

# THE ROLE OF CORPORATE TAX, EARNINGS AND DEBT IN DETERMINING DIVIDEND POLICY OF FIRMS

Cordelia Onyinyechi Omodero<sup>1</sup>

**Abstract:** Dividend policy is a critical component of corporate finance strategy, which, when properly implemented, will allow firms to grow. In general, equity holders or corporate fund providers expect a favourable dividend policy as a motivation and reward for their investment in a company. Despite this golden expectation, there are still certain factors that invariably determine the outcome of firms' dividend policies. This study investigates the influence of corporation tax, profits, and debt in determining business dividend policy. In this paper, we argue that dividend policy is influenced not only by corporate taxation, but also by other factors such as profitability and debt. The panel statistics are derived from the businesses' public financial statements, which cover the years 2016 - 2020. To evaluate the panel data, the study uses Pairwise Granger Causality Tests, the Hausman check, the collective outcome prototypical, and the coincidental upshot model. Four null premises are examined, and the results reveal that corporate taxes and earnings have an affirmative impact on businesses' surplus payments. Contrarily, debt and interest expenditures have no momentous inspiration on surplus disbursement. The analysis shows that dividend payments and debt are diametrically opposed. The paper suggests equity financing to enhance organizations' business expansion.

**Keywords:** Dividend payout policy, corporate taxation, earnings, firms, debt.

**JEL:** G35, H25, H32, H63.

## Introduction

Dividend policy is the interchange of reserved paychecks for dough payments or the issuance of new shares to shareholders (Hamid, Hanif, Sai-UI-Malook, Wasimullah, 2012). Surplus plan is one of the supreme significant

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<sup>1</sup> Department of Accounting, College of Management and Social Sciences  
Covenant University Ota, Ogun State, Nigeria, email:  
onyinyechi.omodero@covenantuniversity.edu.ng, ORCID ID: 0000-0002-8758-9756

themes in commercial prose, and much research has been conducted on it in both established and emerging countries (Badenhorst, 2017; Jabbouri, 2016; Khan, Jehan & Shah, 2017; Pattenden & Twite, 2008). Firms with a high degree of confidence can reassure investors that their investment is worthwhile and that the information provided is trustworthy (Soewarno, Arifin & Tjahadi, 2017). The trust of investors can therefore boost a business's appeal in the stock market, resulting in an increase in firm value (Soewarno *et al.*, 2017). Therefore, dividend policy is significant for a variety of reasons. Dividend payments are one of the most often used instruments by companies to demonstrate to investors that they can generate enough profit to share earnings while also attaining a safe and mature level of development (Vianna, 2017). Dividends cannot be declared if the firm generates no profit. Nevertheless, if the company generates a profit, it is the obligation of management to pay corporate taxes as well as other taxes to the government. Undoubtedly, taxes reduce the earnings of the firm. As a result, they keep and distribute the profits as a dividend to the company's shareholders (Hamid *et al.*, 2012).

Lahiri and Chakraborty (2014) postulate that making dividend policy decisions is difficult since they are intertwined with other security and business concerns. Companies can implement various payout policies, such as dividend payouts and stock repurchases, to share earnings with their shareholders. According to Vianna (2017), stock repurchases are typically a chance for companies to exert certain influence on stocks' ultimate yields. Some firms believe that rebuying businesses yield significant benefits after adjusting for risk variables (Dittmar & Field, 2015). Lenders are likewise interested in dividend policy since dividends given to shareholders may risk the repayments that they anticipate to receive (Chazi, Boubakri & Zanella, 2011). The research, for example, discovers that internal debt is connected to dividend payment policy in a beneficial way (Borah, Liang, & Park, 2020; Caliskan & Doukas, 2015). Borah *et al.* (2020) state that the availability of low-cost loans in organizations, whose managers have greater amounts of internal debt, lessens the need to save money to pay upcoming commitment. Because of the heightened threat abhorrence and reduced price of financing, managers are more likely to recompense and boost bonuses (Sheikh, 2021).

Since 1918, businesses in the United States have been able to deduct interest charges from their tax liability (Warren, 1974). Enterprises' financing decisions are skewed toward debt rather than equity financing (Karpavicius & Yu, 2016). Borah *et al.* (2020) discover that inside debt is connected to the proclivity to pay dividends and the quantity of dividend payments. As a result,

corporations choose to fund development prospects with retained earnings, lowering dividend payouts, rather than relying on debt or stock issues (Chazi et al., 2011). According to Macnamara (2019), debt and equity are key sources of capital for enterprises even in the United States. The volume and prevalence of business savings are unexpected given that debt has a significant fiscal advantage over equity in that firms may deduct interest payments from taxable corporate income while dividends and capital gains are taxed (Armenter & Hnatkovska, 2017). Any advantageous tax treatment of debt contradicts the well-known Miller–Modigliani irrelevance finding, meaning that enterprises should be as leveraged as feasible and rely on equity to fund investment as little as possible (Armenter & Hnatkovska, 2017).

The primary goal of this investigation is to recognize the impact of company taxation, debt, and profitability on firm dividend rule. Specifically, the study would define the consequence of commercial taxation on firms' dividend plan; appraise the inspiration of firms' earnings on dividend strategy; scrutinize the response of dividend policy to firms' long-term debt; and assess the impact of debt interest expenses on firm dividend policy. This study is important for industry watchers and financial analysts who need the results for further analysis and forecasting of the numerous industry performance metrics included in this research. This study will aid stock market players and policymakers by supporting their whistleblowing of listed businesses' investment and output slack. This study is unique and will be highly valuable to regional and international governments in their policymaking about corporate taxation of firms. Researchers will benefit from the extended literature evaluation and will be able to add to their empirical literature as a result of the conclusions of this study. However, corporate managers and other corporate stakeholders will use the result of this study to guide sensitive corporate decisions.

## **Literature review**

Taxes, activity difficulties, and dividends, according to (Miller and Modigliani, 1961; Miller & Rock, 1985), have an impact on business valuations when there is asymmetrical information. However, even if these assumptions are relaxed, dividends continue to be a significant element due to the difference tax treatment of dividends and assets advantages (Chazi et al., 2011). Taxation shows a noteworthy effect in venture capitalist choices to favor resources expansions over extras (Berman, 1977; Khan *et al.*, 2017).

According to Wu (1996), if taxes have an effect on a firm's dividend policy, then any change in the government's taxation system would result in a change in the firm's dividend policy. Thus, dividends have an effect on an investor's tax burden, but this does not modify the taxes that they must pay regardless of whether they earn dividends or capital gains (Brealey, Myers & Marcus, 2008; Khan, Burton & Power, 2011).

Understanding a firm's financial decisions is critical for determining the cost of capital and, for example, assessing the implications of dividends, capital gains, and corporation tax rates on investment and the capital-to-output ratio (Armenter & Hnatkovska, 2017). Because governments are concerned about business taxes, economic and legal experts have recognized corporate income tax as a key issue because debt financing is more advantageous than equity financing (Evan, 1987; Warren, 1974). In other words, businesses can deduct interest from their taxable income but not dividends (Zaman, Hassan, Akhter & Meraj, 2018). This disparity in taxation is notable in chronology as it was a short-term fix to neutralize the incidence of the Global Conflict I surplus value tax, which would have been aimed to balance the removal of indebtedness from the classification of original investment throughout the War and excess taxable income (Warren, 1974; Hutchison, 2015). So under Australian factorization tax code, Australian firms bring benefits on earnings and taxes in Australia (collateralized dividend) and provide owners residing in Australia with a credit for business tax incurred, which can subsequently be adjusted on their household tax obligations (Nguyen, 2020). Until 2001, Germany used to have a comprehensive apportionment system of taxation in effect, allowing stakeholders to completely recoup the corporate tax rate on distribution gains as well as the tax deductions as a tax rebate towards individual income tax liabilities (Andres, Betzer, Bougard & Goergen, 2019).

However, research outcomes of scholars such as (Balachandran, Khan, Mather, & Theobald, 2017; Korkeamaki, Liljeblom, & Pasternack, 2010) suggest that taxes do not affect dividends. Korkeamaki *et al.* (2010) discover that dividend distributions surged just prior to Finland's 2004 tax reform, when the country shifted from a full imputation tax system to a conventional tax system with double taxing of dividends. Dividend taxation and company dividend policies have long piqued the curiosity of financial economists (Nam, Wang & Zhang, 2010). Preceding to 2003, dividends were often taxed at a higher rate than capital gains from US investors. When President Bush signed the Jobs and Growth Tax Relief Reconciliation Act of

2003 in May 2003, the period of increasing dividend taxes came to an end (JGTRRA 2003 Act). The Act reduced the highest dividend tax rate from 36% to 15%. The tax decrease was the greatest fall in the dividend tax rate in US history. As a result, the corporate dividend policy was greatly influenced, and a higher number of enterprises paid their first dividend during the first eight months of 2003 (Nam *et al.*, 2010). According to (Herron and Platt, 2021), dividend taxes diminish net returns to investors, raising the cost of capital for enterprises and lowering a country's aggregate level of capital. Corporations are aware that dividend taxes are paid by their shareholders and thus, advanced dividend tax proportions may motivate firms to hoard earnings rather than pay dividends. The results of Korkeamaki *et al.* (2010) and Balachandran *et al.* (2017) highlight the importance of dividend policy in terms of taxes. Following the claims of Balachandran *et al.* (2017), tax incentives are more essential to dividends than other customary characteristics such as income and obtained mix.

Pattenden and Twite (2008) examined changes in corporate earnings quality following the establishment of an imputation tax system. The addition of premium apportionment enhanced reward hazing, all payout ratio indicators, and profit sharing schemes, which is congruent with the tax predilection for cash dividends, according to the research. The research also revealed that the greater the proportion of attainable outstanding invoices tax rebates, the bigger the company's overall payout ratio and the larger the possibility that the corporation will start paying dividends. Nam *et al.* (2010) investigated the influence of the May 2003 dividend tax decrease and management stock ownership on business dividend commencement in the United States. According to the study, CEOs with significant shares in their firms were more likely to begin dividends following the tax decrease. As they began to pay dividends, they became more lucrative than corporations that began paying dividends prior to the tax decrease.

Chazi *et al.* (2011) employed a survey approach and interviews to analyze dividend policy in a developing market with a tax-free environment, taking into account the impact of tax in the decision of dividend policy. The study was done in the United Arab Emirates (UAE), and the findings revealed that tax was not a factor in deciding a firm's dividend policy. However, it was discovered that the UAE's dividend policy was cautious, with management using it as a residual cash flow after making investment choices. Hamid *et al.* (2012) investigated the influence of taxes on the dividend policy of Pakistan's banking sector. This study made use of data gathered from the financial reports of 21 banking organizations listed on the Karachi Stock Exchange

over a five-year period (2006 to 2010). To explore the relationship involving taxing and stock dividends, Pearson correlation and regression were utilized. The data revealed a significant relationship between taxes and bank dividend income, showing that the tax rate was a good determinant of the financial industry's earnings quality. From 2009 to 2013, Ibrahim and Saidu (2015) investigated the influence of corporate taxation on the dividend policy of Nigerian listed consumer goods companies. The data for the study came from the businesses' annual reports and accounts. A panel data methodology was employed for the study, namely aggregated OLS, fixed and random effects regression technique. The study found that corporation taxes and board structure had little influence on company dividend policy.

Khan et al. (2017) evaluated the impact of capital gains taxes on dividend policy among businesses listed on the Karachi Stock Exchange, now known as the Pakistan Stock Exchange (PSX). From 2006 to 2014, the study examined company's dividend history for a collection of 284 quasi enterprises listed on the PSX using both transient and steady state longitudinal designs (broad sweeping methods of moments). The analysis used the profits of total assets proportion as a parameter and a taxing surrogate, as well as optional accessory characteristics such as solvency, gearing, productivity, last year's reward, and business size, as possible mediators. The regression results demonstrated that capital gains tax had little effect on dividend payments, while profitability, leverage, and the previous year's payout were the most important drivers of dividend payments in the Pakistani market. Badenhorst (2017) explored corporations' response to changes in their investors' tax preferences in their decisions to keep earnings or pay dividends. The investigation used multivariate regressions to analyze companies' reactions to the 2012 dividend tax adjustment. Findings revealed that corporations consider vicissitudes in their financiers' tax predilections when determining dividend policies. It was further revealed that corporations were more successful than individuals in campaigning for positive dividend adjustments.

Vianna (2017) investigated the impact on corporate payment options and share prices of the American Taxpayer Relief Act of 2012 (Obama Tax Raise) and the Infrastructure spending Fiscal Responsibility Act of 2003 (Bush Tax Cut). Logistic regression model and reliability test statistical analysis was done on all NYSE, Amex, and NASDAQ firms in the notification timeframes of two, three, and four seasons before to and following the tax modifications. According to the data, the implementation of these fiscal policies had a higher long-term impact on dividend disbursements than on

purchasing inventory. After correcting for dividend payments and stock repurchases, it also had a boosting effect on stock returns in the Bush Tax Cut that was 75% larger than its reducing effect in the Obama Tax Increase. The study found that market capitalisation had no effect on these outcomes. Xuanyu, Che, Jing, and Shangyao (2018) tested empirically the importance of different stakeholders' earnings levies on infomercial industrialization in the context of China's implementation of a technology advancement arrangement and betterment of revenue administration restructuring using the 2012 earnings tax plan, a unique quasi-experiment linking economic agents' tax on dividends with the duration of the stockholder timespan. The study found that firms that face a reduction in dividend tax rates for individual investors are more likely to lower their innovation inputs and outputs.

Colombo and Caldeira (2018) investigated how enterprises adjust to an unpredictable tax hike at the stakeholder standard by studying their purchasing behaviour amid a public pension financial reform in Brazil. We discovered that the rule change enforcement resulted in enterprises distributing more tax-deductible payouts, which is congruent with the tax-preference hypothesis of earnings. To attract more institutional investors and minimize their cost of capital, control businesses increased their tax-deductible dividend payouts. The study also revealed that, under the new rule, treatment businesses reduced their leveraging comparative to govern enterprises, suggesting that funding sources tax shields functioned as substitute investment products. Zaman *et al.* (2018) conducted several policy experiments using a scenario-based simulation method to analyze the impact of conventional and suggested tax regimes on levered and zero levered enterprises and their values. The study found that organizations with lower financing costs are more stable and value-oriented, especially when debt financing is avoided. Obayagbona and Ogbeide (2018) investigated the link between corporation taxes, agency expenses, and dividend policy of Nigerian non-financial enterprises. The study used panel data and a modified random effects technique to show that corporation tax had no significant influence on dividend payout, however agency expenses had a negative impact on dividend payment. Oloyede, Olaoye, and Oluwaleye (2018) investigated the influence of corporation taxes on dividend policy of specified Nigerian listed businesses. Explicitly, it evaluated the consequences of company income tax and educational tax on dividend per share of 10 spontaneously sampled end user goods enterprises. Data used were retrieved from the annual reports of the randomly chosen firms over a period of 5 years ranging from 2011 to 2015. Panel data estimation techniques utilized in the study were also pooled

OLS estimation, fixed effect estimation and random effect estimation. The much more effective and reliable model result revealed that corporation income tax had a negligible beneficial impact on dividend per share = .0000659 ( $p=0.705 > 0.05$ ), and education tax has a negligible positive influence on dividend per share = 0.0142983 ( $p=0.088 > 0.05$ ). The study revealed that corporation taxes had no discernible impact on the dividend payout policies of Nigeria's publicly traded consumer goods industries.

Pinto and Shailesh (2019) applied longitudinal analysis and balanced data from 2006-2017 obtained from businesses registered on India's National Stock Exchange (NSE). In the estimation, the study employed pooled ordinary least squares (POLSs) and fixed effects panel models. According to the study, size, profitability, and interest coverage ratios all had a substantial positive relationship with dividend policy. Furthermore, the relationship between company risk and debt and dividends was strongly negative. The profitability findings confirmed the free cash flow concept for India. However, the research discovered that Indian corporations preferred to maintain a consistent dividend policy. Consequently, even companies with stronger growth prospects but lesser cash flows continued to pay dividends. Dhamija and Arora (2019) investigated the influence of legislative changes in taxation on the dividend payout policies of Indian corporations. The study included 370 businesses from the BSE 500 Index, compared dividend distribution, before and after the tax levy was implemented. The analysis discovered that the newly implemented tax did, in fact, created a shift in the dividend policy of corporations, particularly those with a high level of inside ownership.

Andres *et al.* (2019) examined the influence of control density, controlling shareholder type, and controlling shareholder's dividend tax choice on dividend policy for a panel of 220 German enterprises from 1984 to 2005. According to the agency model, the study discovered a negative relationship between family control and dividend payouts at both low and high levels of control. There was also indications of a slower rate of dividend modification at intermediary levels of family autonomy. The findings also show that the largest shareholder's tax preference influences dividend distribution preferences. Onwuka (2019) used a case study of Nigerian Deposit Money Banks to evaluate the influence of corporate taxes on dividend distributions. Multiple regression analyses were used in the study, which demonstrated that earnings increased dividend payment while corporation taxes lowered dividend payment.



Yanthi, Hansi, and Dellia (2019) evaluated the influence of earnings and tax on Indonesian traded firms' earnings quality. According to the research, in addition to earnings, Indonesian corporations regarded other business performance, specifically net income and tax to establish their investment strategy, because incomes indicate the company's business real capacity to pay, and tax influencing the multitude of benefits paid. Using 1688 firm-year characteristics from Indonesian companies from 2012 to 2016, the panel data regression result shows that prior year earnings and donated equity are important determinants of the businesses' pattern's dividend payment. The insignificant outcome, on the other hand, is visible in the corporate tax position. In the meanwhile, the robustness test, profits, and tax are all substantial and of the predicted sign. As a result, the greater the firm's earnings, the higher the dividend payout ratio, which serves as a proxy for the firm's dividend policy. In contrast, corporate tax is a strong negative factor in several years of the observation. Higher corporation taxes make it difficult for management to enhance the dividend payment ratio.

Lee and Hong (2020) used a one-of-a-kind tax change as a natural experiment to see if dividend tax cuts were beneficial in growing corporation dividends. For our research, we used the difference-in-difference matching estimator to calculate the tax decrease applicable to listed businesses. The findings revealed that the change had no effect on raising corporate payouts or the number of corporations paying dividends. Kanakriyah (2020) investigated the relationship between dividend policy and a company's financial success in developing markets. The study covered 92 industrial and service sector businesses that were listed on the Amman Stock Exchange (ASE) between 2015 and 2019. Panel Data Analysis, cross-sectional time series data, and simple and complex linear regression models were employed in the study. A multiple regression model was also created to see if the guess components had any effect on financial performance, which included Dividend Yield (DY), Dividend Payout Ratio (DPR), Firm Size (FSIZE), Leverage Ratio, Current Ratio. The data were gathered from yearly reports and material accessible on the ASE website from 2015 to 2019. The findings showed a substantial relationship between the variables DY, DPR, and FSIZE, which describe business performance. Furthermore, leverage ratio is adversely and strongly related to ROA and AOE. Furthermore, no correlations were found between the current ratio and financial performance.

Sheikh (2021) investigated the effects of insider debt and market structure on dividend payment policy. The study used a large sample of

US firms from 2006 to 2016, and it discovered that CEO inside debt was positively associated to the tendency and level of dividends, as well as total payments (dividends plus buybacks). However, rivalry in product marketplaces had a major impact on the favorable relationship between inside debt and payout factors. Inside debt, in particular, had a beneficial influence on payout policy only in low-competition markets and did not appear to have a meaningful impact on payout policy in high-competition areas.

Hossain, Hossain and Kryzanowski (2021) studied the impact of social environment on corporate payouts. The study discovered that enterprises located in the United States with greater levels of social capital had larger dividend distributions. Herron and Platt (2021) investigated the association between dividends and tax shocks in a worldwide setting using a sample of 28,895 enterprises spanning 30 countries and 29 years. The study discovered a link between dividend tax rates and dividend payment. Firms boost dividend distribution in reaction to cuts in dividend tax rates, both absolute and relative (to capital gains tax rates). This negative relationship is resistant to both increases and decreases in dividend tax rates, as well as shocks and continuous fluctuation, and it affects both dividend payer status and dividend payment amount. Dividend payers, on the other hand, do not boost dividend payout levels in response to reductions in the dividend tax rate. It was revealed that dividend payers, on the other hand, did not boost dividend payout levels in response to dividend tax rate reductions. The negative relationship between dividend tax rates and dividend payout was larger in better-governed nations and corporations, implying a dividend taxation elasticity of 0.45.

### **Summary of literature and identified gap**

This research reviewed a number of studies, both domestic and international. Corporate taxes had no influence on dividend policy in the local studies of (Ibrahim and Saidu, 2015; Oloyede et al., 2018). This finding was supported by Khan et al. (2017)'s analysis of enterprises listed on the Karachi Stock Exchange, now known as the Pakistan Stock Exchange (PSX). Onwuka (2019) discovered that corporation tax has a completely negative influence on dividend payout. Regarding the influence of profits and tax, Yanthi et al. (2019) revealed that higher earnings increased dividend payout ratio while tax had a significant negative impact

on dividend payment. Thus, in this study, it has been argued that corporate taxation does not significantly affect firms' surplus disbursement plan. The highlighted gaps continue to be that the combined roles of corporation tax, profits, long-term debt, and interest expenditures on long-term borrowings of enterprises in deciding dividend payment have not yet been analyzed. Therefore, the study further postulates that firms' success does not substantially sway dividend policy; long-term debt does not have considerable impact on dividend policy; interest expenses on debt do not materially affect the dividend policy for firms.

## Methodology

The population of this study is the six companies that dominated the Nigerian Stock Exchange (NSE) market capitalization of the equities by hitting ₦13.722 trillion in December 21, 2020 while the total market capitalization peaked at ₦19.236 trillion involving 165 companies listed on the Exchange. Looking at such development, market operators and stakeholders lamented what they saw as a fragmented stock market with little trading options for investors and dealing members (Nigerian Stock Exchange, 2020). These NSE market capitalization dominators include: Dangote Cement Plc, MTN Nigeria Communications Plc, Airtel Africa Plc, BUA Cement Plc, Nestle Nigeria Plc, Guaranty Trust Bank Plc. According to a market capitalization data, Dangote Cement Plc had the highest value of ₦3.49 trillion, or 19.1% of total equities market capitalization. MTN Nigeria Communications Plc came in second with ₦3.15 trillion, accounting for 17.2% of market capitalization. Airtel Africa, which was recently listed, surpassed Nestle Nigeria Plc to grab third place with ₦2.21 trillion, accounting for 12.0 percent of total stocks market capitalization. BUA Cement Plc, the first business to float on the Exchange this year, ranked fourth with ₦1.86 trillion. The Company accomplished this milestone by listing 33.86 billion ordinary shares at ₦35 per share. Nestle Nigeria Plc, which had previously ranked third among the highest capitalized stocks, now ranks fifth with ₦1.1 trillion, accounting for 7.6 percent of total market capitalization. While Guaranty Trust Bank Plc had ₦829.75 billion.

In this study, we employed Yamane (1967) formula to select the sample size and the formula is given as:  $n = N/(1+N(e)^2)$ . Where n is the sample size, N denotes the population of the study and e represents the margin error which could be 10%, 5% or 1%. Thus, we considered 10% to ideal and arrived

at the size of 5 out of 6 companies as earlier mentions. The calculation is as follows:  $n = 6/1+6(0.10)^2 = 6/1.1 = 5$  by approximation. Therefore, the five companies selected for this study include Dangote Cement Plc, MTN Nigeria Communications Plc, BUA Cement Plc, Nestle Nigeria Plc, and Guaranty Trust Bank Plc. The data collection was purely from the published audited financial statements, which covered the period 2016 – 2020. The dependent variable as denoted by Y is the dividend paid within the periods under study. The independent factors represented by X include the corporate taxation, earning, and long-term debt and interest expenses on borrowing. The linear equation is specified as follows:  $Y = f(X)$ . Statistically, it is stated as  $DIV = f(CIT, PAT, DBT, IEB)$ . Where: DIV = Dividend paid, CIT = Corporate taxation, PAT = Profit after Tax payment, DBT = Long Term Debt and IEB = Interest Expenses on Debt.

In this study, the technique of panel data regression is adopted. The method of panel data regression is a systematic structure that is panel data. In general, numerical assessment in regression analysis with cross section data is performed using the least squares approach known as Ordinary Least Squares (OLS). Data Panel Regression is a mix of cross section data and time series data in which the same unit cross section is assessed at several periods (Zulfikar, 2021). Three techniques, among others, used in this study to estimate the regression model using panel data include common effect model or pooled least square, fixed effect model and random effect model. A panel data model technique is the most straightforward since it merely mixes time series and cross section data. Because time and individual dimensions are not taken into account in this model, it is believed that the behavior of corporate data is consistent throughout time. To estimate the panel data model, the ordinary least squares (OLS) technique or the Least Squares Technique is used. The equation is shown as follows:

$$\gamma_{it} = \alpha + \beta^1 X_{it} + \varepsilon_{it} \dots\dots\dots(1)$$

Fixed effects are based on the assumption that variations between individuals (cross section) can be addressed by using various intercepts. The dummy variable strategy is used to estimate the Fixed Effects Model with varied intercepts amongst individuals. The Least Squares Dummy Variable approach, abbreviated LSDV, is commonly used to describe such estimate models. The regression equation for panel data from a fixed effects model is as follows:

$$\gamma_{it} = \alpha_i + \beta^1 X_{it} + \varepsilon_{it} \dots\dots\dots(2)$$

In the random effect model, residuals can be linked across time as well as across people or cross sections. As a result, this model posits that each

individual has a different intercept, and that the intercept is a random variable. As a result, there are two residual components in the random effect model. The first is the residual as a whole, which is made up of a cross section and a time series. The second residual is an individual residual that is a random property of the i-th unit observation and is constant. The panel data regression equation for the random effects model is as follows:

$$y_{it} = \alpha + \beta^1 X_{it} + U_i + \varepsilon_{it} \dots\dots\dots (3)$$

Where:

N denotes the number of people or cross sections; T is the number of time periods; and it denotes the residual as a whole, where the residual is a mix of cross sections and time series.  $U_i$  = is the individual residual, which is the random feature of the i-th unit observation and is constant at all times.

The study also employed Hausman Test, which helps to select either the fixed effect or random effect model for the panel data estimation. The Hausman test is a statistical test that determines whether the best Fixed Effect (FE) or Random Effect (RE) model is applied.

If the following occurs:

H0: Choose RE ( $p > 0.05$ ).

H1: Choose FE ( $p < 0.05$ ).

Granger causality is a method for determining the relationship between two variables in a time series. The technique is a probabilistic view of causation; it finds patterns of association using empirical data sets (Glen, 2021). Causality is strongly connected to, but not identical to, the concept of cause-and-effect. A variable X is causal to a variable Y if X causes Y or Y causes X. However, with Granger causality, you are not investigating a real cause-and-effect relationship; rather, you want to know if one variable appears before another in the time series. According to Leamer (1985), it is referred to as "precedence" or order of ranking of study variables. Thus, the null hypotheses can be stated as follows:

$$Y(t) \neq X(t) \dots\dots\dots(4)$$

$$X(t) \neq Y(t) \dots\dots\dots(5)$$

The two equations simply states that Y does not Granger-cause X (in equation 1) while in equation 2, it is stated that X does not Granger-cause Y.

Results and discussion

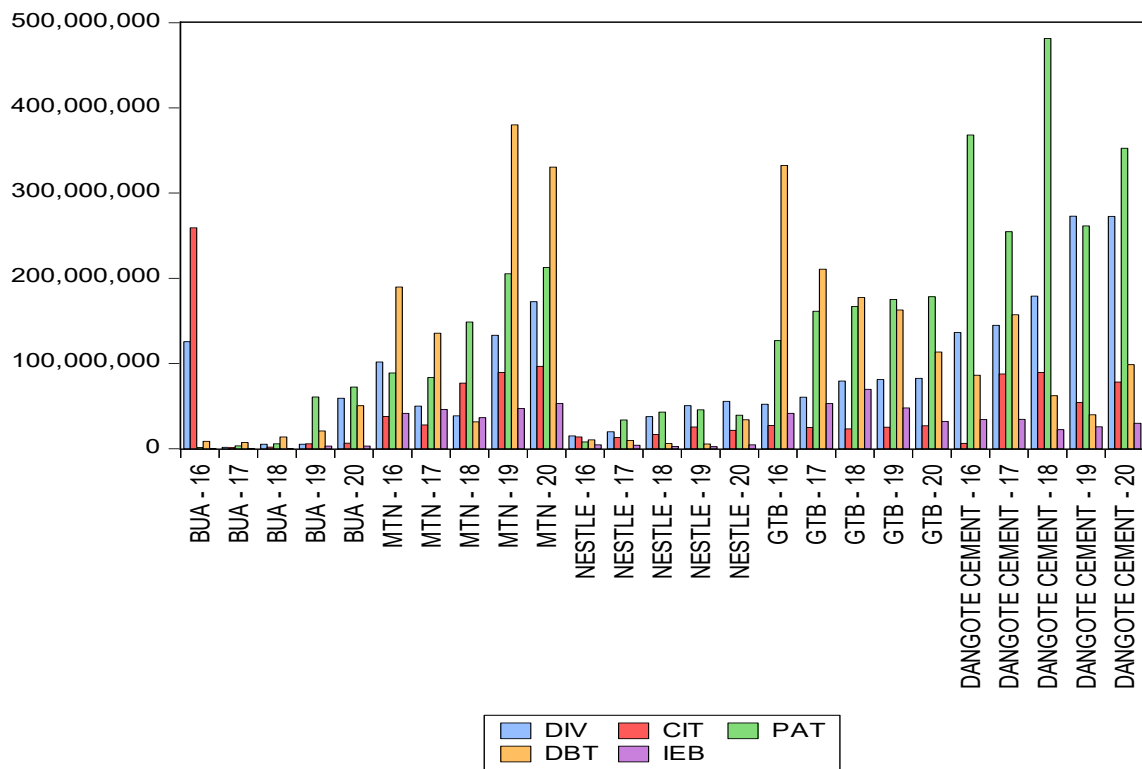


Figure 1. Trend of data from 2016-2020  
 Source: published audited financial statements of firms

Figure 1 depicts the data trend utilized in this analysis from 2016 to 2020 in a graphical format. The data set is derived from the audited financial statements of the firms included in this study. According to the graph, Dangote Cement PLC made the most profit in 2018, GTB PLC amassed the most long-term debt in 2016, and MTN PLC in 2019. Dangote Cement PLC's dividend payment peaked in both 2019 and 2020. BUA PLC and GTB PLC both paid significant dividends in 2020. However, certain bad results, as seen in the graph, might be linked to the worldwide economic situation.

BUA PLC's performance in terms of earnings, dividend payments, and even corporate tax contribution to the government was affected impacted in 2017, 2018, and 2019. This is likewise true for Nestle Nigeria Plc. Although these corporations were stated to have contributed the most to the Nigerian Stock Exchange's market capitalization in December 2020, there are still enough macroeconomic challenges that demand the attention of specialists in the Nigerian business environment.

**Table 1: Pairwise Granger Causality Tests**

Sample: 2016 2020

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
CIT does not Granger Cause DIV	15	6.18807	0.0178***
DIV does not Granger Cause CIT		0.30224	0.7457
PAT does not Granger Cause DIV	15	6.38010	0.0164***
DIV does not Granger Cause PAT		5.40176	0.0257***
DBT does not Granger Cause DIV	15	0.12043	0.8878
DIV does not Granger Cause DBT		0.37488	0.6966
IEB does not Granger Cause DIV	15	0.76571	0.4904
DIV does not Granger Cause IEB		0.35021	0.7128
PAT does not Granger Cause CIT	15	4.03022	0.0520***
CIT does not Granger Cause PAT		5.16425	0.0288***
DBT does not Granger Cause CIT	15	0.17598	0.8412
CIT does not Granger Cause DBT		0.95627	0.4168
IEB does not Granger Cause CIT	15	0.63013	0.5524
CIT does not Granger Cause IEB		0.75127	0.4966
DBT does not Granger Cause PAT	15	0.67375	0.5315
PAT does not Granger Cause DBT		0.05542	0.9464
IEB does not Granger Cause PAT	15	0.59182	0.5716
PAT does not Granger Cause IEB		0.55909	0.5886
IEB does not Granger Cause DBT	15	0.92771	0.4270
DBT does not Granger Cause IEB		1.81601	0.2124

**Significant @ \*\*\*5%**  
**Author's calculation, 2021**

The granger causality of the dependent and independent variables investigated in the research is shown in Table 1. At the 5% level of significance, corporation tax (CIT) granger-causes dividend payment (DIV), but DIV does not granger-cause CIT. This is critical because investors are eager to invest in firms that fulfill their civic duties. Companies that avoid

paying taxes do not receive adequate investment from responsible investors. When corporations position themselves to attract large investments from the investing public, there will be corporate expansion, which will result in dividend payments. This is evident in the outcome, which demonstrates that earnings (PAT) granger-cause dividend payment (DIV). This is essentially normal, in the sense that corporate development leads into profit maximization, and of course, corporations pay dividends without hesitation. Of fact, there is also evidence indicating that DIV granger-cause PAT. In terms of reciprocal reaction, when dividends are paid, additional investors are drawn to such enterprises, and earnings continue to rise. It is also vital to recognize that businesses pay taxes when they earn money. Table 1 also shows that PAT granger-causes CIT and that CIT granger-causes PAT. Thus, corporate tax compliance offers significant value to such organizations by providing them with the correct business image, which leads to business development.

*Table 2: Ordinary Least Squares regression*

Dependent Variable: DIV

Method: Panel Least Squares

Sample: 2016 2020

Periods included: 5

Cross-sections included: 5

Total panel (balanced) observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CIT	0.486058	0.172497	2.817780	0.0106***
PAT	0.429144	0.085200	5.036928	0.0001***
DBT	0.033991	0.134439	0.252837	0.8030
IEB	-0.249099	0.765553	-0.325385	0.7483
C	8516778.	16414440	0.518859	0.6096
R-squared	0.705621	Mean dependent var		89285223
Adjusted R-squared	0.646745	S.D. dependent var		75241855
S.E. of regression	44720160	Akaike info criterion		38.24660
Sum squared resid	4.00E+16	Schwarz criterion		38.49038
Log likelihood	-473.0825	Hannan-Quinn criter.		38.31422
F-statistic	11.98492	Durbin-Watson stat		1.891459
Prob(F-statistic)	0.000039			

**Significant @ \*\*\*1%  
Author's calculation, 2021**



*Table 3: Correlated Random Effects - Hausman Test*

Equation: Untitled

Test period random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	
Period random	6.599194	4	0.1586	
Period random effects test comparisons:				
Variable	Fixed	Random	Var(Diff.)	Prob.
CIT	0.503887	0.486058	0.001468	0.6417
PAT	0.401289	0.429144	0.000471	0.1993
DBT	-0.100057	0.033991	0.003321	0.0200
IEB	0.418250	-0.249099	0.075956	0.0155

**Author's calculation, 2021**

The Hausman test is a statistical test that evaluates whether to choose the best Fixed Effect (FE) or Random Effect (RE) model if any of the following occur:  $H_0$ : Select RE ( $p > 0.05$ );  $H_1$ : Select FE ( $p < 0.05$ ). According to the Hausman test of panel data, the null hypothesis ( $H_0$ ), which states that if the p-value is larger than 5%, we should use the Random Effect (RE) model and reject the alternative. The p-value in Table 3 is 0.1586, which is more than the 0.05 threshold of materiality. As a result, the Random Effect model is employed to estimate this study.

In Table 2, the Ordinary Least Squares Regression is used to estimate the common effect model or pooled least squares of the panel data model. Table 2 shows that CIT and PAT have a favorable and substantial influence on DIV at the 1% level of significance, but DBT and IEB have minor effects on DIV. Using the common effect model, DBT has a marginal positive influence on DIV whereas IEB has an insignificant negative effect on DIV. However, both long-term debt and interest expenditure on borrowing have a negligible impact on corporate dividend payments. As a result, debt and its servicing do not improve dividend payout. They are diametrically opposed to one another. As a consequence, the findings corroborate Chaz et al. (2011)'s hypothesis that lenders' interest in dividend policy is to guarantee that company dividend distributions to equity holders do not jeopardize loan repayment. As a result, the a priori idea that debt and interest payments would boost business dividend payments has been abandoned.

*Table 4: Period random effects test equation*

Dependent Variable: DIV

Method: Panel Least Squares

Sample: 2016 2020

Periods included: 5

Cross-sections included: 5

Total panel (balanced) observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8981166.	15502795	0.579326	0.5704
CIT	0.503887	0.166737	3.022054	0.0081***
PAT	0.401289	0.083037	4.832662	0.0002***
DBT	-0.100057	0.138981	-0.719933	0.4820
IEB	0.418250	0.771117	0.542395	0.5950

Effects Specification

Period fixed (dummy variables)

R-squared	0.791583	Mean dependent var	89285223
Adjusted R-squared	0.687374	S.D. dependent var	75241855
S.E. of regression	42069938	Akaike info criterion	38.22128
Sum squared resid	2.83E+16	Schwarz criterion	38.66007
Log likelihood	-468.7660	Hannan-Quinn criter.	38.34298
F-statistic	7.596138	Durbin-Watson stat	1.987770
Prob(F-statistic)	0.000318		

**Significant @ \*\*\*1%  
Author's calculation, 2021**

Based on the results of the random effect model in Table 4, the F-statistic demonstrates that the independent factors jointly influence company dividend payment. The Durbin-Watson test indicates that there is no autocorrelation, and the variables collectively correlate at 88.9 percent (this value is the square root of the R<sup>2</sup>). According to the correlation value, CIT, PAT, DBT, and IEB have a substantial link with DIV. The R-square is the determination co-efficient, which is 79.1 percent. As a result, the explanatory variable accounts for around 79.1% of the variance in DIV.

We previously postulated that CIT, PAT, DBT, and IEB have no effect on DIV. According to the results in Table 4, CIT and PAT have a substantial and beneficial influence on DIV at the 1% level of significance. As a result, the null hypotheses in CIT and PAT have been rejected. These findings

coincide with those of Nam et al. (2020), although they disagree with those of (Ibrahim and Saidu, 2015; Oloyede et al., 2018; Onwuka, 2019). However, the results of the research in Table 4 show that DBT and IEB had no significant impact on DIV. As a result, the null hypotheses are accepted. This finding cannot be compared because it is the first research to use these two factors in evaluating firms' dividend policy reactions.

## **Conclusion**

This study focuses on the influence of corporate taxation, earnings, and debt in influencing a firm's dividend policy. The worries of Nigerian Stock Exchange operators and participants in December 2020, when only six corporations controlled market capitalization, served as the basis for this study. The panel regression approach was used in the study, and a random effect model was chosen based on the Hausman test. This resulted in the testing of four null hypotheses developed during the literature review process. The study's findings revealed that CIT and PAT are in sync with dividend payment. However, debt and associated interest expenditures have no meaningful influence on business dividend payment. The results are also corroborated by the Pairwise Granger Causality Tests in Table 1, which show that CIT and PAT granger-cause DIV, while DBT and IEB do not. As a result, the study indicates that debt and dividend policies contradict one another.

According to the survey, enterprises should seek more equity financing than gearing. Equity funding is more beneficial to corporate expansion than debt financing. Debt interest payments are much more absurd and must be maintained whether or not a profit is generated. Dividend payments, on the other hand, are made from profit. That is, if no earnings are generated, shareholders do not compel firms to pay dividends. Furthermore, dividend payments improve a company's reputation and open new doors for potential investors while reinforcing current ones. Equity financing benefits enterprises, investors, and the government because when businesses develop, the company's going concern is ensured, investors get the most out of their investment, and the government collects corporate taxes when they are due.

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