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The Dividend Tax Effect on Share Price on Companies in Indonesia Stock Exchange

Ely Kartikaningdyah[a*], Dudi Aditya[b]
[a]*Jurusan Manajemen Bisnis, Politeknik Negeri Batam, ely@polibatam.ac.id, Indonesia*
[b]*Jurusan Manajemen Bisnis, Politeknik Negeri Batam, dudi.aditya@gmail.com, Indonesia*

Abstract. The purpose of this research is to analyze the effect of tax dividend on share price. The research was conducted for non-financial firms on Kompas 100 category listed on the Indonesia Stock Exchange period 2007 to 2014. In this research share price is measured by price earning ratio, tax dividend by tax rate on Indonesia Tax Law, and dividend policy by dividend payout ratio. Analysis of panel data with random effect model was used to analyze the influence of independent variable and the dependent variable. The result of this study indicate that the tax dividend has an effects to the share price with controlled by dividend policy.

Keywords: share price, tax dividend, dividend policy, price earning ratio

Introduction

One of the investments that generate sizeable profits for investors is an investment in equity shares. Returns from equity investments are influenced by rhe performance of a particular stock and market conditions. The possible impact on stock prices will help investors make a wise decision and allow the company to increase the value of the market (Nirmala, Sanju, and Ramachandran, 2011).

Shares are securities whose ownership by a person or an entity to a company (Hin, 2008). Gains from stock prices as a result of the dividend payment will be offset by a decrease in share price for their purchase of new shares, thus shareholders are not affected by dividend policy today and in the future (Sartono, 2008). The share price is the nominal value of the closing of the investment or ownership of a person and an entity in a company that applies regularly in the capital markets in Indonesia (Kesuma, 2009). When the dividend increased, the stock prices also increased and the cash dividend decreased, the stock prices also decreased respectively (Akbar and Baig, 2010).

Dividend policy is a part of company's funding decisions. The dividend payout ratio determines the amount of retained earnings as a source of funding, if retained earnings is greater, then the amount of profit allocated to dividend payments is getting low. Allocation determination of the profits as retained earnings and dividend payments is an essential aspect of dividend policy (Van Horne and Wachowicz, 2007). Dividends are distributions to shareholders of the business in a given period; it is the company's revenue and recommendations made by the directors of the company. If the profit is not obtained, the dividend is not declared, when profit is obtained, the company must pay taxes to another companies including the tax of the dividend to the government. This is an important responsibility of a company, especially in the profit companies (Nnadi and Akpomi, 2008). Taxes are a very fundamental thing; the tax collection should be based on legislation. People are bears the tax. Problems on tax base and tax rate must be approved by the people who are represented by the people's representative legislation and the results are set forth in the approval of a law that must be obey with by all parties subject to tax obligations. A tax levied by the government is implemented so as not to harm the community needed tax rates so that the tax collection balanced between the public and the

*Corresponding author. E-mail: ely@polibatam.ac.id

government so that there are no losers and no error occurs between people and goverment (Rahayu, 2010). Tax rate that implemented in Indonesia is propotional tax rate which has constant percentage to the taxable income so that the amount of the tax and the income are propotional. Fixed tax rate is a rate that the tax rate and the amount of taxable are remain the same of the amount so that the tax payable is constant. Progresiff tax rate is a percentage of tax rate which use to higher taxable income with higher tax rate (Waluyo and Ilyas, 2003).

If the capital gain is charged with lower tax rate than tax on dividend, the shares will be have a higher growth, but if the capital gain (Sartono, 2008). Tax dividend has a crucial role on management to take a company's policy in term of investment and has a directly effect to company's capital expense (Zodrow, 1991).

Based on above explanation which state that tax dividend is on of the main variable which determine the share prices, so that this study focused on effect of tax dividend on share prices on companies in Indonesia stock exchange. This study provides empirical evidence that the effect of tax dividend on share prices which measure by dividend policy as control variable.

Literature Review

Signaling Theory

Elkington (1997) said that signaling theory emphasize the importance of information that stated by company to the decisions of investor. Information is a important element for investor and businessmen because information is essentially gave information, notes or future state of the companie's past, present and future to survive from their business and how the effect to the market. Complete, relevant, accurate, and timely informations are needed by the investor in stock market as an analytical tool for making decisions. Information in form of management policy, management plan, product development, secret strategy, and more which is not available for public it will reflected on the earnings per share in the published financial statement. Profit is a signal from management which is not publicly published. Profit has important information to the stock market. Meanwhile, the investors are trying to get the information to predict profit that will be announced based on the data published in public. Thus, profit information is highly expected by the analyst to capture private information or unpublished report and to confirm the expected profit of investors (Suwardjono, 2005).

Information which is published as an announcement will give a signal to the investor to take an action on investment. If the announcement has a positive value, it is expected that the market will react when the announcement is accepted by the market. When the informations are announced and all the investors had those information, the investors will interpret and analyze those information as a good signal (good news) or bad signal (bad news). If the announcements of those informations are a good signal for the investor, there will be a change on the stock tradings' volume (Jogiyanto, 2000).

Announcement of accounting information giva a signal that state the company has a good prospect in the future (good news) so that the investors interest to trading the stock, which is the market will react and reflected on the changes of stock tradings' volume. Relationship between publicly information, financial statement, financial condition or sociopolitical against fluctuations in the volume of stock trading can be seen in the efficiency of market (Sharpe, 1997).

Agency Theory

Jensen and Meckling (1976) describes the relationship of agency in agency theory that company is collection of a contract (news of contract) between economical resources owner (principal) and manager (agent) who take care the function and control on that resource. This relationship agency is cause two problems which are occurrence of asymmetric information, where the management in commonly got information about true financial position and entity operation position from owner and there is a conflict of interest due to different goal, where the managements are not always act as the owner behalf (Meisser et al., 2006).

There is an agency cost to resolve or reduce the agency problems which borne by the principal and agent. Jensen and Meckling (1976) divided agency cost to monitoring cost, bonding cost, and residual cost. Monitoring cost is costs that appear and borne by principal for monitor agenct's behavior, which is to measure, observe, and control agent's behavior. Bonding cost is a cost will be borne by agent to establish and obey the mechanism which guaranted that agent will behave for the principal behalf. Furthermore, residual loss is a cost that took the loss of principal prosperity as a result from differences of agent and principal decision.

Berle and Means (1932) found that professional manager can effectively control the company on the shareholders' cost. However, when one of the shareholder who have majority share can control management, so that he can take an advantage the others shareholders (Shleifer and Vishny, 1997). To increase the chance of realization his plan, majority shareholder will minimalize and delay the disclosure of information so that others shareholders cannot intervention or must follow the decision from the incomplete information. Little disclosure may cause information problem get worse which asymmetry, this will increase buyback widely and low liquidity on share (Yosra and Sioud, 2011).

Rozeff (1982) found that company who has few shareholder (or manager) will higly expected pay the dividend than a company who has many shareholders, which is it can reduce agency cost. This means that the relationshop between dividend payout ratio and share ownership managerial has a negative nature on the lowest level in the company's ownership. Schooley and Barney (1994) reported that unexpectedly, shareholders have a positive nature of the payment of dividends.

Previous study (Lindop and Holland, 2013) suggests that the share price reflectes the tax dividend on non financial firms in UK. The study revealed that there is a positive relationship and significant impact on dividends and stock prices which are tested in dividend valuation models and determine share prices. Some expressed the view that there are several other factors beyond the management control in determining stock prices, but these factors are not as strong as dividend. Accounting valuation model was used to test the capitalization of potential tax checking the values of equity reflects the tax deducted from dividends to shareholders if the profits distributed as dividends. In particular, this study tested the effect of taxation of dividend to share price with the control variable dividend policy stated in the form of alternatives. If the dividend tax paid to the government withheld from dividend paid to shareholders have an influence on the stock price, then the price of the shares granted will be valued higher (Lindop and Holland, 2013), the hypothesis to be tested as follows:

H1: The effect of tax dividend on companies share prices.

Research Design

Types and Sources of Data

This study used quantitative approach method. This study used regression study to determine the effect of independent variables on the dependent variables. The dependent variable is a variable type that is influenced by independent variables. The dependent variable in this study is the share price which measured using Price-Earning Ratio (P/E Ratio). The independent variable is a variable type that decribes or affects other variables. The independent variable in this study is tax dividend which measure by the level of dividend payment and tax laws regarding dividend. Control variable is the variable type is controlled so that the relation of independent variables on the dependent variable is not influenced by external factor in this study. Control variable in this study us the dividend policy (Indriantoro and Supomo, 2011).

Table 1 Data Types and Sources

Variable	Data Source	Years
Share Price	Indonesia Stock Exchange	2007-2014
Tax Dividend	Indonesia Income Tax Law	2007-2014
Control Dividend Policy	Indonesia Stock Exchange	2007-2014

Share Price

Share is securities which indicate of an ownership by a person or entity on the company (Hin, 2008). Share price is closing amount from participation or ownership by a person or entity on the company which applies regularly in Indonesia stock market (Kesuma, 2009).

Tax Dividend

Based on Income Tax Law No. 36 Year 2008 said that taxable object is income. Which is defined as any increase in economics capacity received by or accrued by a taxpayer from Indonesia as well as from offshore, who may be utilized for consumption or increasing the taxpayer's wealth, in whatever name and form. Dividends, in whatever name and form, including dividends from an insurance company to its policy holders, and distribution of net income by a cooperative (Indonesia Income Tax Law No 36 Year 2008 Article 4 line 1). Dividends or share of profits derived by a limited liability company as a taxpayer in the country, cooperatives, state-owned enterprises, or regionally owned enterprises, from the participation in the business entity established and domiciled in Indonesia with the proviso: dividends come from reserves earnings detained; for a limited liability company, state-owned enterprises and state-owned areas that receive dividends, shares in the company paying the dividend at least 25% of the total issued capital (Indonesia Income Tax Law No 36 Year 2008 Article 4 line 2).

Dividend Policy

Murhadi (2008) revealed that the dividend policy is a policy that is carried out with the expenses is quite expensive, because the company had to provide large amounts of funds for dividend payment purposes. Companies generally conduct stable dividend payments and refused to reduce dividend payments. Companies who has high level of earnings capacity and prospects bright future that able to pay dividends. Many companies are communicating that the company has a prospective and facing financial problems is certainly will be difficult to pay dividends, give a sign to market that the company has a bright future prospects an able to maintain the level of dividend policy has been established in the previous period. Company with bright future prospects will have a higher share price.

Mechanical Sampling

Collecting technique of data for this study used purposive sampling, that sampling deliberate in accordance with the requirements untuk needed. Population and sample in this study is a non financial company that fall into Kompas 100 category and listed in Indonesia Stock Exchange from year 2007 until 2014.

Results and Discussion

There are 3 stages to analyze the data in this study. First phase is collecting and reorganize data. Second phase is testing classil assumption test and the final phase is hypothesis test.

The result of the multicollinearity test on independent and control variable is lower than VIF value at 10 where those variables have no multicollinearity.

Table 2 Elimination Process

Description	Total
Listed companies in IDX in category Kompas 100	224
Companies who not include in category Kompas 100	(189)
Financial Companies	(8)
Mining Companies	(5)
Real Estate and Property Companies	(5)
who bears loss	(3)
who has uncomplete data; dividend payout	(4)
Selected companies	10
Total sample 2007-2014	80

Table 3 Multicollinearity Test Result

Variable	TX	DVP
VIF	1.0737	1.0737

The result of the heteroscedasticity test in the table below shows that the variables in this study are free of heteroscedasticity where the value prob. Chi-Square Obs *R-Squared is higher that the constant value 0.5207>0.05.

Table 4 Heteroscedasticity Test Result

F-statistic	0.8205	Prob. F(5.74)	0.5390
Obs*R-squared	4.2023	Prob. Chi-Square	0.5207
Scaled explained SS	6.3524	Prob. Chi-Square	0.2734

Initial examination in this hypothesis was used chow and hausman test to get proper hypothesis examination methods.

Chow Test

Chow test results are used to compare or choose between Fixed Effect Model (FE) and Common Effect Model (CE) as a method to test hypothesis on this study. With Prob. Cross-section F value amounted to 0.0147 lower than significant level amounted to 0.05 so that the best method to test hypothesis in this study is Fixed Effect Model (FE).

Table 5 Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.724384	(7.70)	0.0147
Cross-section Chi-square	19.27481	7	0.0074

Hausman Test

Hausman test is used to compare or choose the best method between Fixed Effect Model (FE) with Random Effect Model (RE).

Table 6 Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.324764	2	0.8501

Based on Table 6, the result hausman test with Prob. Cross-section random amounted to 0.8501 is higher than significant level 0.05 so that it can concluded that the best method to test hypothesis is Random Effect Model (RE).

Table 7 Multiple Regression Analysis

	Coefficient	P-Value	Std. Error	t-Statistic
C	10.0650	0.0000	0.2088	48.1908
TX	-0.0435	0.0000	0.0028	-15.3558
DVP	19.8906	0.0000	0.3821	52.0447
R-Squared		0.3003		
Adjusted R-Squared		0.3001		
F-test Sign (F-Statistic)		0.0000		
N		80		
Hausman result		Random		
Significant Level 5%				

First hypothesis state that tax dividend has an effect on share price. On this study, author found that tax dividend significantly effect on share price. Tax dividend variable has a sig value amounted to 0.0000 < 0.05 and has coefficient regression value amounted to -0.0435. From that result, H1 is supported.

This result shows that share price is affected by big tax dividend payout so that tax dividend can affect value of share price become lower. If the applicable tax dividend rate has smaller then the share price will be high value with the magnitude of investor confidence. The results of this study are consistent with research done by Harris, Hubbard, and Kemsley (2001) that the tax dividend significant effect on share price.

Variable control DVP has value amounted to 0.000 < 0.05 and has coefficient regression value amounted to 19.8906. This results show that dividend policy significant effect in controlling affect of tax dividend on share price.

Conclusion

Based on the result on this study that the effect of tax dividend on share price with sample non financial companies which fall into Kompas 100 category and listed in Indonesia Stock Exchange from 2007 until 2014 and by obtaining the total sample of 10 companies with 8 years and produce 80 sample to observe, it can be concluded that the tax dividend significantly influenced share price that effected company's share price decrease due to tax rate of tax dividend is too high. This will lead company loss some share as capital which invested by investor.

While dividend policy as variable control in this study show a positive influence on share price which if the issuer of company share has a dividend policy on distribute the dividend this will lead investor reinvest their money to company and make share price of the company has a higher value.

The variables that used in this study measured the effect of share price are tax dividend and dividend policy only which measured by the price earning ratio and dividend payout ratio. The samples are from companies who listed in Indonesia Stock Exchange in category Kompas 100. Type of companies that used in this study is non financial companies. Period of this study is from 2007 until 2014 only. Future studies are recommended to use another control variable beside dividend policy such as ownership, size of the company, cash flow of the company and the growth of the company and also recommended to increase the period of the study, so the results can be generalized to the years before and after. Future studies are recommended to use data from Indonesia Stock Exchange which indicated in Kompas 100 category with difference type of companies such as financial company, manufacture, mining, and others.

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