



The Dividend Payment Puzzle

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Abstract

This study's objective is to ascertain and identify influencing the decision to pay dividends. Dividend data were subjected to fixed effects model. Panel regression analysis taken from annual reports issued by manufacturing companies listed on the BEI above 2016-2022 period. The affect dividends are ROA, DER, Size and TR. The company must pay attention to the overall factor that used, so that policies can be taken appropriately. Dividend payments are concentrated in large companies. Managers can use the empirical findings to make dividend payment decisions. The government learn from the impact of changes to the Job Creation Law and Income Tax Law, so that Indonesia becomes an investment destination. The dividend puzzle needs close attention to the different characteristics of firms in explanations for paying dividends.

Keywords: Dividend payments, Profitability, Tax rates

Kode JEL: G35, G30, G38

1. Introduction

The decision to make dividend payments has always been one of the most fundamental financial accounting issues that researchers discuss. Choosing to distribute dividends will result in a change in proportions in the accounting financial statements. The stock market will be quick to react around dividend announcements (Krishnan & Periasamy, 2022). The elements mentioned in the literature as dividend determinant payments are increasing, but it cannot be made a definitive formulation of how companies make dividend payment decisions (Baker & Weigand, 2015). When a business obtains net profits after tax, is able to reinvest these profits in the company's present day activities or can also disperse dividends to shareholders from these profits, repaying debt or repurchasing its stock (Nguyen et al., 2021), so that, The choice of how to allocate profits is crucial since it has an impact on the company value (Firer et al., 2012). Dividend income is typically taxed more heavily than capital gains in many developed nations (Clayman et al., 2012).

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Investors may therefore favor capital gains from investments like share buybacks over dividend payments if taxes on capital gains are higher than taxes on dividends (Deslandes et al., 2015). It is anticipated that this investigation will be conducted to provide broader insights for company managers, government officials and investors in the dividend payment behavior of manufacturing companies listed on the IDX. Company managers can use the results of research to formulate a dividend payment policy. Investors who want to make a dividend income investment portfolio will increase their ability to choose high-quality shares of IDX-listed industrial companies. The government, as a regulator will gain an understanding of the effect of regulatory modifications on corporations' dividend-sharing practices.

The question arises, How the dividend payment puzzle can be solved? This study examines the dividend distribution patterns of publicly traded industrial corporations to provide an answer to this query on the IDX period 2016-2020. Several theories related to dividend payments are Bird-in-the-hand, Taxes and clientele, Asymmetric information, Agency costs and Company life cycle theory. Understand the specific behavior of countries, companies, and markets with regard to dividend payment decisions because it is relevant to all capital market participants (Nyere & Wesson, 2019). A number of changes to tax harmonization regulations for example, this lashing of dividend tax for individuals and entities with certain conditions will affect the distribution of dividends and the consequences of the worldwide financial crisis that occurs in manufacturing companies due to consumption reduced communities during the covid 19 pandemic (Tinungki et al., 2022). This change offers a research opportunity to understand the factors affecting dividend distribution; specially manufacturing firms that are registered on the IDX.

The subject of factors affecting dividend payments have been well researched (Baker & Powell, 2012; Napitupulu & Djajanti, 2021; Widyawati & Indriani, 2019). Lintner (1956) explains the elements that company managers think about making dividend payment choices. Previous study concluded that current income determines dividend disbursements and the previous year's dividends. The company manager's initial step in determining dividend policy will be followed by other policies regarding issues such as investment, cash holdings and debt (Nguyen et al., 2021). Dividend payments are irrelevant in the perfect capital market (Miller & Modigliani, 1961; Akib et al., 2023). The determining factor of dividend payments cannot be reduced to one model, due to the varying sensitivity to the characteristics of the company, the market and the country (Baker & Weigand, 2015). Indonesia is the same to this financial issue. Generally, businesses continue to distribute cash dividends, and investors keep an eye out for these announcements (Mujilan, 2022), investors reacted negatively to the reduction of dividends by the company (Tinungki et al., 2022). Investors were unable to generate additional gains beyond the dividend announcement since the stock market was efficient in its semi-strong state (Krishnan & Periasamy, 2022). This is characteristic of contemporary financial markets where information asymmetry occurs, cautious and irrational investors (Bergset, 2015; Chen & Wu, 2022; Komalasari, 2016). It is anticipated that this investigation will be conducted to provide broader insights for company managers, government officials and investors in the dividend payment behavior of manufacturing companies listed on the IDX. Company managers can use the results of research to formulate a dividend payment policy. Investors who want to make a dividend income investment portfolio will increase their ability to choose high-quality shares of IDX-listed industrial companies. The government, as a regulator will gain an

understanding of the effects of regulatory changes on the dividend-sharing behavior of corporations.

Several studies discovered that businesses facing greater risks due to high debt levels, thereby delaying dividend payments due to uncertainty in future cash flows (Forti et al., 2015; Hellström & Inagambaev, 2012; Makka, 2014;), thus minimizing the risk of defaulting on debt. Businesses with large debt loads typically have reduced dividend payments (Nazir et al., 2021). Meanwhile, other studies have found that there is a relationship between the growth rate of company sales and dividends paid (Gill et al., 2010) and a positive relationship (Imran, 2011). Companies will keep present revenues to support future sales growth since they often have greater working capital demands than cash flow from operations (Arko et al., 2014). Temporary changes in income are less considered (Sibanda, 2016). Big businesses typically pay more rewards than startups (Forti et al., 2015). Small businesses typically have little resources and must rely on internal assets to cover their capital needs, despite facing relatively big investment prospects (Farida & Setiawan, 2022; Nguyen et al., 2021). Regarding the Covid-19 epidemic, tax incentives are widely given to taxpayers, one of which is the reduction in corporate income tax rates (PMK No 3/PMK.03/2022). A decrease in income tax will result in greater after-tax profits, so that if the company distributes dividends to shareholders, the dividends received by shareholders will increase and individual and corporate dividend taxes will also increase.

This research aims to test empirically what factors influence dividend payments in manufacturing companies in Indonesia. In addition, this research contributes to solving the dividend payment puzzle. In terms of regulations, the findings in this research test the strength of tax reform because there have been several changes to tax provisions due to the Covid-19 pandemic which have significantly affected business, especially in the accounting aspect.

2. Methods

This study's dependent variable is Dividend Payout Ratio (DPR). This formula compares the dividends paid and the net profit earned (Wahjudi, 2020). According to the "bird-in-the-hand" argument, investors would rather have dividend payments guaranteed than have the chance of substantial future capital gains (Gordon, 1959). Companies must maximize dividend payments to maximize shareholder value (Lintner, 1962). A company that is able to make a profit but does not have enough cash will not pay dividends, so the amount of free cash directly affects the business's capacity to pay dividends (Dewasiri et al., 2019). Companies that are profitable and have income stability are expected to have greater free cash so that they have the ability to pay larger dividends (Hellstrom & Inagambaev, 2012). Companies cannot predict how long and how deep the impact of the Covid 19 crisis will be on uncertainty, so the decision making of dividend payments by owners may mostly withhold dividends for precautionary purposes (Linden et al., 2023).

The independent variables of this research are Return on Assets (ROA), Cash Ratio (CR), Debt to Equity Ratio (DER), Sales Growth (SG), Size and Tax Rate (TR). The ratio known as return on assets (ROA) gauges a business' capacity to earn a profit based on a specific amount of assets. (Linden et al., 2023). Cash Ratio (CR) is used to measure how much

cash is available to repay the debt. Debt to Equity Ratio (DER) describes how much the company is financed by debt, which is measured by comparing between total debt and total capital (Almendros & Mira, 2018). Businesses with large debt loads typically have reduced dividend payments (Bae & Elhousseiny, 2017). Sales Growth (SG) describes the company's ability to maintain its economic position. Sales growth was measured by subtracting sales during the current year from the sales from the prior year (Bui et al., 2019). Company size is seen from the entire value of the assets of the company. Size was measured company with the logarithm of totally assets of the company (Nazir et al., 2021) and Tax Rate (TR) is mount of income tax imposed on profit before tax (Arko et al., 2014).

In studying dividend payment decisions, to test different hypotheses, researchers use statistical analysis of publicly available financial data about the ruling of dividend payments. The research data obtained from the income summary and balance sheet of manufacturing enterprises for 2016-2020 period which has been released at website the Stock Exchange of Indonesia and from the business's website. A quantitative approach is used to test the impact of variable return on assets (ROA), cash ratio (CR), debt to equity ratio (DER), sales growth (SG), size and tax rate (TR) on dividend payout ratio. The total population are 192 companies and using purposive sampling (only companies that pay dividends) selected as a sample 35 companies that pay dividends regularly every year.

Table 1. Research Sample Selection

Information	Amount
Manufacturing companies Listed on the IDX	192
Reduced: Companies with pay dividends regularly every year	157
Total Sample of Companies	35
Research period (2016 - 2020)	5
Number of Main Sample Observations	175

The reason for selecting a sample of industrial companies is because most of these companies have a large industrial scale so they have complex tax obligations and there are many companies in the industrial sector, so they are expected to be able to clarify the research framework.

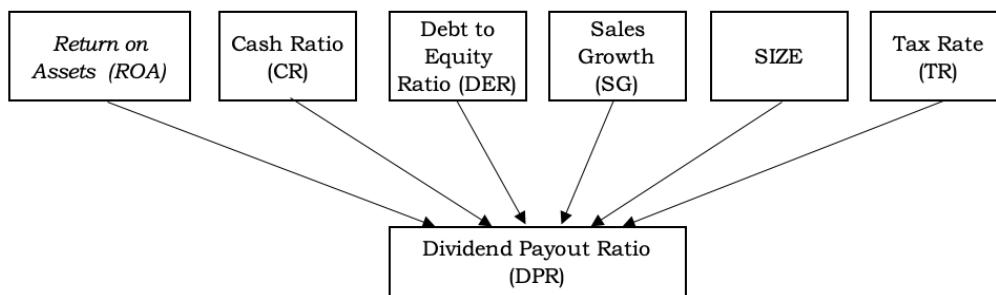


Figure 1. Research Framework

The method of regression of panel data is used statistical program EViews. A data panel, or pool, that combines cross-sectional and time series data. Combining several items across a period of time is one of the properties of panel data (Winarno, 2011). Generally,

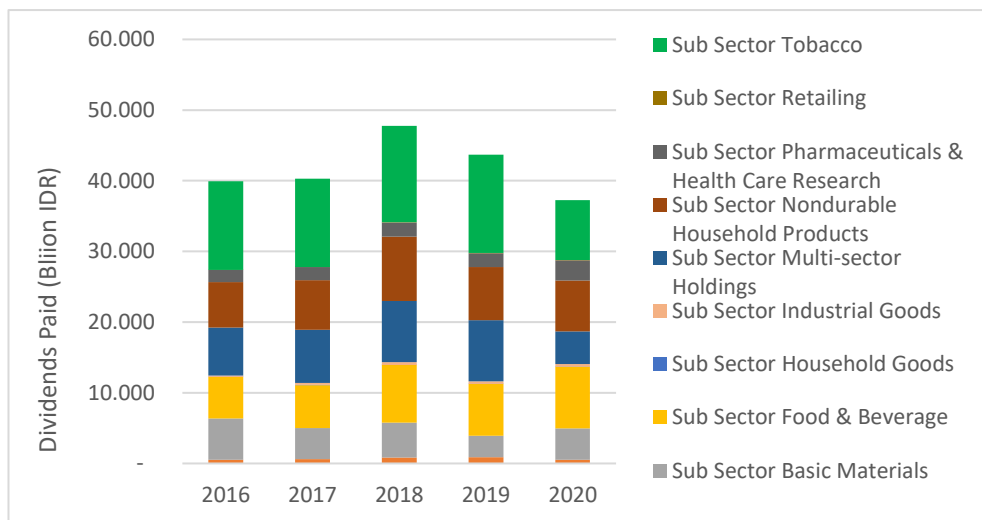
estimating parameters for regression analysis using cross-sectional data is carried out using the estimation of the small square method or Ordinary Least Square. The regression model explains the connection between dependent variable and independent variables in mathematical equation as follows.

$$DPR = \alpha + \beta_1 ROA + \beta_2 CR + \beta_3 DER + \beta_4 SG + \beta_5 Size + \beta_6 TR \dots \dots \dots 1)$$

3. Results

3.1. Description

Manufacturing companies as sample totaled 35 companies. Descriptive statistics and regression panels *fix effect model* are used to explore dividend payments. The distribution of data for bound variables (DPR) and independent variables is created and analyzed. Variable of company size (Size) is represented as a natural logarithm.



Source: Indonesia Stock Exchange (2022)

Figure 2. Dividends paid per sub-sector of manufacturing companies in IDX

Manufacturing companies are dominated by sub sector tobacco companies, and the one that paid the most dividends were 2018, followed by subsectors nondurable and multi sector holdings. Dividend payments decreased in 2019 and 2020 due to the pandemic. The entire assets' natural logarithm is computed, the outlier impact rate is eliminated (Analysights, 2010). The outcomes of the previously mentioned descriptive statistical test, it shows that quantity of observational data utilized in this research is 175, which is the quantity of samples of manufacturing companies during the 2016-2020 period. In the bound variable, the dividend ratio paid has an average value of 1,528576 with a value for the standard deviation of 0,007574. The independent variable has different value fluctuations, both positive and negative.

Three models are available for panel data regression: fixed, common, and random effects. There are benefits and drawbacks specific to each model. For a model to be statistically justified, it must satisfy certain conditions related to proper statistical data processing and the researcher's assumptions. After carrying out the Chow and LM tests, the best result to be utilized in this study is the Fix Effect Model. A statistical prerequisite for Ordinary Least Square (OLS)-based multiple linear regression analysis is the

traditional assumption test. The following tests were performed: autocorrelation, multicollinearity, heteroskedasticity, normality also classical assumption tests. The findings demonstrated that the variables were free of heteroskedasticity issues, The data was dispersed normally, the model did not exhibit multicollinearity issues, and autocorrelation did not arise.

Table 2. Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.518505	0.002266	670.0443	0.0000
ROA	0.006823	0.003094	2.204949	0.0292*
CR	-0.000403	0.000391	-1.031442	0.3042
DER	0.001442	0.000475	3.031868	0.0029*
SG	0.001438	0.000933	1.540587	0.1258
SIZE	-1.98E-16	1.13E-16	-1.745706	0.0832**
TR	-0.014131	0.003523	-4.011003	0.0001*
Root MSE	0.004812	R-squared		0.951057
Mean dependent var	7.852904	Adjusted R-squared		0.936447
S.D. dependent var	7.163615	S.E. of regression		0.005499
Sum squared resid	0.004052	F-statistic		65.09690
Durbin-Watson stat	1.946095	Prob (F-statistic)		0.000000
R-squared	0.446001	Mean dependent var		1.528576
Sum squared resid	0.005530	Durbin-Watson stat		2.792517

Sources: Output Eviews, (2022); *5%; ** 10%

This research was obtained from the processing of data in the fix effect model table to compile regression equations, as in table 2. The form of the regression equation is: $Y = 1.518505 + 0.006823 \text{ ROA} - 0,000403 \text{ CR} + 0,001442 \text{ DER} + 0,001438 \text{ SG} - 1,98\text{E-}16 \text{ Size} - 0.014131 \text{ TR} + e$

From the above regression equation, it can be concluded that, return on assets has a positive coefficient, meaning that return on assets and dividends paid have a unidirectional relationship. Increased profitability will be followed by increased dividend payments (Dewasiri et al., 2019). Cash ratio has a negative coefficient, meaning that cash ratio and dividends paid have a non-unidirectional relationship. Debt to equity ratio has a positive coefficient, meaning that debt to equity ratio and dividends paid have a unidirectional relationship. Sales growth has a positive coefficient, meaning that sales growth and dividends paid have a unidirectional relationship. Size has a negative coefficient, meaning that company size and dividends paid have a relationship not in the same direction. Tax rate has a negative coefficient, meaning that tax rate and dividends paid have a non-unidirectional relationship.

3.2. Partial test

This study used significance levels of five percent and ten percent. In table 2 of the estimated regression model, namely the *fix effect model*. The outcome of the regression analysis of panel data showed that the probability of ROA of 0,0292 less than five percent means that ROA has a significant effect on dividends paid. Cash ratio probability result of 0,3042 more than 0,1 means that cash ratio has no significant effect on dividends paid. It was discovered that the dividend payout ratio and the debt ratio (DER) were positively correlated during the study period, significant at a level of 5% ($p < 0,05$). The probability results of debt-to-equity ratio is 0,0029 less than five percent means that the debt-to-equity ratio is highly influential on the dividends paid. The Probability result of sales growth of 0,1258 more than ten percent means that sales growth has no discernible

impact on the dividends paid. The probability results of Size of 0,0832 less than ten percent means that Size has a significant effect on the dividends paid. The probability results of tax rate of 0,0001 less than five percent means that tax rate has a significant effect on the dividends paid.

3.3. Simultaneous test

This test was run to see if there was a substantial impact on the dependent variables when all independent factors were pooled. In table 2 with a significant degree (α) of five percent, the statistical F probability value is 0,000000, less than the significance level of five percent. The variables return on asset, cash ratio, sales growth, debt to equity ratio, size and tax rate simultaneously have a significant effect on the dividends paid.

The coefficient of determination is essential for measuring what extent the dependent variables' changes can be explained by the model. The worth of adjusted R^2 that is close to one means that nearly all the information required to predict a dependent variable can be found in an independent variable. Table 2 shows that the Adjusted R^2 value in this study is 0,936447, showing that 93,6447% of the variation is explained by the independent variable in dividend payout ratio due to the very robust dividend payment measurement variable in the overall estimation of dividend payout ratio. the independent variable used has a very large influence on the dividends paid, but the explanation for the remaining 6,3553% by additional variables unrelated to the study's model.

4. Discussion

The capacity of funds allocated to overall assets to produce a profit for a corporation is demonstrated by return on assets (ROA). Large total assets will be used to increase high profits (Botoc & Pirtea, 2014). One profitability ratio is Return on Assets (ROA), the more this ratio is higher, the more productive the assets are in producing net profit. From the result of return on assets (ROA), we can assess whether the company has been efficient in using its assets in operating activities to generate profits where the higher the return on assets the more profit growth is expected to be increased so as to allow the distribution of dividends is also large (Suhadak et al., 2019). If profits are expected to rise the following year, management may feel that the company can pay a larger amount of dividends than previously paid (Arjana & Suputra, 2017). The company's profitability has a significant effect and consistently determines dividend payments (Forti et al., 2015; Tinungki et al., 2022) contrary to (Hellstrom & Inagambaev, 2012) who found insignificant. This study uses return on assets (ROA) as a stand-in for profitability since ROA is a result of the accounting profit ready to be given to shareholders (Fama & French, 2001). Profitable businesses can fund expansion while maintaining regular dividend payments to shareholders (Widyawati & Indriani, 2019).

Cash ratio has no appreciable impact on dividend payments. The results showed that the greater the cash ratio of a company, the more the company's ability to pay off its current obligations but has not been able to provide confidence to investors against business's capacity to pay the promised dividend. Contrary to the dividend signal theory states that investors will use signals sent by a company as an indicator that the

company has a prospect of financial performance that positive in the future. A high cash ratio cannot serve as a guarantee that the company will pay dividends, convincing investors to invest and buy shares of the company. When businesses have free cash, they invest more and cut payouts (Yeo, 2018). A high cash ratio can be one of the factors that management must pay attention to, because this can also mean that management is unable to manage idle cash companies to create profits. Disagreements between managers and shareholders can be reduced if sufficient cash is available to pay dividends (Dewasiri et al., 2019). Findings from this study are not in line with research conducted by Ardiyanti (2015) showing that the cash ratio has a significant effect on the dividend payout ratio.

During the study period, there was a positive correlation between debt to equity and dividend payout. As debt increases in the capital structure of manufacturers with listings on the IDX, their tendency to pay dividends has also increased. Several reasons can explain the positive relationship found between debt to equity ratio and dividend payout ratio, because Indonesia is one of the efficient equity capital markets (Sujana, 2017). As a result, companies using debt in their capital structure tends to be very profitable to access debt in the market capital and, therefore, be able to pay dividends. Second, the positive relationship suggests that manufacturing companies are able to separate the wideness of profit distribution from capital structure decisions as demonstrated by Lintner (1956), opting to raise additional money for investment instead to reduce dividend payments. However, this contradicts the negative relationship found by Arko et al., (2014) which states *leverage* does not become a significant determinant in dividend payment decisions of industrial companies listed in the JSE. DER has a significant effect on the dividends paid. Debt increases in the capital structure of manufacturing companies listed on the IDX, their tendency to pay dividends also increases during the study period. Companies delay the use of debt due to financial constraints or to maintain financial flexibility and tend to adopt short-term debt to meet dividend obligations (Li & Roberts, 2023). Several reasons can explain the positive relationship found between the variable leverage of the DPR, First, Indonesia is one of the markets that has a large capitalization. This is possible because the company is more inclined to repay the amount of its debts with other parties or hold them into retained earnings which will then be used for expansion companies. Companies are more likely to use their loans for the company's operations or growth activities, which will generate a profit that can later be used in dividend payments. The study's findings are strengthened by the residual dividend theory which states that the company that pays the dividend is only if there is an excess of funds on the company's profit which is used to finance projects that have been planned. Thus after the company prefers to finance profitable projects, the dividends to be distributed will be lower (Marietta & Sampurno, 2013).

Growth in sales has no appreciable impact on the dividends paid. An increase in sales from year to year or over time is referred to as sales growth. Businesses with rapid sales growth will need to invest more in current and fixed assets, among other asset classes (Bui et al., 2021). This result explains that sales growth does not guarantee that the

dividend payment will increase as well. This is possible because the increase in sales of the company is more inclined to be used to pay the amount of its debt with the other party or hold it into retained earnings which will then be used for the expansion of the company. Companies are more likely to use their funds for the company's operations or growth, which will result in low dividend payments than taking loans external funds that have quite expensive interest costs. This study's findings are strengthened by the residual dividend theory which states that the company that pays the dividend is only if there is an excess of funds on the company's profit that used to finance projects that have been planned.

Size has a significant effect on the dividends paid. Generally, it makes it easy for large companies to obtain various types of funds from outside in addition to using personal funds as a source of funding, and it will also be easier to enter or access to the capital market and of course an already developed company like this will have a higher dividend rate compared to start-ups or small companies (Al-Shubiri, 2011). When borrowing, large companies typically have lower informational costs because they may reduce information asymmetries (Wernli & Dietrich, 2022) and larger businesses with higher profitability will pay out more dividends (Trinh et al., 2022).

The amount of dividends paid is significantly impacted by the tax rate. This shows that if there is a change in the tax rate it will affect the dividend payout ratio. This means that the greater the value of the tax rate, the more significant it will be to reduce the dividend payout ratio or a small amount of the tax rate value, it will significantly increase the dividend payout ratio. For shareholders, the receipt of dividends or capital gains is income. Each income received will be taxed but the tax rate for dividends and capital gains is different. If the tax on dividends is lower than for capital gains, then shareholders are likely to receive dividends. However, if the tax on capital gains is lower than dividends then shareholders are likely to enjoy capital gains (Hardiatmo & Daljono, 2013).

The amount of this tax rate is also influenced by Government Regulation in Lieu of Law (PERPU) No.1/2020 dated March 31, 2020 concerning "State Financial Policy and Financial System Stability for Handling the Corona Virus Disease (Covid-19) Pandemic and/or In Order to Face Threats that Endanger the National Economy and/or Financial System Stability" signed by the President of the Republic of Indonesia controls how corporate income tax rates are adjusted as follows: 22 percent in force in 2020 and 2021 tax years, a total of 20 percent which comes into effect in the 2022 tax year and domestic open companies with the total number of paid-up shares traded on the stock exchange in Indonesia at least percent and meet certain requirements in accordance with government regulations, can get a rate of 3 percent lower than the tariff in items a and b above. Thus, the size of the tax on income can affect the distribution of dividends.

Businesses obtain net profits after tax, can reinvest these profits in current company activities or may potentially pay dividends to shareholders from these gains, debt payments, or share buybacks (Nguyen et al., 2021), Therefore, a choice of how to allocate profits is very important because it has an impact on company value (Firer et al., 2012). Dividend income is usually taxed more heavily than capital gains in many developed

countries (Clayman et al., 2012). Therefore, capital gains from investments like share buybacks may be preferred by investors over dividend payments if taxes on capital gains are higher than taxes on dividends (Deslandes et al., 2015). In the context of dividend distribution in Indonesia, regulations have changed with the enactment of OJK Regulations. Regulation Number: 30/POJK.04/2017 (OJK, 2017), allows companies to buy back their shares. Since 22 June 2017, businesses can give cash back to shareholders in ways other than dividends but also through share buybacks. Article 13 POJK No. 30/POJK.04/2017 (OJK, 2017) regulates that forbidden for publicly traded corporations to purchase back their shares that are listed on the stock exchange, if there will be fewer shares issued at a certain level which can significantly reduce the liquidity of shares on the Stock Exchange. Share buybacks are regulated in Financial Services Authority Regulation Number 2/P.OJK. 04/2013. According to the provisions, the company can buy back its own shares up to 20 percent of the capital that has been paid up. In Law Number 40 of 2007 Article 71 Paragraph 3 (2007 RI Law) it is explained that if a company has profit then dividends can be distributed. This strengthens the requirements relating to each type of distribution carried out by a company by including more stringent requirements. Dividends are exempt from income tax provided that at least 30 percent of profit after tax (proportion of share ownership) is invested or used to support other business activities in Indonesia within a predetermined period, this is updated in Job Creation Law (Indonesia Tax Review, 2020). The aim of implementing this regulation is to encourage investment and move the wheels of the economy which ultimately increases tax revenues (Sudarma & Darmayasa, 2021).

5. Conclusion

The research results show that the determining factors for dividend payments by industrial businesses with a listing on the IDX are profitability, debt level, company size and taxes. All factors used simultaneously have a very big influence on the dividend payment policy carried out by manufacturing companies. the propensity to pay dividends and their payout simultaneously to solve the dividend payment puzzle.

Dividend payments were found to not only be concentrated in a few large industrial companies. Manufacturing company managers in Indonesia must make logical choices to maximize profits and minimize debt-related costs to have sufficient funds to pay dividends. Company managers can take practical application from the empirical evidence of this research in making appropriate policies in dividend payments. The government can also learn from the impact of changes to the Income Tax Law and the Job Creation Law, so that Indonesia becomes a country in which to invest.

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