantage associated with dividend income. The following section presents the debate concerning the above argument.

### **Conceptual Review**

#### **Meaning of Dividend Policy**

Conceptualizing, dividend policy starts with establishing in clear terms the meaning of dividend. According to Davies & Pain (2002) dividend is the amount payable to shareholders from profit or distributable reserves. This is an obligation that must be fulfilled by quoted companies annually,

bi-annually, quarterly on an interim or final basis (Samuel & Inyada, 2010). In the words of Droughty (2000) dividend is the payment made by firms to stakeholders as their fraction of total earnings for a period of time.

However, the term 'dividend policy' refers to "the practice that management follows in making dividend payout decisions or, in other words, the size and pattern of cash distributions over time to shareholders" (Lease et al., 2000). According to Samuel & Inyada (2010) dividend policy is the framework of decision regarding the amount of profit that will be distributed to the shareholders as a return on investment and the fraction that will be retained by the company for investment purposes. Oloyede and Ajayi (2005) explained that the objective of a dividend policy should be to maximize the shareholders' return so that value of his investment is maximized. Dividend policy revolves around making decisions between the distribution of present return and reinvestment of the same for future return (Pandey & Ashvini, 2016; Kouser, Luqman, Yaseen, and Azeem, 2015).

### **Forms of Dividend**

Firms can distribute capital to their shareholders by means of cash dividends or share repurchases or a combination of both. Historically, dividends have been the dominant form of payout. Generally, dividends are paid in cash but when the company is unable to pay cash dividend, they use different forms of dividend payment for satisfying stockholders. Such forms of dividends are stock dividends, script dividends, property dividends, bond dividends, etc.

### **Types of Dividend Policy**

- i. Residual Dividend Policy
- ii. Stability Dividend Policy

**Residual Dividend Policy:** The Residual Dividend Policy suggests that the dividend paid by a firm should be viewed as a residual amount left after all acceptable investment opportunities have been undertaken. Dividend policy can be viewed as one of a firm's investment decision. A firm that behaves in this manner is said to believe in the residual dividends. According to this theory, dividend policy is a residue after investment whether a company pays dividends depends on the availability of investment opportunity or not. The starting point in this theory is that investors prefer to have the firm retain and reinvest earning, instead of paying dividends, if the return on reinvestment is higher than the opportunity cost of fund for the investors. The dividend under residual dividend policy equals the amount left over from earning after investment, no dividends are paid, and new shares are sold to cover deficit for investment that is not covered. If there is not any investment opportunity, then certain percent earning is distributed as dividend to the shareholders. Dividend is therefore merely a residue i.e., percent remaining after all equity investment needs are fulfilled (Irwin Friend & Marshall Pocket, 1964).

**Stability Dividend Policy:** Stability Dividend policy refers to the consistency in stream of dividend. In other words, stability of dividend means regularity in paying dividend even though the amount of dividend may fluctuate from year to year. Stability of dividends is considered as a desirable policy by the management of most companies. Shareholders also generally favour this policy and value stable dividends higher than the fluctuating ones. All other things being the same, stable dividend may have a positive impact on the market price of the share (Panday, 1995). By stability, we mean maintaining the position of the firm's dividend payments in relation to a trend line, preferably one that is upward sloping. There are some reasons to believe that a stable dividend

policy does lead to higher stock prices. First, investors are generally expected to value more highly dividends they are sure of receiving, since fluctuating dividends are riskier than stable ones. Accordingly, the same average amount of dividend received under a fluctuating dividend policy is likely to have a higher discount factor applied to it than is applied to dividends under a stable dividend policy. This means that the company with stable dividend policy will have a lower required rate of return or cost of equity capital than one whose dividend fluctuates. Second, many stockholders live on income received in the form of dividends. These stockholders are greatly inconvenienced by fluctuating dividends, and they will pay a premium for a stock with a relatively assured minimum dollar dividend. Third, from the standpoint of both the corporation and its stockholders is that stability of dividend is desirable for the requirement of legal listing. There are three distinct forms of such stability of dividend payments. They are:

- i. Constant Dividend per share
- ii. Constant Dividend payout ratio
- iii. Low Regular Dividend plus extra dividend

### **Empirical Review**

Sajid, Muhammed, Bilal, Shafiq and Mehran (2012) examined taxes and dividend policy. The study investigated the association between dividends, profit and taxes of 120 companies listed in Karachi Stock Exchange from 2000-2011. Data were sourced from Karachi Stock Exchange, Securities and Exchange Commission of Pakistan, State Bank of Pakistan and the Audited Annual Reports, Panel data technique and standard multiple regression were used to analyze the data. It was found that there is statistically insignificant but positive link between profit and taxes while dividend has direct positive correlation with profit.

Uwuigbe and Olowe (2013) examined the effects of company income tax on dividend policy of firms in Nigeria using judgmental sampling techniques and regression analysis method. Data were gathered for 40 listed firms in the Nigerian stock exchange market from Central Bank of Nigeria Statistical Bulletin and corporate annual reports for the period of 2006-2010. The study revealed in its findings that there is a significant positive relationship between the company income tax and the dividend payout of the sampled firms in Nigeria. Hence, it was concluded in the study that a change in corporate income tax rate will significantly affect the dividend policies of the sampled firms in Nigeria.

Samuel and Iyanda (2010) analyzed the effect of company income tax on dividend policy of financial institutions in Nigeria using a survey research method and regression technique of correlation analysis and data were gathered for 15 financial institutions. The study revealed correlation coefficient of 0.552 which means that company income tax has perfect positive correlation with the dividend policy, coefficient of determination of 0.305 which shows that 31% of variation in dividend is explained by company tax and 96.7% confidence level indicating that the impact is significant. Thus, concluded that a change in company tax will affect the dividend payment. Therefore, based on the empirical literature, there is no consensus that a change in company income tax rate will affect the dividend policy. Some findings in empirical literature revealed that a change in company income tax rate will have a positive impact on dividend policy, some resulted that, a change in company income tax rate will have a negative effect on dividend policy, others emphasized that dividend policy has a direct positive correlation with firms profitability.



Maladjian and El Khoury (2014) investigate the effects of size, lag dividend payments, debt, profitability, liquidity, growth and firm's risk on dividend payout ratios of banks listed on Beirut Stock market in Lebanese for a period of 7 years from 2005 to 2011. Employing the dynamic panel regressions analysis, the results indicate a significant positive relationship between sizes, risk and lag dividends; profitability and opportunity growth were negatively related with dividend payout policy of firms. The results further suggest that dividends are paid by companies in order to minimize agency problems having taken into consideration the importance of dividends stability. Thus, in the Lebanese context, companies would rather reinvest their earnings for profitable investments opportunities instead of paying dividend to shareholders.

Mbuvi (2015) empirically investigated the effect of dividend announcement, dividend payout, tax incentives and excess cash flows on shareholders wealth in Nairobi Securities Market. Using descriptive statistics and econometric technique of ordinary least squared (OLS) on primary data collected through questionnaires, the results from the analysis revealed that dividend announcement, dividend payouts, tax incentives and free cash flows positively influence the wealth of shareholders in the Nairobi Securities Market.

Odia and Ogiedu (2013) empirically examined the effect of profitability and taxes on dividend payouts of 19 listed banks on the floor of the Nigerian Stock Market for a period of nine years (2000 to 2008). Employing the ordinary least squared regression (OLS), the results from the empirical analysis indicate that bank's profitability has a strong positive impact on dividend payments; taxes have an inverse relationship with bank's dividend policy. Oyinlola and Ajeigbe (2013) empirically investigated the relationship between stock prices and dividend payouts of twenty two listed companies in Nigeria for a period of five years from 2009 to 2013. Using the ordinary least squared econometric technique (OLS), correlation analysis and the Granger Causality Test, the results from the analysis indicate a strong positive relationship between dividend payments, retained earnings and share price.

Chichi and Ezeji (2013) in an empirical manner examined the relationship between corporate taxes, cumulative total earning per share, cumulative total retained earnings per share and dividend policies of 35 companies from seven different sectors of the Nigerian economy for a period of 12 years (2000 to 2011). Using the ordinary least squared (OLS) and Granger Causality Test, the OLS results revealed different levels of directional relationship among the hypothesized variables. With respect to sectorial ranking, the banking industry had the highest performance in terms of corporate taxes and dividend payouts within the last ten years. This performance ranking was followed by breweries, petroleum and marketing, conglomerates, insurance, construction and allied, food and beverages. From the Granger Causality results, corporate taxes do not Granger Cause dividend policy payments in Nigeria.

Kazmierska-Jozwiak (2015) examined the determinants of dividend policy of non-financial companies listed on the Warsaw Stock Exchange. The results show statistically significant and negative relationship between dividend payout ratio and profitability and leverage. There is a positive but insignificant relationship between the size of the firm and its price-earnings ratio. Kumar and Waheed (2015) examined the determinants of dividend policy in GCC market-based sample firms in United Arab Emirate. In all, 120 companies were involved for the 3-year period, 2011-2013. Using partial least squares structural equation modeling to test the hypothesis, results reveal support for residual theory and pecking order argument of dividends. Specifically, growth

and liquidity are important determinants of dividend policy of the sample firms during the period of study.

Odesa and Ekezie (2015) investigated the determinants of dividend payout of selected quoted companies in Nigeria using cross sectional data of 131 companies and employing multiple and linear regression techniques. The results reveal that investment opportunity is negatively related to dividend payout while debt, profitability, shareholding structure and last dividend paid have a positive and significant relationship with dividend payout ratio. Uwuigbe (2013) investigated the determinants of dividend policy in the Nigerian Stock Exchange market using annual reports for the period 2006-2011. The researcher analyzed the effect of the financial performance of the firms, firm size, financial leverage and board independence on the dividend payout decisions of listed firms operating in the Nigerian Stock Exchange market. The finding indicated a significant positive relationship between firms' financial performance, size of the firms and board of independence on the dividend payout decision of listed firms in Nigeria.

Badu (2013) examined variables affecting dividend policy listed financial institutions in Ghana Stock Exchange using panel data covering 2005-2009. The result indicates significant and positive relationship between liquidity and age but statistically insignificant relationship between collateral, profitability and dividend payment. The researcher concluded that age of the firm, liquidity and collateral are the major determinants of dividend policy of financial institutions in Ghana.

Maniagi, et al. (2013) studied the determinants of dividend payout of non- financial firms listed on Nairobi Securities Exchange from 2007-2011. They used dividend payout ratio as dependent variable and profitability, growth, current earnings as independent variables, and business risk, size and liquidity was taken as moderating variables. The outcome of the study revealed that firm's size, growth opportunities, profitability, current earnings and business risk are the main determinants of dividend payout for non-financial firms on Nairobi Securities Exchange.

Mundati (2013) tested the relationship between dividend payout of firms listed at the Nairobi Securities Exchange and macroeconomic variables that included; money supply, inflation, exchange rates, , interest rates for the period 2002 to 2012. Inflation rates have a significant positive relationship with dividend payout; exchange rates had a negative effect on the dividend payouts, while interest rates have insignificant impact on the dividend payout. Money supply had a positive insignificant effect on the dividend payouts.

Ogundajo and Onakoya (2016) investigated the impact of tax planning strategies on the financial performance of manufacturing firms mentioned on the Nigerian Stock Exchange. Using annual reports and accounts of 10 selected firms out of 28 listed under the consumer products sector. Based on the results of Hausman's model estimation test, the study used the Generalized Least Square (GLS) regression approach. According to the findings, aggressive tax planning techniques such as thin capitalization, tax law incentives, and other benefits of loopholes in Nigerian tax laws are not being properly utilized by Nigerian businesses. Due to the complexity and dynamism of Nigerian tax laws, the study recommended that manufacturing firms in Nigeria make tax planning a part of their strategic financial planning, employ the services of tax experts, and effectively use all-inclusive tax planning strategies available to further influence financial performance positively.

Odunayo and John (2019) investigated the relationship between corporate tax planning and financial performance of quoted non-financial companies. The secondary yearly data used were

gathered from 47 sampled non-financial companies from 2007 to 2016. A panel vector autoregressive approach with structural analysis such as variance decomposition and impulse response function was adopted. The results of the study revealed that tax saving had a direct relationship with financial performance, while tax avoidance had an inverse relationship with financial performance. The financial variables under consideration mainly contributed to their own shocks or forecast errors. The responses of the financial performance to shocks in tax avoidance had an expansionary effect which could hinder the performance of the companies, while financial performance response to shocks in tax savings had a contractionary effect and as such, could lead to better performance of the companies. Thus, corporate tax planning that enhances tax savings greatly contributes to the performance of non-financial companies. They should therefore not only engage in tax planning, but also ensure that their tax planning is legal, and leads to tax saving for the companies, such that no excessive or multiple tax will be paid and hence, better financial performance will be achieved.

Goh et al. (2016) investigated the relationship between firm cost of equity and corporate tax avoidance. In the study, corporate tax avoidance was captured by book-tax differences, permanent book-tax differences and long-run cash effective tax rates. The analysis was done using the regression method and the result revealed that less aggressive forms of corporate tax avoidance significantly reduce a firm's cost of equity. The result further revealed that this effect was stronger for firms with better outside monitoring. This was evident from firms with better information quality and likely to realize higher marginal benefits from tax savings.

Heitzman and Ogneva (2016) examined the relationship between corporate tax planning and stock returns of all US firms traded on NYSE, AMEX or NASDAQ from 1988 to 2013, using panel regression analysis. The study established that high tax planning firms indeed earn higher returns, but only when tax enforcement is low. The study also discovered that small firms have less diversified tax strategies, as compared to large and complex firms, as a result of lack of scale and complexity, high exposure to adverse consequences of government actions and inability to finance the high fixed costs of tax planning strategies. The study found that large firms are less exposed to tax policy risk, due to their consistent audit.

Mucui et al. (2014) studied tax planning and financial performance of small-scale enterprises in Kenya. The study had a total population of 149 respondents and a sample of 30 per cent was drawn from each stratum. The data were analyzed using percentages and tables and the influence of tax planning by capital structure, tax planning in investment, and capital asset planning through advertisement expenditure, was noted. It was also found that the legal forms of small enterprises have no significant relationship. The study established that small-scale enterprises should be ready to seek advice on tax planning. It was further established that there is a need to have NGOs to sensitize the taxpayers on how to do formal tax planning and, as such, increase their business profitability.

Silvy (2019) aimed to empirically examine the effect of tax planning on firm value. The population of the study consisted of manufacturing companies listed on the Indonesian Stock Exchange (IDX) for the period 2014 to 2016. 43 respondents were chosen using purposive sampling. The hypotheses were tested using multiple regressions with E-views software to determine the relationship that existed between each independent variable and firm value. The empirical results showed that tax planning that is measured by cash effective tax rate had a negative effect on firm value; while tax planning measured by effective cash rate and tax savings had no effect on firm

value. The study recommended the need for firms to institute more robust tax planning practices that would help reduce their effective tax liabilities and therefore improve their overall value.

Teja (2019) provided evidence on how firm usage of debt tax shield and non-debt tax shield changed when tax rates changed in Indonesia. A multivariate regression analysis was performed with non-debt tax shield as a dependent variable, and tax rates changes, and debt level were the independent variable. A multivariate regression analysis was conducted on 73 Indonesian firms with 146 observations for the period 2008 to 2010. Within that period, Indonesian corporate tax rate was reduced twice from 30% in 2008 to 28% in 2009 and 25% in 2010. The study found that when tax rates decreased, the public firms increased their usage of a non-debt tax shield with a lag of one year. Debt financing remained high alongside non-debt tax shield. The findings complicated debt tax shield and non-debt tax shield.

Soepriyanto (2018) examined the level to which corporate tax avoidance activity was valued by investors in a large sample of Indonesian firms. The risk minimization perspective of corporate tax avoidance suggested that such activities, especially aggressive tax strategies could diminish firm value as investors saw them as risky strategies. Under cash flow maximization perspective, however, corporate tax avoidance is considered as a value-enhancing activity as it could increase firm value through tax saving. Based on a sample which consisted of 1,023 firm-year observations, made up of 244 unique firms over the period 2006-2015, the author found that tax avoidance strategies – proxied by long run GAAP effective tax rates and cash effective tax rates – were negatively associated with firm value. It lent credence to the risk minimization motive.

Razali, Ghazali, Lunyai and Hwang (2018) determined the impact of tax planning on firm value of firms listed in Bursa Malaysia. The tax planning proxies in their study were effective tax rate and book tax differences. Samples of 387 firms' data were collected from DataStream covering the period 2014 and 2016. After controlling for firm size, leverage, asset tangibility, firm age and dividend, the regression results showed that effective tax rate had a significant and positive relationship with firm value while book tax difference had an insignificant negative relationship with firm value. Firms with less tax planning activities may signal investors that the firm is more transparent in publishing its financial information.

Oloyede, Olaoye and Oluwaleye, (2018) examined the impact of corporate taxation on dividend policy of selected quoted firms in Nigeria. Specifically, it analyzed the impact of company income tax and educational tax on dividend per share of 10 randomly sampled consumer goods firms. Data used were collected from the published annual reports of the selected firms over a period of 5 years spanning from 2011 to 2015. Panel data estimation techniques employed in the study are pooled OLS estimation, fixed effect estimation and random effect estimation. The most consistent and efficient estimation result showed that company income tax has insignificant positive impact on dividend per, education tax exerts insignificant positive impact on dividend per share. It was concluded in the study that corporate taxation has no clear-cut influence on dividend distribution policy of quoted consumer goods firms in Nigeria. Therefore, based on the empirical literature, there is no consensus that a change in company income tax rate will affect the dividend policy.

### 3.0 METHODOLOGY

#### Research Design

The research work employed an ex-post facto research design to obtain, analyze and interpret the relevant data for hypotheses testing. This is because the study relied on historic accounting data as such the event under investigation had already taken place, hence the researcher does not intend to control or manipulate the independent variables.

#### Population/Sample Size

The population of this research is made up of quoted firms on the Nigerian Stock Exchange. A total number of 36 quoted firms active between 2018 and 2022 on the floor of the Nigerian Stock Exchange were randomly selected.

#### Sample and Sampling Techniques

Simple random sampling and proportionate stratified random sampling was used to select 36 firms quoted in the Nigerian Stock Exchange to ensure all sectors are represented in the sample size.

**Table 1: The Population and Sample Distribution of Nigerian Listed Firms from 2018 to 2022**

S/N	SECTOR	POPULATION SIZE	SAMPLE SIZE
1	AGRICULTURE	5	1
2	CONGLOMERATES	6	2
3	CONSTRUCTION/REAL ESTATE	8	2
4	CONSUMER GOODS	20	5
5	FINANCIAL SERVICES	38	10
6	HEALTHCARE	5	1
7	ICT	8	2
8	INDUSTRIAL GOODS	13	3
9	NATURAL RESOURCES	4	1
10	OIL AND GAS	9	2
11	SERVICES	22	6
12	UTILITIES	1	1
	<b>TOTAL</b>	<b>139</b>	<b>36</b>

**Table 2: Variables Measurement**

Variables		Measurement	
Dependent	Dividend policy	Dividend per share (DPS)	Dividend paid divided by Earnings after tax.
		Dividend payout ratio (DPR)	Dividend paid divided by Earnings after tax.
		Dividend yield (DY)	Dividend per share divided by current share price
Independent	Corporate Taxes	Company income taxes (CIT)	Current current tax expense for the year.
		Deferred Tax Liabilities (DTL)	Differences between book income and tax income which is capable of being reversed in subsequent period
	Transaction Cost (Proxy)	SIZE = Company assets size	Total Asset book value
		GHT = Asset Growth	Asset growth rate measured by change in Total assets ratio.
		LEV = Leverage ratio	Total Debt to Total Assets.
	Control Variables		SP = Share Price
		NPR= Net profit ratio	Net profit to sales
		REPS= Retained earnings per share	Retained earnings divided by outstanding shares.

### Statistical Analysis

The data used in this study is presented in ratios. Two different analytical techniques are employed in this study. They include the use of descriptive statistics and an econometric technique of Panel Data method. Descriptive statistics involve the use of mean, median, maximum, and minimum value to evaluate the selected variables. Other measures of descriptive estimates like the standard deviation and variance were also employed so as to see the degree of variability of these estimates. The regression model took the form of the Fixed Effects Model, Random Effects Model and the Pooled Ordinary Least Square (OLS) model in order to establish the most appropriate regression model with the highest explanatory power, that is better suited to the data set employed in the study i.e. a balanced panel (Greene, 2003; Chen, 2004; Salawu, 2007). We used the Pooled Ordinary Least Square (POLS) in the first instance. However, in view of the weaknesses associated with it, we used the Fixed Effects Model (FEM) and Random Effect

### Model Specification

The pattern of the modeling involves directly deriving the econometric models from theoretical foundations. In this direction and given the objective of the study, regression models are employed to model the relationships between dividend policy, corporate taxes and transaction cost. Three variables are used to depict Dividend Policy- dividend per share (DPS),

Dividend payout ratio (DPR) and dividend yield (DY). Corporate Taxes which is one of the explanatory variables is proxied by company income taxes (CIT) payable by the companies at every financial year end as specified in the yearly annual report and deferred tax liabilities (DTL). In line with international financial reporting standards (IFRS 12), firms are expected to make provision for deferred tax liabilities to account for the temporary time difference in the income taxes assessed by the tax authority in a financial year and the accounting income tax due temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled. Corporate taxes are expected to have negative relationship with dividend policy. There are three transaction Cost Variables: The change in leverage ratio ( $\Delta LEV$ ), growth (GHT), and debt ratio (LEV).

When it is expected of the company to regularly increase external funding, its cost of transaction will equally increase. Depending mainly on external funding will increase growth opportunities and earnings variability. Hence changes in debt ratio, growth and debt leverage are expected to have negative marginal effects on the dividend policy of firms. Debt (LEV) measures the level of company's exposure to financial risk. Increase in the reliance on external funding increases the total risk of the stock. Firm Size (SIZE) on the one hand, big firms are well able to raise external financing at a lower cost and have more different ownership structure. Thus, face higher degree of agency problems. The lower transaction cost and the increased ability for agency problems, indicates a positive relationship between firm's size and dividend policy mechanism.

The models follow the lead of the classical linear regression model as formulated and presented in its basic form below:

$$DPS_{it} = \beta_0 + \beta_1 CIT_{it} + \beta_2 DLT_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 GHT_{it} + \beta_6 NPR + \beta_7 REPS + \beta_8 SP \mu_{it} \quad (8)$$

$$DPR_{it} = \beta_0 + \beta_1 CIT_{it} + \beta_2 DLT_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 GHT_{it} + \beta_6 NPR + \beta_7 REPS + \beta_8 SP \mu_{it} \quad (9)$$

$$DY_{it} = \beta_0 + \beta_1 CIT_{it} + \beta_2 DLT_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 GHT_{it} + \beta_6 NPR + \beta_7 REPS + \beta_8 SP \mu_{it} \quad (10)$$

Where:

DPS<sub>t</sub> = Dividend Per Share

DPR = Dividend Payout Ratio

DY = Dividend Yield

CIT = Current Income Tax

SIZE = Company assets size

GHT = Company Asset Growth

LEV = leverage measured by debt ratio

REPS = Retained earnings per share

NPR = Net profit ratio

SP = Share price

$\beta_0$  = Regression intercept

$\beta_1 - \beta_5$  = coefficient of independent variables to the dependent variables

with:

$i=1, \dots, N$

$t=1, \dots, T$ , and

$\mu_{it}$  = Error term

### **A-Priori Expectations**

The study expects negative relationship between dividend policy, corporate taxes, and transaction cost variables. The a-priori expectations can be expressed as follows:

DPS  $\Rightarrow \beta_1, \beta_2, \beta_3, \beta_4, \beta_5 < 0; \beta_6, \beta_7, \beta_8 > 0$

DPR  $\Rightarrow \beta_1, \beta_2, \beta_3, \beta_4, \beta_5 < 0; \beta_6, \beta_7, \beta_8 > 0$

DY  $\Rightarrow \beta_1, \beta_2, \beta_3, \beta_4, \beta_5 < 0; \beta_6, \beta_7, \beta_8 > 0$

Model (REM) to capture the performance of the firms considered in the study.



## 4.0 FINDINGS

### Data Presentation and Analysis

**Table 3: Descriptive Statistics**

	CIT	DPR	DPS	DTL	GY	GHT	LEV	NPR	SIZE	REPS	SP
Mean	0.05289	0.334308	2.483012	7.665654	0.041364	0.287784	0.258620	0.121038	4681.327	0.200568	61.50971
Median	0.032651	0.103948	0.040000	0.769319	0.011594	0.097247	0.190000	0.091050	48.44375	0.001211	3.220000
Maximum	0.598888	13.333333	70.000000	120.5870	0.500000	6.871000	0.868300	4.389100	146678.0	13.333333	1617.100
Minimum	0.000000	-2.500000	0.000000	0.000000	0.000000	-0.999168	0.000000	-1.715600	0.051300	-0.505051	0.000000
Std. Dev.	0.067023	1.085835	10.27182	19.54209	0.072516	0.847296	0.2828662	0.421016	22752.81	1.100395	240.1683
Skewness	4.134656	10.05297	5.184950	4.372808	3.902949	4.895842	1.050682	5.401275	5.659469	10.33862	5.449063
Kurtosis	29.26920	121.8662	29.85920	22.70055	22.67322	32.18004	3.340098	63.64292	33.46149	120.8337	32.48205
Jarque-Bera	5403.97	103550.7	5840.085	3310.258	3191.769	6907.774	29.64291	27824.57	7920.158	101975.3	7039.217
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	8.992751	57.16668	424.5950	1310.827	7.073239	50.32860	40.60330	21.30270	842638.8	34.29720	10518.16
Sum Sq Dev.	0.763661	200.4362	17036.76	64921.87	0.893951	124.9164	8.156683	31.01958	9.27E+10	205.8476	9805737
Observations	171	171	171	171	171	171	171	171	171	171	171

*Sources: Results Obtained from Data Analysis Using the E-Views 12*

Table 1 depicts descriptive analysis on the selected variables captured in this study. As indicated in table, the mean values of company income taxes (CIT) is 0.052589, the dividend payout ratio (DPR) has a mean of 0.334308, the mean rate of dividend per share (DPS) is 2.483012, deferred tax liabilities (DTL) has a mean of 7.665654. dividend yield (DY) has a mean of 0.041364, debt ratio (LEV) has a mean of 0.205126, growth (GHT) has a mean of 0.287784, firm size (SIZE) has a mean of 4914.731 during the period of evaluation, Net Profit Ratio (NPR) has a mean of 121246, Retained earnings per share (REPS) has a mean value of 0.200568 while Share price (SP) has mean value of 61.50971. Examination of the Skewness showed that all variables have a positively skewed distribution, given its positive value. Examination of kurtosis showed that the distributions for all the series are positive.

**Table 4: Relationship between the Dependent (Dividend Payout Ratio) and Independent Variables (CIT, DTL, GHT, LEV, and Size)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.109816	0.103010	1.066075	0.2884
CIT	-0.346245	0.361356	-0.958183	0.3398
DTL	-0.001645	0.004645	-0.354150	0.7238
GHT	0.053001	0.033042	1.604076	0.1111
LEV	0.228539	0.244215	0.935809	0.3511
SIZE	-5.06E-06	1.53E-05	-0.330534	0.7415
NPR	0.008826	0.057960	0.152281	0.8792
REPS	1.008578	0.020224	49.87093	0.0000
SP	0.000226	0.000436	0.516827	0.6062
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.961696	Mean dependent var		0.332364
Adjusted R-squared	0.949225	S.D. dependent var		1.082955
S.E. of regression	0.244025	Akaike info criterion		0.229222
Sum squared resid	7.681688	Schwarz criterion		1.016096
Log likelihood	23.28692	Hannan-Quinn criter.		0.548477
F-statistic	77.11496	Durbin-Watson stat		2.143724
Prob(F-statistic)	0.000000			

*Sources: Results Obtained from Data Analysis Using the E-Views 12*

The most appropriate model is the Fixed Effect OLS Model shown in Table 2. This will be used to interpret the hypotheses 1 to 3.

The coefficient of determination obtained from the overall regression model is 0.961696 (i.e 96.1%), which is commonly referred to as the value of  $R^2$ . The cumulative test of hypothesis using  $R^2$  to draw statistical inference about the explanatory variables employed in this regression equation, shows the R-Squared value of 96.1%. This shows that about 96% of the systematic variations in the dependent variable can be jointly predicted by all the independent variables. In other words, the independent variables had about 96.1% effect on the dependent variable.

$H_{01}$ : There is no significant relationship between company income tax and dividend payout ratio of quoted firms in Nigeria.

A one-unit change in CIT will result to a 0.346245-unit change in dividend payout ratio. The NEGATIVE coefficient indicates that as CIT increases, dividend payout reduces (they have negative relationship). Also, since the P-value of 0.3398 is greater than 0.05, we accept the null hypotheses. This implies that company income taxes (CIT) does not have a significant effect on dividend payout ratio during the period of estimation.

$H_{02}$ : There is no significant relationship between dividend payout and deferred tax liabilities in Nigerian quoted firms.

A one-unit change in DTL will result to a 0.001645-unit change in dividend payout ratio. The NEGATIVE coefficient indicates that as DTL increases, dividend payout reduces (they have negative relationship). Also, since the P-value of 0.7238 is greater than 0.05, we accept the null hypotheses. This implies that deferred tax liabilities (DTL) does not have a significant effect on dividend payout ratio during the period of estimation.

H<sub>03</sub>: There is no significant relationship between transaction cost and dividend payout in Nigerian quoted firms.

There are three transaction Cost Variables: The firm growth (GHT), debt ratio (LEV) and firm Size (SIZE).

A one-unit increase in debt ratio (LEV) will result to a 0.228539 unit increase in dividend payout. The positive coefficient indicates that as debt ratio increases dividend policy increases (they have a positive relationship). Also, since the P-value of 0.3511 is greater than 0.05, we accept the null hypothesis. This implies that debt the ratio has no significant effect on dividend payout during the period of estimation.

A one-unit increase in firm Growth (GHT) will result to a 0.053 unit increase in dividend payout. The positive coefficient indicates that as firm growth increases dividend payout increases (they have positive relationship). And also, since the P-value of 0.1111 is greater than 0.05, we accept the null hypotheses. This implies that firm growth does not have a significant effect on dividend payout ratio during the period of estimation.

A one-unit increase in Firm Size (SIZE) will result to a  $5.06 \times 10^{-6}$  unit decrease in dividend payout ratio. The negative coefficient indicates that as Firm Size (SIZE) decreases, dividend policy increases (they have negative relationship). And also, since the P-value of 0.7415 is greater than 0.05, we accept the null hypotheses. This implies that Firm Size (SIZE) does not have a significant effect on dividend policy during the period of estimation.

**Table 5: Relationship between the Dependent (Dividend Per Share) and Independent Variables (CIT, DTL, GHT, LEV, and Size)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.011661	0.927482	2.168948	0.0319
CIT	1,151362	3.238183	0.355558	0.7228
DTL	-0.005727	0.041629	-0.137573	0.8908
GHT	0.161803	0.296093	0.546456	0.5857
LEV	-1.190128	2.189272	-0.543618	0.5876
SIZE	-6.02E-06	0.000137	-0.043884	0.9651
NPR	0.000302	0.519366	0.000582	0.9995
REPS	0.011161	0.181296	0.061564	0.9510
SP	0.011048	0.003910	2.825334	0.0055
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.965876	Mean dependent var		2.483012
Adjusted R-squared	0.954679	S.D. dependent var		10.27182
S.E. of regression	2.186741	Akaike info criterion		4.615992
Sum squared resid	612.0750	Schwarz criterion		5.406001
Log likelihood	-351,6673	Hannan-Quinn criter.		4.936544
F-statistic	86.26235	Durbin-Watson stat		1.720147
Prob(F-statistic)	0.000000			

*Sources: Results Obtained from Data Analysis Using the E-Views 12*

The most appropriate model is the Fixed Effect OLS Model shown in Table 2. This will be used to interpret the hypotheses 4 to 6.

The coefficient of determination obtained from the overall regression model is 0.965876 (i.e 96.5%), which is commonly referred to as the value of  $R^2$ . The cumulative test of hypothesis using  $R^2$  to draw statistical inference about the explanatory variables employed in this regression equation, shows the R-Squared value of 96.5%. This shows that about 96.5% of the systematic variations in the dependent variable can be jointly predicted by all the independent variables. In other words, the independent variables had about 96.5% effect on the dependent variable.

H<sub>04</sub>: There is no significant relationship between company income tax and dividend per share of quoted firms in Nigeria.

A one-unit change in CIT will result to a 1.151362-unit change in dividend pay dividend per share. The POSITIVE coefficient indicates that as CIT increases, dividend per share increases (they have positive relationship). Also, since the P-value of 0.7228 is greater than 0.05, we accept the null hypotheses. This implies that company income taxes (CIT) does not have a significant effect on dividend per share during the period of estimation.

H<sub>05</sub>: There is no significant relationship between dividend per share and deferred tax liabilities in Nigerian quoted firms.

A one-unit change in DTL will result to a 0.005727-unit change in dividend per share. The NEGATIVE coefficient indicates that as DTL increases, dividend per share reduces (they have negative relationship). Also, since the P-value of 0.8908 is greater than 0.05, we accept the null

hypotheses. This implies that deferred tax liabilities (DTL) does not have a significant effect on dividend per share during the period of estimation.

H<sub>06</sub>: There is no significant relationship between dividend per share and transaction cost in Nigerian quoted firms.

There are three transaction Cost Variables: The firm growth (GHT), debt ratio (LEV) and firm Size (SIZE). A one-unit increase in debt ratio (LEV) will result to a 0.1.190129 unit increase in dividend per share The NEGATIVE coefficient indicates that as debt ratio increases dividend per share reduces (they have a negative relationship. Also, since the P-value of 0.5876 is greater than 0.05, we accept the null hypothesis. This implies that debt the ratio has no significant effect on dividend per share during the period of estimation.

A one-unit increase in firm Growth (GHT) will result to a 0.053 unit increase in dividend payout. The positive coefficient indicates that as firm growth increases, dividend per share increases (they have positive relationship). Also, since the P-value of 0.5857 is greater than 0.05, we accept the null hypotheses. This implies that firm growth does not have a significant effect on dividend per share during the period of estimation. A one-unit increase in Firm Size (SIZE) will result to a  $6.02 \times 10^{-6}$  unit decrease in dividend per share. The negative coefficient indicates that as Firm Size (SIZE) decreases, dividend per share increases (they have negative relationship). And also, since the P-value of 0.9651 is greater than 0.05, we accept the null hypotheses. This implies that Firm Size (SIZE) does not have a significant effect on dividend policy during the period of estimation.

**Table. 6: Relationship Between the Dependent (Dividend Yield) And Independent Variables (CIT, DTL, GHT, LEV, and SIZE).**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.025882	0.014778	1.751416	0.0823
CIT	-0.027122	0.051839	-0.933582	0.6017
DTL	-0.000622	0.000666	-0.933582	0.3523
GHT	0.004347	0.004740	0.917067	0.3608
LEV	0.016834	0.035035	0.480492	0.6317
SIZE	3.33E-06	2.20E-06	1.515099	0.1322
NPR	0.000953	0.008315	-0.114571	0.9090
REPS	0.004569	0.002901	1.574962	0.1177
SP	-5.59E-06	6.26E-05	-0.089273	0.9209
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.823492	Mean dependent var		0.041123
Adjusted R-squared	0.766024	S.D. dependent var		0.072372
S.E. of regression	0.035007	Akaike info criterion		-3.654208
Sum squared resid	0.158090	Schwarz criterion		-2.867334
Log likelihood	357.2619	Hannan-Quinn criter.		-3.334953
F-statistic	14.32961	Durbin-Watson stat		2.149683
Prob(F-statistic)	0.000000			

*Sources: Results Obtained from Data Analysis Using the E-Views 12*

The most appropriate model is the Fixed Effect OLS Model shown in Table 2. This will be used to interpret the hypotheses 7 to 9.

The coefficient of determination obtained from the overall regression model is 0.823492 (i.e 82.3%), which is commonly referred to as the value of  $R^2$ . The cumulative test of hypothesis using  $R^2$  to draw statistical inference about the explanatory variables employed in this regression equation, shows the R-Squared value of 82.3%. This shows that about 82.3% of the systematic variations in the dependent variable can be jointly predicted by all the independent variables. In other words, the independent variables had about 82.3% effect on the dependent variable.

H<sub>07</sub>: There is no significant relationship between company income taxes and dividend yield of quoted firms in Nigeria.

A one-unit change in CIT will result to a 0.027122-unit change in dividend yield. The NEGATIVE coefficient indicates that as CIT increases, dividend yield decreases (they have negative relationship). Also, since the P-value of 0.6017 is greater than 0.05, we accept the null hypotheses. This implies that company income taxes (CIT) does not have a significant effect on dividend per share during the period of estimation.

H<sub>08</sub>: There is no significant relationship between dividend yield and deferred tax liabilities in Nigerian quoted firms.

A one-unit change in DTL will result to a 0.000322-unit change in dividend yield. The NEGATIVE coefficient indicates that as DTL increases, dividend yield decreases (they have negative relationship). Also, since the P-value of 0.8908 is greater than 0.05, we accept the null

hypotheses. This implies that deferred tax liabilities (DTL) does not have a significant effect on dividend per share during the period of estimation.

H<sub>09</sub>: There is no significant relationship between dividend yield and transaction cost in Nigerian quoted firms.

There are three transaction Cost Variables: The firm growth (GHT), debt ratio (LEV) and firm Size (SIZE). A one-unit increase in debt ratio (LEV) will result to a 0.016834 unit increase in dividend yield. The POSITIVE coefficient indicates that as debt ratio increases dividend yield reduces (they have a negative relationship). Also, since the P-value of 0.6317 is greater than 0.05, we accept the null hypothesis. This implies that debt the ratio has no significant effect on dividend per share during the period of estimation.

A one-unit increase in firm Growth (GHT) will result to a 0.04347 unit increase in dividend payout. The positive coefficient indicates that as firm growth increases, dividend per share increases (they have positive relationship). And also, since the P-value of 0.3608 is greater than 0.05, we accept the null hypotheses. This implies that firm growth does not have a significant effect on dividend per share during the period of estimation. A one-unit increase in Firm Size (SIZE) will result to a  $3.23 \times 10^{-6}$  unit decrease in dividend per share. The POSITIVE coefficient indicates that as Firm Size (SIZE) increases, dividend yield increases (they have negative relationship). Also, since the P-value of 0.1322 is greater than 0.05, we accept the null hypotheses. This implies that Firm Size (SIZE) does not have a significant effect on dividend yield during the period of estimation.

## 5.0 CONCLUSION AND RECOMMENDATIONS

### Conclusion

This paper concludes that there is no significant relationship between corporate taxes, and dividend policy of firms in Nigeria and therefore null hypothesis is accepted.

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 study outcome shows that firm profitability is not ultimately the crucial factor in the dividend formulation of the companies in Nigeria.

The results revealed that corporate taxes and dividend policy have negative and insignificant relationships. It also confirms that there is insignificant relationship between dividend policy and performance. There is steady increase in profitability of the companies selected for the period under review. As stated earlier, the debate on whether corporate taxes 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 taxes and transaction costs do not significantly affects the dividend policy of companies in Nigeria.

### Recommendations

Given the outcome of this study, we recommend that companies should concentrate on other determinants of dividend policy and not corporate taxes and transaction cost, since corporate taxes

and transaction cost have no significant effect on dividend policy. Management should design a dividend payout policy that maximizes the market value of quoted firms. Since transaction cost is not significant in dividend policy decision, companies should devise other means of raising funds through debt financing other than sole concentration on retained earnings for business expansion and diversification. This will help to boost the earnings which will in turn have a positive impact on dividend policy.



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