



THE EFFECT OF TAX REFORM ON OWNERSHIP STRUCTURE AND DIVIDEND POLICY: Evidence from Nigerian Listed Companies

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ABSTRACT

This study examined the effect of tax reforms on ownership structure and dividend policy in Nigerian listed companies. The study obtained data from eleven (11) investment / financial analysts firms operated in the stock exchange located in Benin City, Edo State. Stratified random sampling method was adopted and primary data used to elicit responses with fifty – five structured questionnaires administered. The result of the study shows that Tax Reform has negative effect on ownership structure and dividend policy. The study recommends that tax policy makers should consolidate opinions with the stakeholders before tax can be reformed, Nigeria economy should be diversified to create more alternative source of government revenue, full autonomy should be granted to tax authorities to operate in the three tiers of government, and Tax Reform should not be an issue of sentiment but a means for government to achieve a sustainable economy growth and development. The study also recommends for future research to investigate the subject with different methodology.

Key Words: Tax reform, Tax policy, ownership structure and dividend policy.

Introduction

Taxation is one of the major sources of income to every surviving nation in the world today. However, there are series of Tax reforms in countries tax policy for one reason and another. For instance, according to Ogbonna and Ebimobowei (2011), Nigeria reforms taxes because of the sole dependent of the oil revenue by the three tiers of government. In addition, Alli (2009) observes that Nigeria reformed taxes to create equilibrium point between the National development need of the citizens and other fiscal aims. Some of the tax reforms includes: changes in tax rate, allowances, reliefs and others. For instance, corporate tax on profit, according to Odusola (2006) reduced from 45 percent during 1970 to 1986, when structural Adjustment program (SAP) was introduced to 40 percent. Between 1991 and 1992 the rate

reduced from 40 percent to 35 percent. Effect from 1996 to date, the rate has reduced to 30 percent. However, special companies like those engaged in mining and agricultural production are given exemptions to the application of this rate. Other similar forms of taxation, such as value Added Tax, Capital Gain Tax, Personal Income Tax, Educational Tax, Petroleum Profit Tax, Withholding Tax and others has also in one way been reformed in Nigeria to meet economic target.

In spite of this series of reforms, to the best of our knowledge, little or no effort has been made to examine the effect of the reform specifically on business ownership structure and dividend policy of listed Companies. Rather, Researches seems to concentrate more on the effect of the reform on revenue generation to government in Nigeria and the extent of which it can affect other activities seems to be in doubt. It is against this background therefore, the study intends to investigate the affect of tax reform on ownership structure and dividend policy in Nigerian listed companies. The main research questions upon which an attempt is meant to provide answers in the course of the study include: (i) To what extent is tax reform affect ownership structure in Nigeria listed companies? (ii) Is there any significant relationship between tax reform and dividend policy in the Nigeria listed companies? To answer the question raised, the scope of this study covers the eleven (11) investment analysts firms operates in the stock exchange and located in Benin City, Edo State. Investment Analysts are chosen because, according to clement and Tse (2003) Mengena and Baker (1998) and Gebhardt et al (2004) cited in Okpala (2012), they are major users of financial reports, they have good investment knowledge which helps investors to analyze their investment and provide information to assist investors when making economic decisions about their limited resources. Therefore, the study is motivated because the results that will emanate from the study, expected to be useful to tax policy makers, the investors, management/manager of companies, government and other researchers. The remaining section include: section 2 examines review of related literature, section 3 explain the methodology used, section 4 deals with the data presentation, analysis and interpretation, while section 5 is findings, conclusion and recommendations.

2. REVIEW OF RELATED LITERATURE

1. Theoretical/Conceptual Framework

1. Tax Reform

The theoretical background of tax reform considerably varies from country to country. However, it depends on the economic driven of the country. Oriakhi and Ahuru (2014) noted Tax Reform from the supply-siders, which is on the view that production can be encouraged with the use of economic incentives. Tax reforms is viewed according to supply-sider as a medium to regulate the country's tax policy either by reducing the tax rate to encourage tax-payer to conveniently pay their tax to government or marginally increase tax rate to encourage tax avoidance and evasion.

In addition, according to Auerbach (1996), another theory of tax reform exist which is called Economic theory of tax reform. Accordingly, this theory is on the veins that government can use tax reform in tax policy to regulate the price of goods and services. For example, an increase in the tax rate on a particular commodity will reduce the demand for that commodity, even if no such tax has been imposed in the past. Similarly, the economic theory also in the views, that government will generate revenue through tax reform by increasing the tax rate of commodity with inelastic demand or supply. Whether the tax rate increased by the government on the commodity or not, the consumer must consumed such commodity. An example of such commodity is salt. According to World Bank (1991), countries reformed their tax policy deliberately to increase revenue, enhance efficiency, and promote equity investment in capital market. Another dimension of tax reform theory is the positive theory of tax reform (Ilzetzki, 2014). The theory predicts that large changes in the tax code are politically feasible even at times when marginal reforms would be rejected. In addition, according to the theory, politically feasible tax reform will tend to occur when revenue needs are large, but will nonetheless involve reductions n marginal tax rates. In considering these theories of tax reform in tax policy, tax reform is therefore means to increases or decreases in tax rates government to generate revenue or regulate the economic activities of the country. Generally, tax reform is undertaken by the government to improve the efficiency of tax administration and to maximize the economic and social benefits that can be achieved through the tax system.

2. The Nigerian Tax Reform and Its Needs.

Since 1940 to date, the Nigerian has experienced series of tax reform. The reform made through the adjustment of the tax law system. Some of these reforms can be trace as follows: in 1940-1926, Nigeria introduced income tax; in 1945, Nigerian Inland Revenue was granted autonomy to operate it affairs; in 1957, Raisman fiscal commission was introduced; In 1958, Inland revenue board was formed to complement the Nigerian Inland revenue; Petroleum profit tax ordinance No.15 was enacted in 1959 to regulate the taxes from petroleum/oil mineral resources in Nigeria; In 1961, income Tax management Act was established to regulate all income earned by companies in Nigeria and was replaced in 1979 by companies income tax Act (C I T A); in 1992, Nigeria established federal inland revenue service to harness all tax related to the federal government; in 2002, study Group Committees was inaugurated with 11- point terms of reference, the group was mandated to take special look at the existing tax laws, the inherent lapses and suggest ways and means of improving the tax system through reliable recommendations. Some of its recommendations according to charterer institute of taxation of Nigeria (C I T N)include:

- Local government to charge tenement rate and Capitation rates and other clear – cut user charges for services directly beneficial to the citizens only;
- A company to make profit before being exposed to companies income tax in any assessment year;
- Companies with less than N50 million to henceforth pay its companies income tax to state where it operated;

- Nigeria to have a 24 clause National tax policy;
- Limitation of special tax incentives such as tax holdings and import duty reliefs to only industries located in rural areas, fully export oriented industries, solid minerals production companies and oil gas activities;
- Reduction of companies income tax rate to 20% instead of 30%
- Speedy constitutional amendments to confirm the legality of value added tax (V A T) which should be shared among states after 3% had been deducted as part of its administration cost nationwide;
- Raising of the threshold of personal income Tax up to N200,000 Consolidation of personal income tax free allowances to a single bulk of 40% of assessable income and the highest income rate should be 20%; and
- Compilation of registers of individuals and corporate tax payers and also issuance of smart tax cards for all tax payers.

After the study Group made their recommendation, in 2004, a private sector driven – group was inaugurated to review the recommendation of the study Group report in 2003, and propose prioritized set of strategies whose implementation would give effects to the reform of the Nigeria tax system, which were grouped into; within 6months of submission of the working Groups Report (ie; short term), within 2years (medium term) and within 5years of submission of the working Groups Report (Long – term). The various groups inaugurated (study Group and private sector driven – group) addresses issue like taxation and federalism, the drafting of a National Tax policy, Tax incentives and tax Administration all together.

Tax reform became necessary in Nigeria according to Ogbonna and Ebimobowei (2011) because of the sole dependent of the oil (revenue by the three tiers of government. All (2009) also added that Nigeria reform their tax system in order to: create equilibrium point between the National Development needs and the funding of the needs; improve on the level tax derivable from non – oil activities, ensure taxation fiscal policy instrument, review the tax laws to minimize tax evasion and avoidance and to achieve other fiscal aims and objectives.

2.1.3 Ownership Structure:

The concept of ownership structure has been view by several researchers both in the developed and developing countries in the global. Studies argues that ownership structure covers the framework of the management structure, the owners of organizations itself, together with their inherent potentials (Enofe & Isaivwe, 2012; Ajagbe & Ismail, 2014; Dabor et al; 2015; Isiavwe, 2015 cited in worhi, Evioghenesi, Ajagbe & Okoye, 2015). Kirui (2013) described ownership structure like the herd core of corporate governance. Ownership structure according to Agon (n.d) refers to the amount of stock owned by individual investors and large – block shareholders (investor that hold at least 5 percent of equity ownership within the firm). Many researchers also investigate the impact of ownership structure. Vroom and McCann (2010) indicates that ownership structure is a vital determinant of firm behaviour at the corporate level, it influence on competitive actions has received insufficient attention. Obembe, Adebisi and Adesina (2011),

indicates that ownership structure has a negative impact on the efficiency of firms. Gugong, Aruga and Dangago (2014), indicates that there is positive significant relationship between ownership structure and firm's performance as measure Return on Asset (ROA) and Return on Equity (ROE). Tsegba and Herbert (2013), the study indicates that foreign ownership has significant positive impact on firm performance. Worhu, et al. (2015), indicate that ownership structure has positive impact on performance of entrepreneurial firms in Nigeria. The study of ownership structure is relevant to current research due to its function to economic growth and development of a nation. This attracts special interest to find out whether tax reform has positive impact on it or not.

2.1.4 Dividend Policy.

Shareholder wealth maximization is one of the objectives of any quoted firm in the capital market. In achieving this objective, the firm ensures that dividend are paid as at when due to the shareholders. According to Josiah, Ozele and Agbo (2016), the rate at which dividend are pay out to the shareholder is a function of the dividend policy which determines the amount of earnings to be retained and distributed to the shareholder. What is dividend policy therefore? Okafor, Mgbame and Chijoke-Mgbame (2011), refers dividend policy to be a corporation's choice of whether to pay its shareholders a cash dividend or it's retain its earnings at any fixed period. They added that today, the definition has also covered such issues as whether to distribute cash via shares repurchase or through special designated rather than regular dividends, and how to achieve an equilibrium range between the preferences of highly taxed and relatively "untaxed" investors, NissimandZin (2001) cited in Uwuigbe, Jafaru and Ajayi (2012), describe dividend policy as the regulations and guidelines that a company uses to its shareholders. Josiah, et al (2016) observed that dividend policy can be affected by corporate tax because dividends are declared to shareholders after corporate tax has been deducted.

Lintner (1956) cited in Moradi, Salehi and Honarmand (2010) suggests that dividend depends on the firm's current earnings and in part on the dividend retained in the previous financial years. He finds that the dividend policy is determined by major change in firm's earnings with existing dividend rates. This also indicates that the firm's earning can be affected by any changes in corporation tax rate. Miller and Modigliani (1961) also cited in Moradi et al (2010) suggested that dividend policy is irrelevant to the value of firm in a world without taxes, transactions costs or other market imperfections. Similarly, Tsuyi (2010) indicates that value-weighted after-tax earnings -to- total-Asset ratio is one of the determinants of firms' dividend policies. The study concluded that adjustment in rate affects the corporate earnings and corporate earnings directly relate to firm dividend policy (payment) in general. Pilarczk (2016) also supported the view that changes in taxrates affects the dividend policy of a firm.

According to him, the net profit after tax of a company can be influence by the corporate tax, which on the other hand may determine the company's ability to pay dividends as well as the amount to be received by the shareholders. This is supported by one of the dividend theories known as "tax differential of dividend policy". According to Josiah et al (2016), the theory was

first developed by Lichtenberger and Ramaswamy (1980) and claims that shareholders prefer lower payout companies for tax reasons. The view is based on the observation of American stock market and presented the following three vital reasons why shareholder might prefer lower payout companies; First, unlike dividend long-term capital gains permit the shareholders to defer tax payment pending when they decided to sell the share. Considering time value effect, tax paid in the future have a lower effective capital cost than tax paid immediately. Secondly, until 1986 in USA all dividend and only 40 percent of capital gains were taxed. At a tax rate of 50% which is multiplied by the 40% of capital gains which result to 20% on long-term capital gains. This indicates that shareholders might prefer the company to retain their earnings in order to avoid taxes or portion of their earnings should be retained by the company to pay a lesser tax. Finally when a shareholder dies, automatically, no capital gain is collected. The beneficiaries can sell the stocks on the death day at their base costs and avoid capital gain tax payment. Mehta (2012) also indicates that net profit after tax is a major factor can influence dividend policy of companies. Therefore, if the rate of corporate tax is reformed, it will have an impact on the profitability and dividend payout to the shareholders.

2. Empirical Review of Tax Reform on Ownership Structure and Dividend Policy.

Zhigang and Jiao (2013), evidence in China, the study titled “income tax reform, ownership structure and corporate finance behaviour”. The study demonstrates that the enterprise whose has an increase in tax rates tend to raise the debt scale. As such, ownership concentration and corporate debt level is negatively correlated. Similarly, Brown, Mintz and Wilson (2000), evidence from America. The study indicates that tax reform influences ownership structure and dividend policy. For instance, according to the study, it was observed that private ownership dominant in Canada than in United State (U.S) economy. In addition, in Canada, individual pay about the same rate of personal tax in higher income bracket on dividends as on capital gain where as ordinary income, but capital gains are eligible burden that may be 25%. Therefore, the study revealed that where private owners are charged with a higher tax rate, it will attract more public ownership in that economy. As such, this will automatically affect the dividend policy of the enterprise. Jacob, Michaely and Alstadsaeter (2016), evidence from Chicago, the study indicates that dividend taxation has a large impact on dividend payout. However, the study also added that dividend taxation has sensitivity gradually decreases as the number of owners increase. Finally, the study concluded that increase or decrease in tax rate has impact on payout policy, but disperse ownership mutes its impact substantially. However, the study failed to establish whether impact is positive or negative. Plesko and Toder (2013), the study suggests that significant reduction in the corporate tax rates, absent changes in the personal tax rate, will likely reverse the organizational form incentives that have existed since. The study also indicates that if the loss in revenue from a rate reduction is offset by a broadening of the tax base, most enterprises, comprising most business income, are likely to face an overall increase in their tax burden. Voinea (2012), the study reveals that the tax reform had a negative impact on leverage and a positive impact on ownership concentration. The study also added that leverage is positively related with tangibility and firm size and negatively related with profitability. Finally, ownership concentration is positively related with profitability and negatively related with firm

size. Fuest and Liu (2015), evidence from China, the study reveals that decrease in the statutory tax rate for domestic firm since 2008 has induced collectively owned enterprises and private firms to reduce debt. Papaioannou and Claig (1994), the study reveals that if the taxation of dividends and capital gains increases, corporations should increase their dividend payout ratios, except possibly in the case of those firms with already high payout ratios that attract corporate investors whose taxation of dividends increased in the post-tax reform act period. Bolster and Janjigian(1991) evidence from U.S, the study indicates no evidence that dividend payouts increased in response to tax reform. Erik and Rolf (1999), the study reveals the rise in income inequality coincided with the implementation of a major tax reforms that affected the financing activities in the corporate sector and the income shifting incentives in small enterprises. The study concluded that the observed rise in income inequality during the 1990's to some extent can be explained by a change in the dividend policy of the corporations, influenced by the tax reform in 1992. Therefore, the study finds less increase in the level of inequality and less increase in the contribution to inequality from share ownership.

Odia and Ogiedu (2013), evidence from Nigeria, the study considered the effect of taxes on the dividend policy of banks in Nigeria. The study reveals that taxes have negative and non-significant impact on the dividend policy of banks. Also, the study reveals that profitability is an important determinant of the dividend policy and there exist a significant association between profitability and dividend.

However, the study could cover other listed companies in the Nigerian stock exchange and addressing the subject in the perspective of the principal users of the financial reports. Consequently, as earlier indicated in the introductory part of the sections, this inconclusive result has created a gap and needed to be fill in this study.

3. METHODOLOGY

1. Introduction

This aspect of the research work focuses on the research methodology the adopted for the purpose of achieving the objectives of the study, the population, sampling as well as instrument.

2. Population of the Study

The population of the study consist of eleven (11) Investment Analysts operate in Benin City Edo. To qualify to respond to the questionnaire, the respondent must be responsible for the investment analysis, have knowledge of investment and can speak on behalf of the others.

3. Sampling Size

A sample of 55 persons was selected at random, representing 88% of the total entire population. This is because; it is not possible to cover all the staff in the analysts firms, the famous Yamene technique sample selection techniques to be adopted by the study. The calculation of the sample size will be done as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where n = the sample size
N = the population size
e = acceptable sampling error
*95% confidence interval assumed (p=0.5)

3.4 Instrument

The instrument was a 7-term survey questionnaire with a 9-5 Likert Scale response option. Strongly Agreed (SA), Agreed (A) Undecided (U), Disagreed (D) and Strongly Disagreed (SD). The validity of the questionnaire was confirmed by for the reliability test coefficient of 0.88.

4. Estimation techniques

The techniques of estimation adopted for this study is the simple correlation coefficient. Specifically, the Pearson Product Moment Correlation Coefficient was used for data analysis. The computation is done through the following formula:

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{[N(\sum X^2) - (\sum X)^2][N(\sum Y^2) - (\sum Y)^2]}}$$

Where, r represents the correlation coefficient.

4. RESULTS AND DISCUSSION

1. Introduction

This section of the research work indicates the results. The analysis is also done and findings are obtained from the analysis.

2. Data Presentation and Analysis

Table 1 (Section A) Response by Investment/financial Analysts to the relationship between Tax Reform and business ownership Structure in Nigeria.

S/N	Financial/ Investment Analysts firms in Benin City, Edo State.	Option from Investment Analysts				
		SA	A	U	D	SD
1.	Best worth Asset Ltd	0	0	0	2	3
2.	Value Line Securities Investment Ltd	0	0	1	0	4
3.	UIDC Securities Ltd	0	0	0	2	3
4.	Mainland trust Ltd	0	0	0	2	3

5.	Partnership Investment Ltd	0	0	1	0	4
6.	Capital care trust & Securities	0	0	0	2	3
7.	ICMG Securities Ltd	0	0	0	0	5
8.	Foresight Securities Ltd	0	0	0	2	3
9.	Heartbeat Investment Ltd	0	0	1	1	3
10	Cash craft Asset	0	0	0	1	4
11	Aims Assets management Ltd	0	0	0	1	4
	Total	0	0	3	13	39

Source: field survey, December, 2016.

Table 2: Question 1 of the questionnaire administered: Tax Reform has no positive impact on ownership structure in Nigeria.

Option	Point (x)	Responses (Y)	(XY)	(X ²)	(Y ²)
SA	5	0	0	25	0
A	4	0	0	16	0
U	3	3	9	9	9
D	2	13	26	4	169
SD	1	39	39	1	1521
	15	55	74	55	1699

Source: Researchers computation, December, 2016.

Where N = 5, X = 15, Y = 55, XY=74, X² = 55, Y²= 1699

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{[N(X^2) - (\sum X)^2][N(Y^2) - (\sum Y)^2]}}$$

$$r = \frac{5 \times 74 - 15 \times 55}{\sqrt{5 \times 55 - 15^2} \sqrt{5 \times 1699 - 55^2}}$$

$$370 - 825$$

$$r = \frac{370 - 825}{(275 - 225)(8495 - 3025)}$$

$$r = \frac{-455}{(50)(5470)}$$

$$r = \frac{-455}{273500}$$

$$r = \frac{-445}{522.97}$$

$$r = -0.8509$$

$$r = -0.85$$

Decision: The 'r' calculated of -0.85 is less than 0.5 level of significance. The Null Hypothesis is accepted. Tax Reform has Negative Impact on Ownership Structure of Nigerian listed companies.

Table3: Section B. Response on key issue relating to the positive relationship between Tax reform and Dividend Policy.

S/N	Financial / investment Analysts firms Benin City, Edo State	in	Option from investment Analysts				
			SA	A	U	D	SD

1.	Best worth Asset Ltd	0	0	0	0	5
2.	Value line securities investment Ltd	0	0	0	1	4
3.	UIDC Securities Ltd	0	0	0	2	3
4.	Mainland Trust Ltd	0	0	0	0	5
5.	Partnership Investment Ltd	0	0	0	1	4
6.	Kapital care trust & Securities	0	0	0	2	3
7.	ICMG Securities Ltd	0	0	1	2	2
8.	Foresight securities investment Ltd	0	0	0	1	4
9.	Heartbeat Investment Ltd	0	0	0	1	4
10.	Cash craft Asset management Ltd	0	0	1	0	4
11.	Aims Assets management Ltd	0	0	0	2	3
	Total	0	0	2	12	41

Source: field survey, December, 2016.

Table 4: Question 1 of the questionnaire administered: tax Reform Positive Impact on Dividend Policy in Nigeria.

Option	Point (x)	Responses (Y)	(XY)	(X ²)	(Y ²)
SA	5	0	0	25	0
A	4	0	0	16	0
U	3	2	6	9	4
D	2	12	24	4	144
SD	1	41	41	1	1681
	15	55	71	55	1829

Source: Researcher's Computation, December, 2016.

Where $x=15$, $y=55$, $xy=71$, $x^2=55$, $y^2=1829$ and $N=5$

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{[N(\sum X^2) - (\sum X)^2][N(\sum Y^2) - (\sum Y)^2]}}$$

$$r = \frac{5 \times 71 - 15 \times 55}{\sqrt{(5 \times 55 - 15^2)(5 \times 1829 - 55^2)}}$$

$$r = \frac{355 - 825}{\sqrt{(275 - 225)(9145 - 3025)}}$$

$$r = \frac{-470}{\sqrt{(50)(6120)}}$$

$$r = \frac{-470}{\sqrt{30600}}$$

$$r = \frac{-170}{553.17}$$

$$r = -0.8497 \approx -0.85$$

Decision: the 'r' conducted of -0.85 is less than 0.5 level of significance. The Null Hypothesis is therefore accepted. Tax reform has negative impact on Dividend Policy in Nigerian listed companies.

3. Discussion of Result.

The research work borders on determining the effect of Tax reform on ownership structure and reform on ownership structure and dividend policy. The results of the hypothesis tested revealed that tax reform has negative correlation on both ownership structure and dividend policy in Nigerian listed companies. The results agreed with the studies concluded by Odia and Ogiedu (2013) on the part of dividend policy.

5. FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Findings

The research findings are summarized as follows;

- i. Tax Reform has negative effect on Ownership structure in Nigerian listed Companies.
- ii. Tax Reform has negative correlation on dividend Policy of Nigerian listed Companies.

5.2 Conclusion

In this study, attempts were made to determine the effect of Tax Reform on Ownership Structure and dividend Policy. Based on the findings, we concluded that the Tax Reform has a negative effect on Ownership Structure and dividend Policy of Nigerian Listed Companies.

Although there are many benefits from tax reform to the government, the negative effect to the Company, Investors and others stake- holders outweigh the benefits.

5.3 Recommendation for the study

Based on the findings, the researchers hereby recommends the followings steps to ensure a successful tax reform in Nigeria that may not detrimental to the Nigerian listed companies and other affected parties:

- i. Tax Policy makers should call for stakeholders meeting where various opinions can be consolidated before reforming the tax.
- ii. The Nigeria economy should be diversified to enable the government have more source of revenues rather than depending on oil and Taxation as major sources of revenue.
- iii. Full anatomy should be granted to the tax authorities or administrators to operate in the three tiers of government in Nigeria.
- iv. Tax Reform should not be an issue of sentiment but a means to be used by the government to achieve a sustainable economy growth and development.

5.3.2 Recommendation for Future Research

Findings from this study have provided valuables insights that are of interest to tax policy makers, government, investors, managements, general public, scholars, other policy makers and others. Certain issue arising from the study is: Future research might replicate the subject with different methodology and examine the subject.

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