AN EMPIRICAL STUDY OF TAX AND INFLATION EFFECTS TOWARD DIVIDEND POLICY IN INDONESIAN LISTED COMPANIES

By

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ABSTRAK


Kata kunci: polisi dividen, cukai, inflasi, sektor industri
ABSTRACT

Firm’s dividend policy is one of the main considerations in investment decision-making. Past empirical evidences use proxies of dividend irrelevance theory, agency cost theory, dividend signaling theory, pecking order theory, and free cash flow theory to investigate the determinant of dividend policy. This study extends the prior researches by investigating the effects of tax and inflation towards the dividend policy of listed firms in the Indonesian Stock Exchange from 2000 to 2009. This study applies the Ordinary Least Squares (OLS) method to measure the effects. The findings reveal that both tax and inflation do not significantly affect the dividend policy of all sample Indonesian firms. However, the result comes up differently when those firms are classified into their respective industry sectors. This study documents the evidence that four industry sectors are positively affected by tax, namely Agriculture industry, Consumer Goods industry, Miscellaneous industry, and Property, Real Estate and Building Construction industry. The Mining industry, on the other hand, is negatively affected by tax. Meanwhile, only two industry sectors that are found to be positively affected by inflation, which are Agriculture industry and Basic Industry and Chemical industry.

Keyword: Dividend policy, tax, inflation, industry sectors
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<td>DPO</td>
<td>Dividend Payout</td>
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<td>DPOP</td>
<td>Previous Dividend Payout</td>
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<td>DW</td>
<td>Durbin-Watson</td>
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<td>GCC</td>
<td>Gulf Cooperation Council</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GROW</td>
<td>Growth Opportunity</td>
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<td>IDX</td>
<td>Indonesian Stock Exchange</td>
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<td>JSX</td>
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<td>LIQ</td>
<td>Liquidity</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Companies, in order to ensure their on-going operations, need injections of funds from either shareholders or bondholders. In return, the bondholders get periodical payment, and the shareholders receive dividends. When a company earns the profit, the money can be either reinvested in future prospective projects or can be paid to the shareholders as dividends. Dividend is profit distribution to the shareholders at a specified percentage of the company’s earning decided by the board of directors. Dividend payment is not an obligation for the company; instead it is an option, whether to pay or not to pay. However, the companies that pay dividends usually catch more investor’s attention since they have invested their money into the company, they will then expect for the return. Black (1976) supports the idea by saying that investors put their attention on dividend considering that through dividend or prospect of dividend, they obtain the return from their investment.

Dividend policy is the decision that a company can develop and implement the dividend portion without threatening the company’s financial position in the long run. The dividend policy has been widely discussed in past financial research with debatable perceptions and mixed findings. This study focuses more on tax and inflation effects on dividend policy. Miller and Modigliani (1961) documented that under the perfect capital market condition, firm’s dividend decision is not a value at all. This assumption is called the dividend irrelevance theory. However, the real world financial markets do not satisfy such conditions of perfect capital markets. The
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REFERENCES


