

Company Income Tax and Dividend Policy of Nigerian Deposit Money Banks

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Abstract

With reference to two (2) listed deposit money banks in Nigeria (United Bank for Africa and First Bank Nigeria Plc.), the study evaluated the impact of company income tax on dividend policy. Through the extraction and computation of pertinent data from the Annual Report and Accounts of the chosen Deposit Money Banks under consideration, the study used secondary sources of data. The study spans a fifteen-year period, from 2006 to 2020. In order to assess the dividend policy of the banks under investigation, the dividend payout ratio, dividend per share, and dividend yield were employed. Corporate tax was used to assess company income tax. To ascertain if the collected data are normally distributed or not, a normality test was carried out using the Kolmogorov-Smirnov and Shapiro-Wilk tests. The results of the normality test reveal that while the data on dividend payout ratio, dividend per share, and dividend yield are normally distributed, the data on corporation tax are not. Additionally, numerous regressions, correlations, and descriptive statistics were employed to analyze the data. The results showed that company income tax has a significant influence on the dividend payout ratio of the chosen deposit money banks in Nigeria, as well as on dividend per share and dividend yield. However, company income tax has no significant influence on the dividend yield of the chosen deposit money banks in Nigeria. The report advises bank management to implement sound dividend payout practices that will cut agency costs, increase the company's worth, and draw in additional investors.

Keywords: *Corporate Tax, Dividend Payout Ratio, Dividend per Share and Dividend Yield*

Word Counts: 250

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1.1 INTRODUCTION

As part of its obligation to society, every corporate entity is required to pay taxes. A tax is a mandatory charge that the government imposes on the earnings of both individuals and business entities in order to carry out its social service obligations. It is a tax levied by the government on a person, partnership, or business entity's income, profit, or wealth (Obiagbon, 2016). On the other hand, dividend policy represents a significant financial choice frequently made by business management in their effort to maximize the worth of their company. Dividends to shareholders and internal investments are how the corporation allocates its income. The amount of dividends paid out to business owners or shareholders at fixed intervals is frequently determined by the reported income of the company and the board's

recommendations. Therefore, if there are no profits, dividends will not be issued; nevertheless, if there are profits, the company must pay corporate tax and other statutory taxes to the government; these taxes reduce the amount of profit that may be dispersed or allocated by the organization.

The effect of withholding tax on dividends and corporate financial strategies has long been the subject of scholarly debate. This in turn has drawn considerable academic interest. Miller and Modigliani (1961), who argued that firm finance and dividend policy were meaningless for firm investment decisions and unrelated to the value of the business, first raised the issue of dividend policy. Masulis & Truceman (1988) and Bennan (1970) are two financial theorists who have claimed that taxes have an effect on an organization's corporate policy on dividends. But this isn't always the case, particularly in the financial sector. The two primary criteria influencing dividend policy, according to Lintner (1956), are the pattern of recent dividend payments and the anticipated quantity of future revenues. This mismatch might have served as the foundation for the Miller and Modigliani (M&M) theory of 1961, which later served as a springboard for extensive discussions and investigations into dividend policy. It is important to note that taxation has received much attention in these discussions.

This research study is motivated by the question of whether or not corporate income taxes have a substantial impact on dividend policy. This is very important for investors who are preparing their portfolios and seeking to create an investment flow as well as for financial institution management. Ahmed and Hossain (2010) assert that since consumers use the financial statements to evaluate the health and performance of associated companies, this information is crucial for them. According to Amahalu, Abiahu, Obi, and Okika (2016), managers of enterprises must understand how specific factors, such as profitability, liquidity growth potential, dividend policies, size, non-debt tax shields, ownership arrangements, etc., affect the financing decisions of the company. The results of empirical studies on how corporate taxes affect deposit money banks' dividend policies have not been conclusively determined. The management of these deposit money banks has also linked changes in corporate tax payments, namely those brought on by changes in government tax policy (rates), to variations in dividend payments made by Nigerian deposit money banks. The low dividend payments of deposit money banks have raised a great deal of controversy among shareholders and have discouraged current and potential investors.

There haven't been many research done in Nigeria on how corporate income tax affects the dividend policy. Therefore, the purpose of this study is to ascertain how taxation (represented by corporate tax) affects the dividend policy (represented by dividend payout ratio (DPR), dividend per share (DPS), and dividend yield (DY)) of a few listed Nigerian deposit money banks.

2.1 LITERATURE REVIEW

2.1.1 Conceptual Framework

A tax levied against a company's profits is known as a corporate tax. Applying the enacted tax rates results in a financial obligation that the company owes the government once by subtracting costs like cost of goods sold (COGS) and depreciation from revenues, operational earnings are derived. The business tax system has a number of incentives intended to support specific enterprises and encourage particular sorts of conduct. According to Keightley and Sherlock (2014), these unique tax rates, exemptions, deductions, credits, and exclusions that cost the government money are formally referred to as corporate tax expenditures. The determination of dividend distribution and retention forms the basis of dividend policy. When making this decision, the amount of profits to be kept by the company

vs those to be transferred to shareholders is taken into account (Watson & Head, 2004). Theoretically, there are numerous types of dividend policies. In addition to continuous payment, progressive, and residual policies, they also include non-cash and non-progressive plans. The dividend payout ratio, according to Smiths (2015), sets the percentage of net income that is distributed to shareholders in the form of dividends each year. This ratio, then, indicates the proportion of a company's profits that are distributed to shareholders as opposed to the proportion that is used to finance operations. The dividend per share (DPS) of a firm is the sum of the declared dividends paid out for each outstanding share of common stock. A corporation's entire dividend payments, including interim dividends, are divided by the total number of its issued and outstanding common shares to arrive at the dividend per share (DPS) figure. The dividend paid in the most recent quarter, which is also used to compute the dividend yield, is the approach that is most frequently used to determine a company's DPS (Yusof & Ismail, 2016). Dividend yield, as defined by Smit (2015), is the relationship between the share price and the cash dividends paid to common shareholders. The dividend yield is a statistic that investors use to show how their stock investment is generating cash flows in the form of dividend payments or increases in asset value because of stock growth.

2.1.2 Theoretical Framework

Modigliani and Miller (M&M) introduced the dividend irrelevance theory in 1958. The thesis contends that dividend policy is unimportant in the absence of taxes or bankruptcy expenses. The "dividend irrelevance theory" asserts that dividends have no bearing to affect the capital structure or share price of a corporation. The dividend-irrelevance hypothesis of M&M contends that investors can influence their return on an investment regardless of a share's dividend, according to Nnadi and Akpomi (2018). The Net Present Value (NPV) of the investments made by the company, not any distribution strategy, is what determines a company's value, according to Modigliani and Miller's dividend irrelevance argument (Frankfurter and Wood, 2000). Over the past three decades, the Stakeholders theory has undergone continuous development. Freeman (1984) was one of the first theorists to argue that the stakeholder theory is ingrained in the management discipline. Additionally, he put forth a general theory that applies to businesses and is predicated on the idea that companies should be answerable to a variety of stakeholders (Solomon & Solomon, 2004). Stakeholders, according to Freeman, Harrison, and Zyglidopoulos (2018), are any people or organizations that can influence or have an impact on the accomplishment of a company's objectives. As a result, the term "stakeholder" can refer to a wide range of participants; in actuality, it includes everybody who has a stake in the business, whether direct or indirect. Shareholders, employees, suppliers, consumers, creditors, and communities near the company's operations are examples of stakeholders (Solomon, 2010). William Petty introduced the benefit theory in 1692. The benefits theory claims that people should pay taxes proportionate to the benefits they receive. This implies that an individual should pay more taxes the more advantages they obtain from government-sponsored programs. This approach aims to make sure that each person's or business's tax obligations are, as much as possible, based on the advantages that they gain from using public services.

2.3 Empirical Review

Hauser (2015) looked into whether business pay-out policies altered between 2006 and 2009 in the US amid the financial crisis. The likelihood that a company will pay a dividend was predicted by the study using a life-cycle model. The analysis of panel logistic regression considers the impacts of the business clusters as well as their autoregressive connection. The analysis showed a decreased possibility that a company would have even after accounting for the firm's financial situation, paid a dividend in 2008 and 2009. The analysis also shows that the financial crisis did cause a change in payout policy.

According to Ross, Westerfield, and Jordan (2015), the effective tax rates on dividend income are higher than the tax rates on capital gains. Even if capital gains are calculated when the shares are sold and are taxed at a substantially lower rate, dividends are still subject to regular income tax.

Rozeff (2015) made a significant addition in his dividend payout model by linking dividend and taxes. He made an effort to tie the dividend payment to the impact of shifting tax laws. In a later study by Casey & Dicken (2015), which employed banks as the research subject, this model was replicated. The outcome suggested a series of sequential effects following adjustments to capital gain tax, which therefore raised the possibility that dividend payout would remain unchanged. However, Dharmapala (2016) makes a compelling case for the fact that taxes have a sizable impact on dividend payments. Sajid, Muhammad, Bilal, Shafiq, and Mehran (2016) used 120 businesses between 2004 and 2015 on the Karachi Stock Exchange to investigate the connection between taxes and dividend policy as well as the interaction between dividends, profitability, and taxes. They discover a positive, albeit statistically insignificant, correlation between profit and tax. However, they find a clear, favorable correlation between dividend and profit.

From 2010 to 2014, Hamid, Hanif, Saif-Ul-Malook, and Wasimullah (2016) looked into how taxes affected the dividend policy in the Pakistani banking sector. They discover a sizable association of revenue from bank dividends and taxes and draw the conclusion that tax rates have a substantial role in determining the substantial role of dividend in banking industry. Yusof and Ismail (2016) examined the variables affecting Malaysian publicly traded companies' dividend policy. Profits, income, free money flow, loan level, development, expenditure, dimension, the biggest shareholders, risk, and lagged dividend were some of the criteria this study examined. Data were gathered from pertinent sources and the sampled companies' annual reports. The study looked at 147 publicly traded companies in total. The analysis used robust standard errors on fixed effects, models, and pooled least squares with both fixed and random effects to evaluate the data. The results demonstrated that the dividend policy is significantly influenced by the five criteria of earnings, debt, size, investment, and largest shareholder. It was discovered that investments, firm size, and earnings all had significant favorable effects. However, it was shown that debt and powerful owners had a considerable detrimental effect.

In order to look at how the Jasmine revolution affected corporate dividend policy, Echchabi and Azouzi (2016) examined the factors affecting dividend payout across Tunisian listed firms. Data from the businesses listed on the Tunisian Stock Exchange between 2003 and 2012 were combined and used in the study, which used panel data models. Because it includes the Arab uprisings' events, which started in Tunisia at the end of 2010, this research period was chosen. The analysis reveals that the Jasmine revolution had little to no effect on dividend distribution among Tunisian listed companies, despite the fact that market to book value and net cash flow are important determinants that affect dividend payout. The analysis clarified how similar situations may impact the payout as a result. Prior to the consolidation of the Nigerian banking industry in December 2005, Nnadi and Akpomi (2018) used data to discover a strong association between taxes and the dividend structures of the banks, the study looked at 50 banks listed on the Nigerian Stock Exchange. Given the significance of profit's influence on dividend and the favorable correlation between profit, tax, and dividend, they also discovered that profit plays a significant role in the creation of the banks' dividend policies.

Samuel and Inyada (2016) study how corporation income tax affects the dividend policy of financial institutions in Nigeria using survey data. The main objective of the study was to assess the impact of corporate taxation on the dividend policies of Nigerian financial institutions. The primary hypothesis of

the study was that there was no significant relationship between dividend policy of Nigerian financial institutions and corporate income taxes. The main information source in Nigeria was publicly accessible financial institution accounts. Regression and other analytical methods were used to examine the data from the study. They conclude that there should be changes to corporate income tax because they discover a strong link between corporate income tax and the dividend policy of Nigerian banking institutions.

3.1 MATERIAL, METHODS AND DISCUSSIONS OF EMPIRICAL RESULTS

The materials and techniques used in this section of the empirical inquiry were presented, and the findings of the data gathered from the fourteen (14) listed Deposit Money Banks a stock that is listed on the Nigerian Exchange Group (formerly the Nigerian Stock Exchange) as of June 30, 2021, were discussed.

4.1 PRESENTATION OF DESCRIPTIVE RESULTS

Table 4.1.1 *Normality Test Results*

Tests of Normality						
	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
CT	.160	30	.049	.871	30	.002
DPR	.103	30	.200*	.968	30	.491
DPS	.123	30	.200*	.867	30	.001
DY	.149	30	.089	.903	30	.010

*. This is a measure of the real significance's lower bound.
a. Lilliefors Significance Correction

Source: Computation from SPSS version 20.0

The results of the normality test using the Kolmogorov-Smirnov and Shapiro-Wilk tests are displayed in Table 4.1.1. From the table, the probability values from Kolmogorov-Smirnov (0.049, 0.200, 0.200 and 0.089) and that of Shapiro-Wilk (0.002, 0.491, 0.001 and 0.010) were shown for CT, DPR, DPS and DY respectively. The p-values for CT can be interpreted to be 5% threshold of significance statistically significant. It means the data collected for the variable are not normally distributed. However, the probability values (Kolmogorov-Smirnov) for DPR, DPS and DY can be interpreted to be statistically insignificant, as the values are greater than 5% significant level. It therefore means that DPR, DPS and DY did not violate normality assumption, and as a result, the data are normally distributed.

Table 4.1.2 *Descriptive Results*

Descriptive Statistics			
	N	Mean	Std. Deviation
CT	30	3.3909	.79457
DPR	30	.4596	.31214
DPS	30	.5683	.48969
DY	30	.0529	.04558
Valid N (likewise)	30		

Source: Computation from SPSS version 20.0

The mean and standard deviation are included in the table above along with the variables' descriptive statistics. The dependent variable (CT) is well predicted by DPS, with a mean of 0.5683 compared to 0.4596 and 0.0529 for DPR and DY, respectively, according to the mean.

Table 4.1.3 Correlation Results

Correlations					
		CT	DPR	DPS	DY
CT	Pearson Correlation	1	-.169	.336	.338
	Sig. (2-tailed)		.373	.069	.068
	N	30	30	30	30
DPR	Pearson Correlation	-.169	1	.532**	.300
	Sig. (2-tailed)	.373		.002	.107
	N	30	30	30	30
DPS	Pearson Correlation	.336	.532**	1	.559**
	Sig. (2-tailed)	.069	.002		.001
	N	30	30	30	30
DY	Pearson Correlation	.338	.300	.559**	1
	Sig. (2-tailed)	.068	.107	.001	
	N	30	30	30	30

Source: Computation from SPSS version 20.0

The above table reveals the Pearson’s correlation coefficient between the variables, CT, DPR, DPS and DY. Pearson correlation is employed to evaluate the strength of the correlation between the various variables. From the correlation co-efficient shown above, it can be interpreted that DPR has negative relationship with CT while DPS and DY have positive and insignificant relationship with the dependent variable (CT), with correlation co-efficient of -0.169, 0.336 and 0.338 for DPR, DPS and DY respectively. Their corresponding probability values were shown as 0.373, 0.069 and 0.068, which can be interpreted to be at a 5% significant level, statistically insignificant.

Table 4.1.4: Auto-Correlation Results

Model Summary ^b					
Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Durbin-Watson
1	.561 ^a	.315	.236	.69452	1.269

a. Predictors: (Constant), DY, DPR, DPS
b. Dependent Variable: CT

Source: Computation from SPSS version 20.0

As can be seen from Table 4.1.4 above, the correlation between the predicted values and the actual values of the dependent variable, or R, is given as 0.561 in the table above, meaning 56.1%. The R-squared statistic, presented as 0.315, indicates that DPS, DPR, and DY can only account for 31.5% of the entire variation in CT. Other factors not included in the study's analysis can be utilized to explain the remaining percentage. The standard error of the estimate was shown to be 0.69452. The supplied figure did not fall between 1.5 and 2.5, but the Durbin-Watson statistic was displayed as 1.269, indicating the presence of serial auto-correlation. This suggests that the variables are in poor condition.

Table 4.1.5: Analysis of Variance

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.768	3	1.923	3.986	.018 ^b
	Residual	12.541	26	.482		
	Total	18.309	29			

a. Dependent Variable: CT
b. Predictors: (Constant), DY, DPR, DPS

Table 4.1.5 above displays the regression's analysis of variance. The most significant indicator of the degree of freedom is the F-value, which is presented as 3.986 with a probability value of 0.018 and indicates that the model developed is statistically significant because the result is less than 5% significant level. The sum of squares, the mean square, and the total number of variables are all represented by this number, which is one less than the total number of variables (N-1).

Table 4.1.6: Regression Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.321	.248		13.373	.000
	DPR	-1.237	.488	-.486	-2.534	.018
	DPS	.766	.358	.472	2.140	.042
	DY	3.835	3.412	.220	1.124	.271

a. Dependent Variable: CT

Source: Computation from SPSS version 20.0

The coefficients of the first model are displayed in Table 4.1.6 above. The provided model is as follows:

$$CT = \beta_0 + \beta_1DPR + \beta_2DPS + \beta_3DY + \mu$$

It can be described as follows:

$$CT = 3.321 - 1.237DPR + 0.766DPS + 3.835DY + \mu$$

It is clear from the aforementioned equation that DPS and DY have a positive impact on CT whereas DPR has a detrimental effect on the dependent variable (CT). The figures additionally demonstrate that the selected DMBs' CT would decrease by 1.237 if DPR increased by one unit. Meanwhile, the CT of the companies under study would increase by 0.766 and 3.835 respectively if DPS and DY increased by one unit each.

The independent variables t-calculus was also displayed as -2.534, 2.140, and 1.124, respectively. While DY's t-cal is lower than the t-tab of 2, DPR and DPS's are higher. Additionally, the corresponding probability values for DPR, DPS, and DY were displayed as 0.018, 0.042, and 0.271, respectively. Because they are less than the 5% level of significance, the probability values for DPR and DPS can be interpreted as statistically significant, whereas the probability value for DY is statistically insignificant because it is greater than the 5% level of significance.

4.2 Interpretation and Discussions of the Inferential Results

Several verifiable research hypotheses were developed for this study. The consideration of these presumptions is pertinent since it will aid in the subsequent investigation of the study issues and enable the drawing of logical conclusions.

Hypothesis one

Ho: Company income tax has no discernible impact on the dividend payout ratio of a few Nigerian deposit money banks.

The study hypothesis mentioned above is thought to be treated by Table 4.1.6, which was previously given. The coefficient table reveals that the Dividend Payout Ratio (DPR) has a t-cal of -2.534, higher

than the t-tab of 2, and a probability value of 0.018, which was evaluated at the 5% level of significance considered statistically significant. Since corporate income tax has a considerable impact on the dividend payout ratio of the selected deposit money banks in Nigeria, the study refutes the null hypothesis and confirms this claim.

Hypothesis two

Ho₂: Company income tax has no discernible impact on the dividend per share of a few Nigerian deposit money banks.

Table 4.1.6, which was previously provided, is also believed to address the research hypothesis indicated above. Dividend per Share (DPS) has a probability value of 0.042, which was judged statistically significant because the number was less than 5% significant level, and a t-cal of 2.140, which is more than the t-tab of 2, according to the coefficient table. The research disproves the null hypothesis and finds that corporate income tax significantly affects the dividend per share of the examined Nigerian deposit money banks.

Hypothesis three

Ho₃: Company income tax has no discernible effect on the dividend yield of several Nigerian deposit money banks.

The research hypothesis mentioned above is also thought to be treated by Table 4.1.6, which was previously given. Dividend Yield (DY) has a t-cal of 1.124, which is less than the t-tab of 2, according to the coefficient table, but the probability value was presented as 0.271, which was considered as statistically insignificant because the figure disclosed is more than 5% significant level. As a result, the study agrees that corporation income tax has no discernible effect on the dividend return of a few chosen deposit money banks in Nigeria.

The purpose of this study is to ascertain how corporate income tax affects the dividend policy of publicly traded Nigerian deposit money banks. The dividend policy was evaluated using the dividend payout ratio, dividend per share, and dividend yield. At the 5% level of statistical significance, the researcher concludes that corporation income tax significantly influences the dividend payout ratio of the selected deposit money institutions in Nigeria. This finding is consistent with that of Hauser (2015), Ross, Westerfield and Jordan (2015), Rozeff (2015), Dharmapala (2016), Kuzucu (2016), Zeeshan (2015), Boloupremo and Ogege (2018), Onuorah and Chigbu (2015), Nnadi and Akpomi (2018), Samuel and Inyada (2016), Onuorah and Okorafor (2016), and Chidoziem (2017), but not with that of James and Killian (2018) and Nnadi and Akpomi (2019).

Additionally, the findings demonstrate that, at a threshold of significance of 5%, business income tax has a significant effect on dividend per share of the selected deposit money banks in Nigeria. This result corroborates with the findings conducted by Casey and Dicken (2015), Mui and Mustapha (2016), Echchabi and Azouzi (2016), Maladjian and El Khoury (2017) who all found company tax to have significant influence on dividend per share, but against the findings from the study carried out by Dharmapala (2016), Kuzucu (2016), Yusuf and Ismail (2016), Boloupremo and Ogege (2018), Nnadi and Akpomi (2018), Adesola and Okwong (2019), Nnadi and Akpomi (2019). The findings also demonstrated that a few Nigerian deposit money banks' dividend yield was not significantly impacted

by corporation income tax. The studies by Sajid, Muhammad, Bilal, Shafiq, and Mehran (2016), Boloupremo and Ogege (2018), Nnadi and Akpomi (2018), and Chidoziem (2017) were in agreement with this finding; however, the studies by Echchabi and Azouzi (2016), Maladjian and El Khoury (2017), and Kumaraswamy, Aktan, and Al Halwachi (2017) did not.

5.1 Conclusion

The researchers draw the following conclusions in light of the study's findings regarding business income tax's effects on Nigeria's Deposit Money Banks' dividend policy:

The results suggest that the selected firms' dividend policies, as represented by their dividend payout ratio, at the 5% threshold of significance, had a probability value of 0.018, which was considered statistically significant. The analysis comes to the conclusion that prospective investors of the chosen DMBs can base their investment selections on corporation tax in order to estimate dividend payment ratio. The results also suggest that the selected deposit money banks' dividend policies (expressed by dividend per share) had a probability value of 0.042, which was assessed as statistically insignificant at the 5% level of significance. This leads the study to the conclusion that when estimating dividend per share for the listed DMBs under consideration, users of financial statements can also rely on corporation tax. Additionally, according to the study's findings, dividend policy (represented as dividend yield) had a probability value of 0.271, which was deemed statistically insignificant at the 5% level of significance. The study concludes that the dividend yield of the listed DMBs under investigation is unaffected by corporate tax.

5.2 Recommendations

Given the data and analysis of the study, the following suggestions are made:

The management of the banks should also upgrade its customer-focused services in order to boost revenue and profitability. This will significantly help to draw in investors, which will favorably impact the share prices and dividend payout patterns of the banks.

The government should support a climate that promotes investment, production, and economic diversification because this will greatly enhance deposit money banks' profitability and, as a result, raise the dividend per share of deposit money banks in Nigeria. In order to meet the shareholders' desire for wealth maximization in the form of increased dividends, the management team must also work toward higher profitability, a larger business size, and lower debt levels. It should be determined to declare the dividend consistently under a solid policy. Investors will become discouraged if the current year's total income is delivered to shareholders as a dividend or is kept as a free cash flow.

Bank management should implement effective dividend payout procedures that will cut agency costs, increase the company's worth, and draw in additional investors. The study suggests that management create a dividend policy that will benefit many shareholders and raise the share price on the market.

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