

RESEARCH ARTICLE

Dividend Policy in Sub Saharan Africa: The Impact of Corporate Tax

Egiyi, Modesta Amaka

Department of Accounting, Godfrey Okoye University, Enugu

***Corresponding Author: Egiyi, M. A. | Department of Accounting, Godfrey Okoye University, Enugu**

ABSTRACT

The study empirically explored the impact of taxation on the dividend policy of enterprises in Sub-Saharan Africa (SSA) using a firm-level panel data set comprised of 27 Ghanaian firms, 30 Nigerian firms, and 51 South African firms spanning the years 2010 to 2020. To estimate the data, the paper used a simultaneous panel regression model. The findings show that corporate tax has a significantly positive relationship with the dividend payout ratio in both South Africa and Ghana. In Nigeria, corporate tax has a significantly negative relationship with the dividend payout ratio. The findings indicate that, in South Africa and Ghana, companies pay dividends to shareholders to advertise the company's worth to the public as a means of increasing demand for their shares, allowing them to raise the required sum of money from equity issuance at better prices. Firms that pay a higher corporate tax, on the other hand, pay lesser dividends to shareholders in Nigeria. The findings show that business profitability, taxes, leverage, and firm size all have an impact on dividend policy. The study's findings undoubtedly have significant policy implications. This study suggests that firms focus on measures to decrease their tax bills, such as tax amnesty, tax holidays, and tax relief.

Keywords: Corporate Tax; Dividend Policy; Dividend Payout Ratio; Sub-Saharan Africa

Introduction

The primary obstacle to the dividend irrelevance proposition is the tax implications of a particular dividend policy. Both corporate and personal income taxes are expected to have an impact on the firm's dividend payout policy. Dividend policy is the method by which a firm structure its dividend payout to shareholders. It is the choice between retaining earnings and paying them out in cash or issuing new stocks to shareholders. Some companies pay out minimal dividends because management expects positive results for the company's future and wants to keep its earnings in the future. Taxes are crucial to investors, and dividends affect shareholders' tax liability because taxes have a profound impact on corporate dividend structure (Miller & Scholes, 1982). When an organization makes a profit, it is required to pay corporate tax as well as other statutory taxes to the government. This is an important corporate responsibility, especially for profit-making businesses. Taxes, without a doubt, lower the revenues available to organizations, whether to be retained or delivered as a dividend to corporate shareholders. Tax evasion by corporations is a

crucial element in calculating the magnitude of the impact of tax on the dividend policy (Wu, 1996). Dividend policy does not affect the taxes that must be paid or the amount of profit that can be distributed and retained by the company. According to Masulis and Trueman (1988), taxes influence organizational corporate dividend policy. If this theory is right, then changes in corporation dividend payout should be anticipated when the government alters its income tax policy (Wu, 1996). Sub-saharan Africa contains an intriguing phenomenon worth investigating. Dividend payments, for instance, are the most common way for corporations in this region to disperse profits to their shareholders; share repurchases are essentially non-existent. Until the late 1990s, laws in Nigeria and South Africa, for example, banned firms from buying back their shares. In Ghana, the first share repurchase program was implemented for Social Security Bank (now SG-SSB) and Ghana Commercial Bank in 1996 and 1998.

Several hypotheses and assumptions have been made regarding whether such taxes paid by organizations have any effect on their dividend policy structure. The argument over dividend policy is far from over. Researchers have proposed numerous theories about what a good dividend policy should be. There appears to be a gap between what is theoretically possible and what is achievable in practice. Extraneous elements dictate the direction of any policy to be implemented by organizations. The goal of this research is to contribute to the dividend literature by examining the effects of taxes on firm dividend policy. This study is helpful to policymakers in better

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understanding how taxes affect dividend policies. Policymakers will thereby be in a better position to establish dividend policies while keeping the impact of taxes in view.

Literature Review

Conceptual Literature

Dividend payout and retention decisions are crucial to dividend policy. According to Watson and Head (2004), it is a decision that takes into account the profits to be kept by the company and dispersed to its shareholders. There are several types of dividend policies as noted by Nnadi and Akpomi (2005). They are the constant payment policy, progressive policy, residual policy, zero policy, and non-cash policy. The Constant or fixed policy involves the corporation maintaining a fixed dividend payout ratio that gives shareholders the ability to clearly understand the amount of dividend they expect from their invested capital in the company. The Progressive policy demands that the dividend payments are on a continual rise, usually in step with inflation which could result in a higher monetary dividend. The Residual policy prioritizes projects with a positive NPV (Net Present Value) and pays out dividends if funds are still available. It thereby means that dividends become a contingent payment that is only paid when the investment policy is met. Finally, in the Zero dividend, some businesses may choose not to pay dividends because the entire earnings are preserved for corporate expansion.

Taxes and Corporate Dividend Payment

Taxation is viewed as a burden that every citizen must incur to sustain the government because the government must perform specified responsibilities for the benefit of those it rules. Taxation is one of the sources of revenue for the government; this revenue is used to finance or operate public facilities, as well as to carry out other social obligations (Afuberoh, Dennis & Okoye, 2014). A corporate tax is a levy imposed on a company's profits to earn revenue. After operating earnings are computed by subtracting expenses such as cost of goods sold (COGS) and depreciation from revenues, approved tax rates are applied to establish a legal obligation owed to the government by the corporation. The rules governing company taxation differ widely from country to country. The corporation tax system includes several incentives aimed at encouraging specific behaviors and assisting specific enterprises. Taxes undoubtedly limit the profits available to organizations, either to be retained or delivered as a dividend to the company's shareholders (Nnadi & Akpomi, 2005). Corporate tax rates among the three countries sampled are Nigeria (30 percent), South Africa (28 percent), and Ghana (25 percent).

For this paper, dividend policy refers to the payout policy that managers use to calculate the magnitude and structure of revenue distribution to shareholders. Dividend taxation is determined by both the corporate and personal income tax systems. The total tax in a classical system is the sum of the company tax, the effective capital gains tax, and the dividend tax. Dividend taxes are typically higher than capital gains taxes, offering an incentive to decrease dividends. In an imputation system, however, the total tax is calculated by adding the company tax, the effective gains tax, and the decreased dividend tax. If the dividend tax is decreased sufficiently to make the decreased dividend tax lesser than the effective capital gains tax, an inducement to enhance dividends is established.

Theoretical Literature

This research is based on the clientele theory. Miller and Modigliani (1961) discovered that in the incidence of taxation, investors establish clienteles with unique preferences for specific levels of dividend yield. This precise predilection for dividends may be impacted, among other things, by the investor's marginal tax rates. Changing the dividend level only results in a shift in the firm's shareholders' clientele (Miller and Modigliani, 1961). Investors are perceived to be part of a specific group or clientele. This is because they tend to agree with a specific policy that may fit them. This is the dividend policy's clientele effect (Hutchinson, 1995). The clientele theory of dividends contends that differences in tax rates between dividends and capital gains translate to a preference for distinct payout policies among specific shareholders, establishing clienteles for certain payouts (Miller and Modigliani, 1961). As a result, different firms with different payout practices will appeal to different types of shareholders with high-payout firms enticing corporations and tax-exempt investors, and low-payout firms attracting other investors who pay higher dividend taxes than capital gains tax (Masulis and Trueman, 1988). Increases in taxes should result in lower dividend payouts in areas where the investment group is populated with investors that pay higher dividend taxes.

The extent to which investors try to avoid paying taxes on their dividend income is examined by Peterson et al. (1985). They examine returns from individual income tax returns that have been filed and discovered that 85% of the forms filed do not include any dividend income. According to Masulis and Trueman (1988), as tax burden rises (declines), dividend payments fall (increases), whereas earnings reinvestment rises (decreases).

Empirical Review

Masulis and Trueman (1988) revealed that Taxes influence the dividend policy of firms. They observed that if the government changes its income tax policy, changes in the firm's dividend payout ratio should be anticipated. This is similar to the findings of Brennan (1970). Lasfer (1996) investigated the simultaneous effects of both corporate and personal income taxes on dividend payment modifications and share price behavior on ex-dividend dates. The results showed that Companies design their dividend policy to minimize their tax burden and maximize their shareholders' after-tax return.

Nnadi and Akpomi (2005) investigated the impact of taxes on dividend policy in Nigerian banks. They found a significant relationship between taxes and bank dividend structure, and they also showed that profit is a major element in the establishment of a firm's dividend policy. They further revealed that Profit has a significant effect on dividends, and a positive relationship exists between profit, tax, and dividend. Lee et al. (2006) investigated the interplay between dividends and taxes in Taiwan. They discovered significant evidence of a clientele effect, as agents who pay high dividend taxes choose to hold lower dividend shares and sell (buy) stocks that increase (decrease) dividends. They also indicated that agents in lower tax brackets are polar opposites. In Ghana, Amidu and Abor (2006) found a positive relationship between corporate tax and dividend payment ratios. They revealed that raising taxes is accompanied by an upsurge in dividend payout.

King'Wara (2015) evaluated the effect of six different parameters discovered to influence the dividend policy of companies operating in Kenya. They discovered that the dividend payout ratio is negatively impacted by the growth rate, debt ratios, and firm size, whereas earnings, market-to-book ratio, and retained earnings to total assets ratio have a positive impact. Demirgüneş (2015) investigated the drivers of target dividend payout ratios for BIST-listed enterprises in the non-metallic products (cement) manufacturing industry from 2002 to 2012. The findings show that in the long run, factors linked to profitability, growth, and corporation taxes have a negative impact on the target dividend payout ratio, whereas risk and market expectations have a statistically significant and positive impact on the target dividend payout ratio. Abiahu and Amahalu (2017) examined the impact of taxation on the dividend policy of the Nigerian Stock Exchange-quoted deposit money banks from 2006 to 2015. According to the findings of their study, there is a negative substantial association between tax and dividend policy. They further revealed that tax has a statistically significant impact on Nigerian banks' dividend policy.

Olawajaju, Migiro, and Sibanda (2019) used the dynamic panel two-step approach and differenced GMM to study the determinants of the dividend payout ratio of 250 commercial banks from 30 countries in Sub-Saharan Africa (SSA) from 2006 to 2015. The empirical results show that the previous year's dividend is the most important determinant of the current year's dividend. Their findings show that earnings after tax and leverage are important predictors of payout ratio in SSA banks. Oloruntoba (2020) investigated the factors of dividend policy in Nigerian listed conglomerates. The results showed that firm-specific characteristics and international factors perform a profound role in influencing the dividend payment ratio of Nigerian listed conglomerates.

Adelegan et al. (2021) investigated the dividend policy determinants of listed Nigerian industrial enterprises in Nigeria from 1984 to 2020. They discovered that the dividend policies of manufacturing enterprises are influenced by earnings after tax, previous year dividends, firm size, and growth. The findings also revealed that the dividend payout of manufacturing enterprises is more dependent on profit after tax and historical dividends, as well as the firm's overall objectives. Anaeto et al. (2021) used the panel regression approach of analysis to evaluate the effects of corporate tax on the dividend policy of Nigerian quoted deposit money banks from 2009 to 2018. They discovered that corporate income tax has a considerable negative effect on dividend per share and that tertiary education tax likewise has a big negative effect on dividend per share.

In Sub-Saharan Africa, lesser research on the impact of taxation on dividend policy has been done. As a result, the purpose of this research is to establish the impact of taxation (using corporate taxation as a proxy) on dividend policy (proxied by dividend payout ratio). This study aims to close this research gap by controlling for several variables when analyzing the factors that influence dividend policy. The study draws on firms from the South African, Nigerian, and Ghanaian stock exchanges to provide a more comprehensive view of the impact of tax

dividend policy in the SSA region. The theoretical and empirical evidence reviewed in this section give context for firms' dividend policy. In this study, the clientele theory (and related empirical evidence) is used to create dividend policy models that will be used to evaluate the following hypothesis:

- H₀₁: In sub-Saharan companies, there is an insignificant impact of Taxes on dividend policy.
- H₀₂: The dividend policy companies in Sub-Saharan Africa is significantly impacted by leverage, firm size, and firm profitability

Methodology

The Johannesburg Stock Exchange, the Nigerian Stock Exchange, and the Ghana Stock Exchange were the subject of this study. Firms listed on these stock markets were chosen because they are the most operational and functional stock exchanges in Sub-Saharan Africa, and information could easily be obtained from them. They are regarded as a financial hub in their respective sub-region. As a result, their stock markets are an important aspect of the sub-financial region's development. Furthermore, these markets communicate extensively in order to integrate their activities and increase inter-trading among themselves. We used 51 companies listed on the Johannesburg stock exchange, 30 companies listed on the Nigerian stock exchange, and 27 companies listed on the Ghana stock exchange in total. The study spans ten years, from 2010 to 2020. Over the study period, we obtained our data from the fact books of the Ghana Stock Exchange, the Nigerian Stock Exchange, and the Nairobi Securities Exchange. We begin by looking at the impact of corporate tax on dividend policy. Our choice of explanatory factors is inspired by earlier findings by previous studies that imply that a firm's dividend policy is influenced by its profitability, size, and leverage. As a result, our empirical model may be described succinctly as follows:

$$DP_{i,t} = \alpha_0 + \alpha_1 TAX_{i,t} + \alpha_2 PROF_{i,t} + \alpha_3 LEV_{i,t} + \alpha_4 SIZE_{i,t} + \mu_{i,t}$$

Where:

EDU_{i,t} = dividend policy proxied by dividend payout ratio measured by the total dividend by the net income for firm i at time t.

TAX_{i,t} = the corporate tax for firm i in period t

PROF_{i,t} = the aggregate earnings divided by total assets for firm i in period t

LEV_{i,t} = financial leverage as measured by total debt divided by total equity for firm i at the end of period t.

SIZE_{i,t} = size of the firm as measured by the natural log of total sales for firm i at time t

μ_{i,t} = the error term for firm i in period t.

Table 1: Definition of variables and a priori expectations

Independent Variable	Parameters	Definition	Expected Sign
TAX	α ₁	Taxation, measured as corporate tax	Negative
PROF	α ₂	Profitability, measured as aggregate earnings/total assets	Positive
LEV	α ₃	Leverage, measured as total debt/total assets	Negative
SIZE	α ₄	Size of the firm as measured by the natural log of total sales	Positive

Empirical Results and Discussion of Findings

Descriptive Summary Statistics

Table 2 displays the summary statistics for the chosen samples. The table displays the mean for each of the nations studied. According to the data, Ghana has the highest average dividend payout ratio, indicating that a higher percentage of Ghanaian firms pay dividends than the other countries. South Africa and Nigeria are next, in that order. Similarly, Ghana has the highest profitability rate, followed by South Africa and Nigeria.

Table 2: Descriptive statistics

Variable	1 Nigeria Mean	2 South Africa Mean	3 Ghana Mean
DP	0.479739	0.354272	0.688231
TAX	1.580421	2.12443	1.112093
PROF	0.211363	0.354272	0.612924
LEV	1.290109	0.88798	1.137435
SIZE	6.98953	3.44399	3.001864

Correlation Analysis

A correlation matrix of the variables for the South African, Nigerian, and Ghanaian samples is presented in Table 3 to assess the likely degree of multi-collinearity among the regressors. The prevalence of multi-collinearity is indicated by the large magnitude of the correlation coefficients between profitability and growth in the Nigerian sample. From the table below, all the correlation coefficients of other variables are considered healthy as they are below 0.8.

Table 3: Correlation Analysis

	DP	TAX	PROF	LEV	SIZE
Nigeria					
DP	1.000000				
TAX	-0.290314	1.000000			
PROF	-0.180520	-0.054037	1.000000		
LEV	0.357096	-0.076352	0.107671	1.000000	
SIZE	0.010201	0.178312	-0.048368	-0.074674	1.000000
South Africa					
DP	1.000000				
LEV	-0.074674	1.000000			
PROF	0.010201	0.357096	1.000000		
SIZE	0.140041	-0.182906	-0.219890	1.000000	
TAX	-0.048368	0.107671	-0.180520	0.232920	1.000000
Ghana					
DP	1.000000				
TAX	-0.089626	1.000000			
PROF	0.048114	0.416887	1.000000		
LEV	-0.089454	-0.095588	-0.133968	1.000000	
SIZE	0.179953	-0.074528	-0.304741	-0.007928	1.000000

Stationarity Test

The level of significance used in this study is 5%. The table displays the results of the Levin et al and Im et al unit root tests, which were used to determine if the variables were non-stationary or not.

Table 4: Panel Unit Root Test Result

Variables	Levin et al		Order of Integration	Variables	Im et al		Order of Integration
	Levels	First Diff.			Levels	First Diff.	
DP	-1.55435	-7.09804**	I(1)	DP	-1.00388	-4.94874**	I(1)
TAX	-2.81324**	-	I(0)	TAX	-0.19569	-2.46000**	I(1)
PROF	-7.57076**	-	I(0)	PROF	-3.15684**	-	I(0)
LEV	-12.0332**	-	I(0)	LEV	-93.6494**	-	I(0)
SIZE	-1.31820	-7.69807**	I(1)	SIZE	0.29750	-4.33101**	I(1)

Source: Authors' computation, 2022

Notes: Values reported are t-statistics value.

** denote significance 5 percent.

The test was conducted with the assumption of intercept and no trend in both Levin et al (2002) and Im et al (2003) specification

Table 4 shows that because both unit root tests produced different findings, it is unclear whether the majority of the variables are integrated at levels (I(0)) or first difference (I(1)). Following that, the data sample is subjected to a panel cointegration test. It determines if the model forecasts a long-term relationship. The panel unit root test demonstrated the short-run stability of these variables, which led to the estimation of co-integration to identify the long-run equilibrium relationship of the linear function of the variables in the long run.

Cointegration analysis is performed once the unit roots of the series have been investigated. To analyze the long-term association between the variables, the Kao cointegration approach for the panel cointegration test is utilized. The ADF t-statistic probability value is less than a 5% level of significance, showing that the variables in the model have a long-term relationship, as shown in Table 5. The null hypothesis is thus rejected, implying that the variables are cointegrated. The findings show that the variables have a long-term relationship, verifying the validity and consistency of empirical findings.

Table 5: Kao Residual Cointegration Test Result

Dividend Policy	
ADF t-statistic	Probability
3.591032	0.0002**

Source: Authors Computation, 2022

Note: Null Hypothesis: No cointegration.

** denotes significance at 5 percent

The simultaneous panel estimation approach is used to study the association between corporate tax and dividend policy because the model comprises a long-run relationship. The results of the simultaneous panel estimation method are shown in Table 6.

Table 6: Panel Regression Results

Dependent Variable	1	2	3
	Nigeria	South Africa	Ghana
Constant	2.162813 (0.0000)	1.843007 (0.0000)	1.133110 (0.0000)
TAX	-0.091065* (0.0176)	0.252663* (0.0023)	0.403935* (0.0000)
PROF	0.085960** (0.0807)	0.005085** (0.0782)	0.001927** (0.0875)
LEV	-0.021702** (0.0875)	0.045845 (0.4023)	-0.013494** (0.0746)
SIZE	0.017356** (0.0763)	0.361414** (0.0720)	0.025204** (0.0627)

R ²	0.143739	0.248370	0.176120
Wald	412.7975	492.4862	244.6885
Prob>w ²	0.0000	0.0000	0.0000

Source: Authors' Computation, 2022. Probability values are in parenthesis.

Notes: Values reported are t-statistics values. *, **, *** denotes significance at 1, 5 and 10 percent level of significance respectively. DP is defined as dividend payout ratio measured by the total dividend by the net income; TAX is measured as corporate tax; PROF is the aggregate earnings divided by total assets; LEV is measured as the total debt divided by total equity, and SIZE is the natural log of total sales

Findings and Discussion

Table 6 presents the regression results on the impact of taxes on dividend policy in sub-Saharan Africa. The Wald test was used to determine the statistical significance of the relationship between the dependent variable and the model's independent variables. Table 4 shows the Wald test values for the chi-square distribution, along with associated p-values. The results revealed that the Joint Coefficient Wald test is statistically significant for all countries. The results are presented in Table 6, columns 1-3 represent the results for firms in Nigeria, South Africa, and Ghana, respectively. In the instance of Nigeria, there is a significantly negative relationship between cooperative tax and dividend payout ratio. An increase in corporate tax results in a fall in the dividend payment ratio. This means that Nigerian firms with higher tax liabilities pay a lower proportion of their earnings. As corporate tax rates rise, earnings after tax fall, undermining firms' capacity to pay dividends. Nigerian companies cut their payout ratios as the tax rate rises and earnings after taxes fall. However, there is a positive relationship between dividend payout ratio and taxes in South Africa and Ghana, showing that companies in these countries pay out more of their revenues in dividends as their tax liabilities rise. Because the p-value is below the 5% level of significance, the relationship is statistically significant. Though this contradicts our presumptions, it could be due to these companies' desire to lower the amount of taxes they pay to the government. This outcome is anticipated to occur from South African and Ghanaian companies' desire to pay their shareholders when tax rates rise. As corporate tax rates rise, corporations in Ghana and South Africa pay dividends (while financing their investment with debt) to avoid paying a larger share of their operating revenues to the government in taxes.

In all of the countries studied, there is a highly significant and positive association between profitability and dividend policy. Profitable companies pay higher dividends; therefore, this is a good thing. This means that companies with significant profits can declare and pay more dividends. Profitability is the most important measure of a company's ability to declare and pay dividends. The conclusions of prior empirical investigations are supported by this outcome. Furthermore, unprofitable businesses cannot replicate this strategy because they will be unable to continue paying dividends in the future.

The association between leverage and dividend policy in Nigerian and Ghanaian firms is negative and significant, indicating that companies with larger debt ratios have lower dividend payout ratios. Given the monitoring role of debt, corporations with large debt ratios may be hesitant to pay significant dividends. Protective covenants are generally included in debt agreements to restrict company executives from paying extra dividends in order to meet their debt commitments as they become due. Furthermore, interest and principal payments (which companies with debt in their capital structure must make) lower the cash available for dividend distributions. As a result, highly leveraged corporations have a lower dividend payout ratio, and companies with lower leverage ratios have a larger payout ratio. This discovery lends credence to prior research. Debt covenants and similar constraints imposed by debt holders, according to Jensen (1986), Stulz (1988), and Farinha (2003), are likely to result in lower dividend payments. As a result, companies with a high debt-to-equity ratio and high indicated financial risk may be unable to pay out larger dividends.

In contrast, South Africa has an insignificant positive relationship between dividend policy and leverage. As debt in the financial structure of the South African corporations studied rises, so does their dividend payout ratio. Despite the fact that this conclusion contradicts our predictions, it is consistent with the findings of Easterbrook's (1984). Easterbrook (1984) suggested that paying dividends after a company has issued debt is favorable to shareholders. This is because debt holders examine companies' debt-to-equity ratios before charging interest on loans. As a result, when a company issues debt and then funds its investments from retained earnings, the debt-to-equity ratio of the debt is reduced. Leverage is not significant in explaining dividend policy in South Africa due to the existence of an insignificant relationship.

In all three countries studied, size, as defined by the logarithm of total assets, is found to be positively and statistically significantly related to dividend policy. This could be due to the fact that larger companies often have the more predictable cash flow to pay dividends. It would not be smart for huge companies to keep profits for future expenditures if future growth options had been exhausted. More dividend payments would be a preferable alternative in this circumstance. Furthermore, because shareholders do not expect future investments to raise their share price, they will want higher dividends. This finding concurs with our apriori anticipation that larger companies are more likely to pay dividends. This finding is consistent with previous research.

Conclusion and Policy Implications

The focus of this study was to look at the impact of corporate taxation on enterprises' dividend distribution policies in Sub-Saharan Africa from 2010 to 2020 using firm-level panel data from selected sub-Saharan African countries. The data was estimated using the panel least square technique of estimation, with information obtained from the companies' annual reports and consolidated accounts. Our findings reveal that dividend policy has a positive and significant relationship with tax, profitability, and firm size in South African firms. Furthermore, higher corporate tax, greater profitability levels, higher expansion potential, and larger sizes in South Africa have resulted in a rise in dividend payment as indicated by the dividend payout ratio. This demonstrates advances in South African companies' underlying financial records, whereas dividend reductions reflect bad corporate fundamentals. This discovery is due to the Johannesburg Stock Exchange's level of progress, which is recognized as SSA's most sophisticated stock market. South African corporations only change their dividend decision to reflect changes in fundamental performance due to the presence of more advanced analyst professionals that tracks company performance on a constant basis.

Our findings also demonstrate that corporate tax and leverage have a negative and significant impact on Nigerian companies' dividend policies, but profitability and firm size have a positive and significant impact. As a result, companies paying a higher corporate tax in Nigeria pay lesser dividends to shareholders. Companies in Nigeria that pay fewer taxes have higher earnings after taxes, which translates to more expansion potential. They also pay higher dividends to demonstrate their earnings-generating prowess.

The findings also demonstrate that in Ghanaian enterprises, there is a positive and significant link between corporate tax and dividend policy. The majority of Ghanaian enterprises are controlled by institutional investors, whose monitoring operations diminish information asymmetry and moral hazard concerns. In the absence of these institutional owners, Ghanaian companies offer dividends to their shareholders to demonstrate their worth, while also strengthening the monitoring associated with debt and external funding. Ghanaian companies pay dividends to benefit shareholders and to advertise a company's worth to the market. They pay bigger dividends to increase demand for their shares, allowing them to raise the necessary funds from stock issuance at better rates. Furthermore, profitability and size have a strong and substantial link with the dividend payout ratio of Ghanaian enterprises, according to the findings.

The implications of our findings for policy formulation are profound. When developing a dividend policy, policymakers in diverse countries should consider the factors of dividend policy when making dividend decisions, as lower or higher taxes will result in a different dividend structure. This study recommends that managers should seek out alternatives to cash dividends in order to reduce the impact of taxes on dividends. Tax-averse shareholders will use capital gains, scrip dividends, and other tax-avoidance strategies to lessen the tax impact on their dividends. Finally, businesses should look for ways to decrease their tax obligations, such as tax amnesty, tax holidays, and tax relief.

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