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

By

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ABSTRAK

Polisi dividen merupakan salah satu perkara yang sangat penting dalam membuat keputusan untuk pelaburan. Bukti-bukti empirikal yang lalu menggunakan proksi teori penyimpangan dividen, teori kos agensi, teori dividen isyarat, *pecking order theory*, dan aliran tunai bebas untuk menyiasat teori penentu dasar dividen. Kajian ini menambah baik penyelidikan terlebih dahulu dengan menyiasat kesan cukai dan inflasi terhadap dasar dividen bagi syarikat-syarikat yang tersenarai di Bursa Saham Indonesia 2000-2009. Kajian ini menggunakan kaedah *Ordinary Least Squares* (OLS) untuk mengukur kesan-kesan cukai dan inflasi terhadap dividend. Keptusan menunjukkan bahawa cukai dan inflasi tidak memberi kesan kepada polisi dividen bagi semua sampel firma-firma di Indonesia. Walau bagaimanapun, keputusan yang diperolehi adalah berbeza apabila uji kaji yang dijalankan terhadap syarikat-syarikat tersebut diklasifikasikan kepada sektor industri masing-masing. Kajian ini membuktikan bahawa terdapat empat jenis sektor industri yang positif terhadap cukai, iaitu industri Pertanian industri, industri Barangan, industri Pelbagai, dan Harta, industri Harta Tanah dan Bangunan Pembinaan. Sebaliknya, industri Perlombongan tidak dipengaruhi secara langsung oleh cukai. Sementara itu, hanya dua sektor industri yang didapati positif dan dipengaruhi oleh inflasi, iaitu industri Pertanian dan industri Asas dan Kimia.

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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TABLE OF CONTENTS

PERMISSION TO USE i
ABSTRAK ii
ABSTRACT iii
ACKNOWLEDGEMENTS iv
TABLE OF CONTENTS v
LIST OF TABLES vii
LIST OF FIGURES vii
LIST OF ABBREVIATION viii

CHAPTER ONE: INTRODUCTION
1.1 Background of Study 1
1.2 Overview of the Indonesian Economy 4
1.2.1 The Indonesian Capital Market 7
1.3 Problem Statement 10
1.4 Research Objectives 11
1.5 Research Questions 11
1.6 Significance of Study 12
1.7 Scope of Study 13
1.8 Limitation of Study 13
1.9 Conclusion 14

CHAPTER TWO: LITERATURE REVIEW
2.1 Introduction 15
2.2 Type of Dividends 15
2.3 Underlying Theory
2.3.1 Dividend Irrelevance Theory 17
2.3.2 Agency Cost Theory 18
2.3.3 Dividend Signaling 19
2.3.4 Pecking Order Theory 20
2.3.5 Free Cash Flow Theory 21
2.4 Empirical Evidences 21
2.5 External Factors Affecting Dividend Policy 28
2.6 Conclusion 29

CHAPTER THREE: METHODOLOGY
3.1 Introduction 30
3.2 Data Description 30
3.3 Data Analysis
3.3.1 Descriptive Analysis 32
3.3.2 Correlation Analysis 32
3.3.3 Multiple Regression Analysis 32
3.4 Measurement of Dependent Variable 33
3.5 Measurement of Independent Variables 33
3.6 Theoretical Framework 38
3.7 Model and Regression 39
3.8 Expected Relation 41
3.9 Conclusion 41
CHAPTER FOUR: ANALYSIS AND FINDINGS
4.1 Introduction 42

4.2 Descriptive Analysis 42
4.2.1 Correlation Analysis.. 47
4.3 Assumption Tests on OLS Model 50
4.3.1 R-squared Test 51
4.3.2 Normality Test 51
4.3.3 Autocorrelation Test.. 52
4.3.4 Heteroscedasticity Test 52
4.3.5 Multicolinearity Test.. 53
4.4 Regression Analysis
4.4.1 Regression Result in General 54
4.4.2 Regression Result Based on Industry.. 61
4.5 Conclusion 66

CHAPTER FIVE: CONCLUSION
5.1 Introduction.. 67
5.2 Research Process Overview 67
5.3 Summary of Findings.. 68
5.4 Recommendation.. 69

REFERENCES.. 70
APPENDICES 74
Sample of Listed of Companies in Indonesia 75
Descriptive Statistics for All Firms.. 80
Descriptive Statistics per Industry 81
Correlation for All Firms 89
Assumption Tests of All Firms 90
Regression Result for All Firms.. 96
Regression Result per Industry 98

LIST OF TABLES

Table 1	History of the Indonesian Stock Exchange	8
Table 2	Summary of Empirical Evidence	26
Table 3.1	Dividend-Paying Companies	31
Table 3.2	Companies' Classification by Industry Sector	31
Table 3.3	Underlying Theory	37
Table 3.4	Expected Relation	41
Table 4.1	Descriptive Statistics for All Firms	44
Table 4.2	Descriptive Statistics across Industry Sector	46
Table 4.3	Correlation Matrix	49
Table 4.4	Assumption Tests	50
Table 4.5	Regression Result for All Firms	54
Table 4.6	Hypothesis Testing Summary	60
Table 4.7	Regression Result for Industry Sector	61

LIST OF FIGURES

Figure 1.1	The Indonesian GDP Growth Rate	5
Figure 1.2	The Indonesian Inflation Rate	6
Figure 3	Theoretical Framework	38

LIST OF ABBREVIATIONS

DPO	Dividend Payout
DPOP	Previous Dividend Payout
DW	Durbin-Watson
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GROW	Growth Opportunity
IDX	Indonesian Stock Exchange
INF	Inflation
JSX	Jakarta Stock Exchange
LIQ	Liquidity
OLS	Ordinary Least Squares
PRFT	Profitability
VIF	Variance Inflation Factor
SSX	Surabaya Stock Exchange
SZ	Firm Size
TANG	Asset Tangibility
TAX	Effective Tax Rate

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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