



**TAXATION AND DIVIDEND POLICY ON DEPOSIT MONEY BANKs
(DMBs) IN NIGERIA**

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Abstract

The research examined the correlation between taxes and dividends, as well as whether taxes had an impact on the dividends paid by the listed deposit money banks on the Nigerian Stock Exchange between 2014 and 2023. The ex-post facto research design was used to achieve the study's goals. The Nigerian Exchange Group publications, fact books, annual reports, and accounts of the chosen quoted banks provided secondary data for the study. Using the Pearson coefficient of correlation and Ordinary Least Square (OLS) regression, the pertinent data were statistically analysed. The study's findings showed a negative significant relationship between taxes and dividend policies, and that taxes have a statistically significant impact on banks' dividend policies. The study suggested that bank management should create a dividend policy that will benefit shareholders, maximize the bank's value, increase profitability, and reduce debt levels in order to satisfy shareholders' desire to maximize wealth through higher dividends.

Keywords: Dividend policy, Financial performance, Earnings per share, Taxation

Introduction

To meet its responsibilities for social welfare, the government levies taxes as an obligatory charge on the income of both individuals and corporate entities. Taxation, according to Nwokoye (2020), is the compulsory financial contribution to the government in compliance with a specific regulation.

Taxation may have a constructive or destructive influence on both the government and individuals. Government imposes tax on the assets, incomes, or profits of individuals, partnerships, and corporate entities (Ochiogu, 2019). Consequently, paying taxes is one of the responsibilities that corporations have to society.

On the other hand, corporate management frequently has to make a significant financial decision on the dividend policy in order to optimize the company's worth. It divides the company's earnings between giving shareholders dividends and reinvesting them in the company. Dividends are typically paid to a company's owners or shareholders at predetermined intervals and are primarily in accordance with the company's reported earnings together with the recommendations of the directors. As a result, dividends will not be paid out in the event of a loss.

Dividends represent a portion of corporate earnings allocated to shareholders in proportion to the number of shares they own after approval by the board of directors. Businesses that choose to distribute dividends to shareholders usually do so because reinvesting income will not result in significant growth. Dividend may be disbursed by cash or as additional equity, exemplified by scrip dividends.

Considering the points outlined above, the objectives of the study are as follows:

To assess the impact of taxation (proxy by tax rate, value added tax & company income tax) on dividend payout of listed deposit money banks.

- i. To examine the effect of Tax Rate on Dividend Per Share (DPS) of listed Deposit Money Banks (DMBs) in Nigeria.
- ii. To investigate how Company Income Tax influences the Dividend Per Share (DPS) of listed Deposit Money Banks (DMBs) in Nigeria
- iii. To ascertain the effect of Value Added Tax on Dividend Per Share (DPS) of listed Deposit Money Banks (DMBs) in Nigeria.

Research questions include:

- i. What is the effect of Tax Rate on Dividend per Share (DPS) of listed Deposit Money Banks (DMBs) in Nigeria?
- ii. To what extent does Company Income Tax Influence Dividend per Share (DPS) of listed Deposit Money Banks (DMBs) in Nigeria?
- iii. Does Value Added Tax have effect on Dividend per Share (DPS) of listed Deposit Money Banks (DMBs) in Nigeria?

The formulated research hypotheses include:

H₀₁: There is no significant effect on Tax Rate on Dividend per Share (DPS) of listed Deposit Money Banks (DMBs) in Nigeria.

H₀₂: Company Income Tax does not have significant influence on Dividend per Share (DPS) of listed Deposit Money Banks (DMBs) in Nigeria.

H₀₃: There is no significant effect on Value Added Tax on Dividend per Share (DPS) of listed Deposit Money Banks (DMBs) in Nigeria.

LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Taxation

The various forms of taxes include petroleum profit tax, company income tax, personal income tax, value-added tax, and capital gains tax. "Taxation" describes the method by which a levying authority, typically the government, collects money through coercion or force. The term "taxation" encompasses all types of imposed levies, such as income, capital gains, and estate taxes. Typically, the funds gathered are referred to as "taxes."

2.1.2 Dividend policy

Clearly defining the concept of dividend is the first step in creating dividend policy. A dividend is the amount that shareholders are entitled to receive from earnings or distributable reserves, according to Davies and Pain (2012). Quoted businesses must fulfill this obligation on a quarterly, biannual, or annual basis, either interim or final (Samuel & Inyada, 2010).

A dividend strategy should aim to maximize the return to shareholders in order to maximize the value of their investment, claim Oloyede and Ajayi (2005). The core of dividend policy is the decision of whether to share the present return or reinvest it for future returns (Kouser, Luqman, Yaseen, and Azeem, 2015).

2.1.3 Dividend and Tax

Financial economists have focused on corporate dividend policy throughout the last few decades, and it has been the focus of in-depth theoretical models and empirical analysis (Frankfurter & Wood, 2015). The dispute most likely began with the Modigliani & Miller (M&M) (2000) method, which separated investors into dividend clients. In a follow-up study, it was shown that taxes only slightly alter the portfolio's composition, not the substantial changes that Miller & Scholes (1978) had predicted. Most academics and financial professionals were surprised to learn that taxes had little effect on dividend policy when the M&M hypothesis was originally put forth (Baker, Powell & Veit, 2001). Other models include the tax-adjusted model, the Farrar and Sewlyn (1967) models, and the cash payment model developed by Masulis and Trueman (1988).

Theoretical Framework

Classical Theory

Among the proponents of the classical hypothesis are Adam Smith (1723–1790) and David Ricardo (1772–1823). According to traditional economics, what factors actually affect a nation's rate of growth and, in turn, its degree of wealth? Smith's development model, like other modern growth models, depends on technical improvement and the amount of inputs from the three components of production—land, labor, and capital—in order to expand. A fundamental production function of the following type is indicated by the fact that total output (Y) increases in response to changes in the size of the labor force (L), capital (K), and accessible land (H): Y equals $f(L, K, \text{ and } H)$.

Bird-in-the-Hand Dividend Theory

The bird-in-the-hand theory was one of the most popular dividend policy hypotheses in the 1960s. Lintner (1962) and Gordon (1963) are proponents of this perspective. This argument's premise is that dividends are valued differently than retained earnings in a society that is uncertain and poorly

informed. The "bird in the hand" of cash dividends is a greater draw to investors than the "two in the bush" of potential capital gains.

Tax Preference Theory

Tax preference theory states that when distributions are subject to higher tax rates than future capital gains, rational investors prefer that enterprises keep cash on hand than pay dividends. Therefore, if enterprises wish to increase the value of their shares, they should continue to pay minimum dividends. Additionally, proponents of this theory assert that although low-tax investors like firms with high dividend yields, investors in the high-tax bracket favour businesses with low dividend yields.

Empirical Review

Uwuigbe and Olowe (2013) used regression analysis and judgmental sampling techniques to investigate how Nigerian companies' dividend policies were affected by company income tax. Information for 40 companies listed on the Nigerian stock exchange market was obtained from business annual reports and the Central Bank of Nigeria Statistical Bulletin for the years 2006–2010. The study's conclusions showed a strong positive correlation between the dividend payments made by the sampled Nigerian companies and their corporate income tax. Therefore, the study came to the conclusion that a change in the corporate income tax rate would have a big impact on the dividend policy of the Nigerian companies that were sampled. Using a survey research approach and regression methodology of correlation analysis, Samuel and Iyanda (2010) examined the impact of corporation income tax on dividend policy of financial institutions in Nigeria. Information was collected for 15 financial institutions. The study found that there is a perfect positive correlation between company income tax and dividend policy (correlation coefficient of 0.552), that company tax accounts for 31% of dividend variation (coefficient of determination of 0.305), and that the impact is significant (96.7% confidence level). Therefore, it was determined that a change in business tax would have an impact on dividend payments. Consequently, there is disagreement in the empirical literature on the impact of a change in the business income tax rate on the dividend policy. A change in the corporation income tax rate will have a favorable influence on dividend policy, according to certain empirical research findings, while other studies indicate that it will have a negative effect. Smits (2012) used factors like size, liquidity, investor mix, and bid/ask spread to examine how the current financial crisis affected US companies' dividend payout policies. Overall, his research revealed that dividend pay-out ratios were unaffected by the financial crisis, even though there is evidence that larger companies with a higher proportion of institutional shareholders see higher dividend payouts during times of crisis. This could be the case because companies may wish to convey to their shareholders that the crisis has little to no impact on them. This could be the case because companies may wish to convey to their shareholders that the crisis does not impact them as much as it does other companies

Methodology

Secondary source of data was explored in presenting the fact of the situation. These data were sourced from CBN statistical bulletin. Data collections on this subject matter cover a period of 10 years starting from 2014-2023. The 2023 bulletin was downloaded from the official website of Central Bank of Nigeria (CBN).

The study examines impact of Taxation on the dividend policies of banks in Nigeria. The variables employed are; dividend policy to Dividend per Share (dependent variables), while Taxation to Tax Rate, Company Income Tax and Value Added Tax are independent variables.

The model that was formulated include;

$$DPS = f(TR, CIT, VAT)$$

$$DPS = \beta_0 + \beta_1 TR + \beta_2 CIT + \beta_3 VAT + \mu$$

Where;

DPS = Dividend per Share TR = Tax Rate

CIT= Company Income Tax

VAT= Value Added Tax

β_0 = constant term

β_1 - β_3 = Coefficient of Independent Variables

μ = error term.

Presentation of Results

Table 1: Descriptive Table

	DPS	TR	CIT	VAT
Mean	2.30E+09	58.90000	22.08333	69.36000
Median	94644605	55.00000	22.50000	66.96000
Maximum	1.39E+10	79.30000	22.50000	79.95000
Minimum	37000000	42.30000	20.00000	59.85000
Std. Dev.	4.39E+09	14.81521	0.958706	7.656566
Skewness	1.598930	0.316193	-1.788854	0.306517
Kurtosis	4.004622	1.425844	4.200000	1.532453
Jarque-Bera	8.426683	2.158409	10.68000	1.897129
Probability	0.014797	0.339866	0.004796	0.387297
Sum	4.13E+10	1060.200	397.5000	1248.480
Sum Sq. Dev.	3.27E+20	3731.340	15.62500	996.5910
Observations	18	18	18	18

Source: E-View Output, 2025

The descriptive statistics for the variables used are reported in Table 4.1. The average mean for dividends per share is 2.3 with a standard deviation of 4.4, the average mean for the tax rate is 58.9 with a standard deviation of 14.8, and the average mean for company income tax is 22.1 with a standard deviation of 0.10. Furthermore, the average mean of value added tax is 69.4 with a standard deviation of 7.7. According to the Jarque Bera normality test, every variable has a normal distribution. Nevertheless the null hypothesis in this case indicates that the variables are distributed regularly. It can be inferred that while dividends per share and corporate income tax are not generally distributed, tax rates and value-added tax are.

Table 2: Fixed Test Analysis

Dependent Variable: DPS
Method: Panel Least Squares
Date: 02/13/25 Time: 12:04
Sample: 2014-2023
Periods included: 10
Cross-sections included: 3

Total panel (balanced) observations: 59

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.07E+09	2.69E+09	-2.255886	0.0293
TR	75885208	36683115	2.068669	0.0448
CIT	-4734247.	65827787	-0.071919	0.9430
VAT	52584840	30891543	1.702241	0.0961
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.448705	Mean dependent var	8.66E+08	
Adjusted R-squared	0.356822	S.D. dependent var	2.80E+09	
S.E. of regression	2.25E+09	Akaike info criterion	46.04928	
Sum squared resid	2.12E+20	Schwarz criterion	46.35521	
Log likelihood	-1143.232	Hannan-Quinn criter.	46.16578	
F-statistic	4.883461	Durbin-Watson stat	0.386800	
Prob(F-statistic)	0.000427			

Source: E view Output, 2025

Tax Rate (TR) has a significant positive relationship with economic growth ($p = 0.0448$).

Value Added Tax (VAT) is nearly significant with a p-value of 0.0961, showing a potential positive impact on economic growth. Company Income Tax (CIT) appears to have an insignificant effect ($p = 0.9430$). The model's R-squared value is 0.448, indicating that approximately 44.8% of the variation in economic growth is explained by the model. The F-statistic ($p = 0.000427$) suggests that the model is statistically significant, indicating that at least one of the independent variables significantly impacts economic growth.

Table 3: Random Test Analysis

Dependent Variable: DPS

Method: Panel EGLS (Cross-section random effects)

Date: 02/13/25 Time: 12:04

Sample: 2014-2023

Periods included: 10

Cross-sections included: 3

Total panel (balanced) observations: 59

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.07E+09	2.79E+09	-2.178828	0.0345
TR	75885208	36683115	2.068669	0.0442
CIT	-4734247.	65827787	-0.071919	0.9430
VAT	52584840	30891543	1.702241	0.0955
Effects Specification				
		S.D.	Rho	
Cross-section random		1.61E+09	0.3404	
Idiosyncratic random		2.25E+09	0.6596	

Weighted Statistics			
R-squared	0.171798	Mean dependent var	3.49E+08
Adjusted R-squared	0.117785	S.D. dependent var	2.39E+09
S.E. of regression	2.25E+09	Sum squared resid	2.32E+20
F-statistic	3.180668	Durbin-Watson stat	0.353165
Prob(F-statistic)	0.032616		
Unweighted Statistics			
R-squared	0.125249	Mean dependent var	8.66E+08
Sum squared resid	3.36E+20	Durbin-Watson stat	0.243773

Source: E view Output, 2025

The Random Effects model (Table 3) presents similar coefficients but lower explanatory power (R-squared of 0.171). The p-values for TR and VAT remain similar to those in the Fixed Effects model, with TR significant and VAT approaching significance. The model has an F-statistic p-value of 0.0326, suggesting overall significance, although it is less effective at explaining economic growth variability than the Fixed Effects model.

4.1 Interpretation of Random Analysis

When all other factors stay the same, deposit money banks would decrease by the same amount, according to the random test's result, which reveals that the constant value is -6.07. The value of the coefficient of tax rate with 7588508 shows that the development of dividends per share would increase by the same amount for every increment in the tax rate. According to the company income tax coefficient, which is -4734247, there will be a fall in dividend development per share for every unit increase in business income tax. Finally, value added tax having a coefficient value of 52584840, which indicates that the dividend per share will increase for each unit increase in value added tax.

Furthermore, after controlling for the degree of freedom, the regression's modified R2 explain fitness is 12% lower. There is autocorrelation across the variables in the model, demonstrated by the Durbin Watson correlation data of 0.35. The explanatory variables account for 17% of the variation in return on asset, according to the coefficient of determination R2, which has a value of 0.171798. The error term accounts for the remaining 83% for extraneous variables.

4.2 Discussion of Findings

The regression analysis's conclusions offer important new information about the factors influencing dividend per share (DPS) in relation to the banks under study. In both the Fixed and Random Effects models, the Tax Rate (TR) continuously demonstrates a strong positive impact on DSP, indicating that banks with larger levels of leverage typically generate bigger dividends per share. The importance of TR highlights its function as a key driver of profitability, suggesting that companies who successfully control their rate levels in relation to dividends are likely to have improved financial results.

The Company Income Tax (CIT), on the other hand, has no discernible effect on DSP in either model. Its negative coefficient and high p-values imply that the amount of tax in an organization's asset structure has little bearing on profitability. This may suggest that the structure of the tax in relation to dividends is more important than the overall tax burden in relation to assets.

An intriguing example is Value Added Tax (VAT), which has a favorable but marginally significant effect on DSP in the Fixed Effects model and a large impact in the Random Effects model. This result implies that value added tax may play a significant role in determining split per share, especially when taking firm-specific variances into account. VAT's relevance in situations when firm-specific characteristics or outside influences have a greater influence on profitability may be indicated by its significance in the Random Effects model.

Findings

Using 10 Nigerian listed Deposit Money Banks (DMBs) as a case study, this study investigated the impact of taxes on the dividend policies of DMBs from 2014 to 2023. The study's findings enabled the research objectives to be met and the research questions to be validated. The goal of the study was to present empirical proof of this effect in the setting of Nigeria. The study's conclusions showed that, although company income tax has no discernible effect on the dividend per share of listed Deposit Money Banks (DMBs) in Nigeria, tax rates and value added tax had a major influence.

5.1 Conclusion

In accordance with the findings of this study that revealed of effect of taxation on dividend policy of listed Deposit Money Banks (DMBs) in Nigeria, the researcher concluded as thus:

Table 4.1.2's results from the regression fixed test analysis showed that the tax rate has a statistically significant effect on dividends per share, with a p-value of 0.0448 that is below the 5% significance level. It was determined that the tax rate has a favorable and significant effect on the dividend per share of listed Deposit Money Banks (DMBs) in Nigeria. Additionally, the tax rate has a beneficial impact on dividends per share of DMBs in Nigeria.

According to the results of the regression fixed test analysis table 4.1.2, the corporate income tax has a statistically insignificant effect on dividends per share, with a p-value of 0.9430 that is higher than the 5% significance level. Additionally, the dividend per share of Nigerian listed Deposit Money Banks (DMBs) is negatively impacted by corporation income tax. Thus, it was determined that the dividend per share of listed Deposit Money Banks (DMBs) in Nigeria is negatively and negligibly impacted by corporation income tax.

The findings from the regression fixed test analysis table 4.1.3 revealed that there exists a statistically significant impact of VAT on dividend per share with p-value of 0.0961, which is lesser than the 5% significance level. Also, VAT has a positive impact on dividend per share of listed Deposit Money Banks (DMBs) in Nigeria Therefore, it was concluded that VAT has a positive and significant impact on dividend per share of listed Deposit Money Banks (DMBs) in Nigeria.

Recommendations

Therefore, the study suggests the following actions in light of this:

- i. The board of directors should think about raising the dividend payment to shareholders by taking into account the following aspects: business size, profitability, leverage, political factors, financial crisis, and the independence and size of the board. This is essential since the dividend policy is vital for enticing new investors and preserving current ones.
- ii. Furthermore, since big dividend payments draw in investors, the management team should aim for increased profitability, a larger company, and lower debt levels to satisfy the

- owners' wish to increase dividends in order to maximize wealth
- iii. Based on their local circumstances rather than on established, traditional standards that are regularly created by academics, banks—particularly those in Nigeria—should carefully consider whether to implement a dividend policy. This is necessary to maintain a stable and reasonable policy.
 - iv. It is impractical to try to create a dividend strategy that pays out dividends consistently, nonetheless, a modest, sensible, and practical policy ought to be implemented.

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