Jurnal Pengurusan 54(2018) 165 – 179
https://doi.org/10.17576/pengurusan-2018-54-14

Effects of Dividend Tax Reform on Dividend Behavior: A Clientele Theory Approach

(Kesan Pembaharuan Cukai Dividen ke Atas Tingkah Laku Dividen: Pendekatan Teori Pelanggan)

Ida Suriya Ismail
(Faculty of Accounting, Universiti Teknologi MARA)
Mohd Rizal Palil
Rosiati Ramli
Mara Ridhuan Che Abdul Rahman
(Faculty of Economics and Management, Universiti Kebangsaan Malaysia)

ABSTRACT

Clientele theory claims that investors have their own systematic preference to plan their dividend portfolios based on tax and transaction cost incurred. Due to that, companies need to decide on their dividend payout policy that can attract investors to invest in their company especially when dividend tax laws change from full imputation system to single tier tax system (STT). STT is expected to enhance the simplicity and efficiency of the tax administration process with the intention of encouraging companies to pay dividend. Therefore, this paper attempts to examine company dividend payouts by focusing on two observations periods; during transitional period of STT and after the compulsory effects of STT. This study has selected 141 public listed companies from two of the biggest industries in Malaysia and produced 4,508 observations for the period of 2002 until 2015. This study has used t-test of significant difference to test the changes on dividend payouts by splitting the data into full sample and among the payers only. Initially, during the transitional period, results were consistent with clientele theory when it was found that both regular and special dividend had significantly increased during transitional period. In addition, this study also found that companies with the best performance in terms of return on equity had significantly increased their regular dividend, while moderate companies has significantly increased special dividend during transitional period. But the results were insignificant among poor performance companies. In contrast, the results suggested that there is no significant difference of dividend payouts once the compulsory effects of STT took place.

Keywords: dividend tax reform; dividend behavior; clientele theory; Malaysia

ABSTRAK

Teori pelanggan mendakwa bahawa pelabur mempunyai pendekatan yang sistematik untuk merancang portfolio dividen mereka berdasarkan kos cukai dan urus niaga yang perlu ditanggung. Oleh itu, syarikat perlu membuat keputusan mengenai polisi pembayaran dividen bagi menarik pelabur untuk melabur di syarikat mereka terutama apabila undang-undang cukai dividen berubah daripada sistem imputasi penuh ke sistem cukai satu peringkat (STT). STT dijangka dapat meningkatkan kecekapan proses pentadbiran cukai dengan tujuan mendorong syarikat untuk membayar dividen. Oleh itu, kertas kerja ini cuba mengkaji pembayaran dividen syarikat dengan memberi tumpuan kepada dua tempoh pemerhatian iaitu semasa tempoh peralihan STT dan selepas kesan wajib STT. Kajian ini telah memilih 141 syarikat tersenarai awam daripada dua industri terbesar di Malaysia dan menghasilkan 4,508 pemerhatian bagi tahun 2002 hingga 2015. Kajian ini menggunakan ujian T yang boleh membezakan perubahan pembayaran dividen dengan memisahkan data ke dalam sampel penuh dan antara pembayar dividen sahaja. Pada mulanya, semasa tempoh peralihan, hasil kajian adalah konsisten dengan teori pelanggan apabila didapati bahawa dividen tetap dan dividen khas telah meningkat dengan ketara dalam tempoh peralihan. Di samping itu, kajian ini juga mendapati bahawa syarikat yang mempunyai prestasi terbaik dari segi pulangan atas ekuiti telah meningkatkan dividen tetap dengan ketara manakala syarikat sederhana telah meningkatkan dividen khas dalam tempoh peralihan. Tetapi hasil kajian adalah tidak signifikan dalam kalangan syarikat yang berprestasi lemah. Sebaliknya, hasil kajian mendapati bahawa tiada perbezaan yang signifikan dalam pembayaran dividen apabila kesan wajib STT berlaku.

Kata kunci: Pertukaran cukai dividen; tingkah laku dividen; teori pelanggan; Malaysia

INTRODUCTION

In current practice, every country implements different types of dividend tax system depending on their economic situation. Due to that, in certain situation, the government has the authority to change dividend tax law for the purpose of maintaining and improving their tax system. Nevertheless, major tax reforms related to dividend tax policy rarely happen in most countries; thus, if it really happened, it provides a natural experiment for the researchers to study using that changes (Becker, Jacob & Jacob 2013). Similar assumption was stated by Korkeamaki, Liljeblom and Pasternack (2010) that changes in tax law will provide an opportunity to study subsequent response by both firms and investors since tax changes are considered as external factors. As far as this study is concerned, there are five dividend tax systems that are currently imposed by most countries which are known as classical tax systems, shareholder relief systems, full and partial imputation systems and dividend tax exemption systems. The definition of each dividend tax systems is further explained in Table 1.

With regards to government tax policy, companies' dividend payout policy and taxation on dividend have been a topic of continuous interest among researchers in view that changes in dividend tax law influence company dividend payouts (Brown, Liang & Weisbenner 2007; Chetty & Saez 2005; Deslandes, Landry & Fortin 2015; Wang & Guo 2011). In line with dividend clientele theory, investors have their own systematic preference to plan their dividend portfolios based on tax and transaction cost incurred (Miller & Modigliani 1961). As a result, companies need to decide on their dividend payout policy that can attract investors to invest and simultaneously retain part of the earning for future projects. Besides fulfilling the shareholders' interest, dividend payouts also provide an indicator that the companies have positive growth opportunities (Ardestani et al. 2013). It is expected that when companies declare dividends to their shareholders, it will give a signal to the investors that their companies have better current earnings (Khan, Burton & Power 2011; Lintner 1956).

TABLE 1. Definition of five major tax systems

Tax Systems	Authors	Definition
Classical Tax Systems	Chang, Chen & Chen (2016), Becker et al. (2013), Pattenden & Twite (2008)	Company and shareholders are viewed as separate entities and thus taxed separately. Double taxation of dividends.
Shareholder Relief Systems	Becker et al. (2013)	This system reduces the full economic burden of double taxation that applies under a pure classical system. For example, at the individual shareholder level, there is reduced tax rates on dividends received or exclusion of a proportion of dividend income from taxation.
Dividend Tax Exemption Systems (also known as Single Tier Tax Systems or One Tier tax Systems)	Becker et al. (2013)	Dividend income is not taxable. Tax is charged on company's profit only.
Full and Partial Imputation Systems	Chang et al. (2016), Kao & Chen (2011)	Corporate earnings and shareholder dividends are viewed as being derived from the same source of income and are thus integrated to alleviate double taxation. Imputation tax system usually grants shareholders an imputation credit for paid corporate income tax. This credit offsets shareholders' personal income taxes.

Nevertheless, the question on whether changes in dividend tax really influence company dividend payouts still has incomplete conclusion since previous researchers found mixed results on this issue. Some studies (e.g. Chetty & Saez 2005; Deslandes et al. 2015; Pattenden & Twite 2008; Kari, Karikallio & Pirttilä 2008; Wang & Guo 2011) have shown that changes in dividend tax has significantly influenced company dividend payouts by paying higher dividend to their shareholders especially when the dividend taxes benefit them. In contrast with Edgerton (2013), he claimed that dividend tax reform is not the main reason for the companies to increase their dividend payout in United States; even if there is no dividend tax reform, companies still increase their aggregate dividend payouts. This is further supported by Brav et al. (2008) when they found that dividend tax reform in United States has insignificant effect on company decisions to increase dividend payouts; dividend taxes are categorized as second-order importance in determining dividend payouts decision.

In Malaysian context, major changes on dividend tax laws has occurred during Budget 2008 announced by Malaysian Prime Minister to change from full imputation system to single tier tax system (STT). This new STT

effectively removed a Section 108 frank accounts that is attached to dividend payments made by companies under the old system. Therefore, the implementation of STT was expected to enhance the simplicity and efficiency of the tax administration process with the intention of encouraging companies to pay dividend. Six years transitional period from 2008 until 2013 were given to companies to fully utilize their Section 108 accounts before compulsory implementation of STT take place in 2014. With regards to this change, this paper attempts to examine company dividend payouts by focusing on the transitional period of STT and the period after the compulsory effects of STT.

This study selected 141 companies from industrial products as well as trading and services industry as a final sample and produced 4,508 observations from the year of 2002 until 2015. It was found that dividend payouts were differently governed between the two observations period; during transitional period and after the compulsory effects of STT. Initially, during the transitional period, results were consistent with clientele theory when it was found that both regular and special dividends significantly increased during transitional period. Nevertheless, when the samples are split according to the type of industry, it showed that both industries had significantly increased their regular dividend but not special dividend.

In addition, this study also found that companies with different performance in terms of return on equity had dissimilar responses towards the implementation of STT. For example, best performance companies had increased regular dividend while moderate performance companies had increased special dividend during transitional period and both were statistically significant. In contrast with poor performance companies, both increment in regular and special dividends were insignificant. It is expected that those companies had increased dividend payouts to fully utilize their substantial balance of Section 108 accounts which would be abolished after the transitional period ends. On the other hand, companies with insufficient balance of Section 108 accounts but retained distributable profit also tended to pay higher dividend since STT did not require frank dividend. It was further supported when the existence of substantial reduction on the trend of amounts tax credit on dividends (or refund) set off against the income tax payable declared by the company from the year of 2009 until 2012. This showed that companies were positively moving towards STT. However, the results suggested that there was no significant difference of dividend payouts once the compulsory effects took place.

This study focused on Malaysian dividend tax laws due to several reasons. Firstly, the change from imputation system to STT is considerably different from the changes that happened in the United States. Even though both tax reform are related to dividend taxes but the United States was cutting dividend tax while Malaysia was eliminating dividend taxes. On top of that, most developed countries such as the United States, Australia, Japan, New Zealand and Canada charge tax on both dividend income and capital gains on profit of shares (Harding 2013). This is in contrast with Malaysian environment where no taxes are charged for both dividend income and capital gains on profit of shares. Judging from Malaysian economy environment, it is possible for this study to accurately examine the influence of changes in dividend tax laws on dividend payouts without taking into account the tax preferences that investors can choose between dividend income and capital gains. Furthermore, the objective of this study is also motivated by a review of tax research by Hanlon and Heitzman (2010) when they stated that economists are interested to understand the effects towards dividend policy when tax system is changed to dividend exemption or imputation system.

The paper proceeds as follows. Section 2 discusses related literature for clientele theory, dividend tax reform and dividend payouts. This section also illustrates on current trend of Malaysian dividend income and tax deductions. Section 3 discusses on methodology of the study by explaining sample description and data collection. Section 4 presents the main findings of the study through descriptive statistics and test of significant difference. Section 5 presents the managerial implications of the study, while Section 6 provides the concluding discussion.

LITERATURE REVIEW

CLIENTELE THEORY, DIVIDENDS TAX REFORM AND DIVIDEND PAYOUTS

Clientele theory is specifically concerned with investors' tax preference between dividend income and capital gains since there are dissimilarities of tax rate imposed on both incomes. Rational investors normally prefer to choose income that could provide tax benefit to them. Baker (2009) defined clientele theory as "*a set of investors who are attracted to the stocks of firms that have dividend policy they prefer, based on their tax or liquidity circumstances*" (as cited in Ogden, Jen & O'Connor (2003: 479)). Besides investors' tax preference, clientele theory also argued that dividend policy might influence different clientele since they are concerned on transaction costs involved when they shift their portfolio. For example, Al-Malkawi, Rafferty and Pillai (2010) stated that small investors such as retirees who are interested in high dividend income might participate in high and stable-dividend stocks in contrast with other type of investors. This is in line with Elton and Gruber (1970), when they found that investors with low tax bracket have high dividend yields as compared to stockholders who hold stocks with low dividend yields.

Generally, dissimilarities of tax rates between dividend income and capital gains occur due to government decision to change the tax rate through the introduction of dividend tax reform in order to make the market more competitive. For example, one of the main purposes of dividend tax

reform in 2003 in United States was to introduce favorable treatment for individual dividend income whereby it reduced dividend tax rates from a maximum of 38.6% to 15% and long-term capital gains tax rates from a maximum of 20% to 15% for individual investors (Lin & Flannery 2013). In addition, one of the reasons for Finland dividend tax reform in 2005 which altered the tax rates both at corporate and personal income level and replaced the full imputation system by introducing partial relief for dividend income was due to government intention to harmonize Finnish dividend taxation with European Union standards and encourage foreign investors (Korkeamaki et al. 2010). Similarly with Asian country such as dividend tax reform in China in 2005, the objectives of the dividend tax cut were to promote companies in making dividend payments, reduce the conflict of interest between large and minority shareholders and encourage public investment (Wang & Guo 2011).

Based on clientele theory discussed above, this study expected that if there is a change in dividend tax laws announced by the government, it would probably affect investors tax preference, which would then change the company dividend payouts policy. It is empirically supported by Hanlon and Hoopes (2014); when they studied the effect of company payouts behavior towards dividend tax reform in United States and found that companies paid more special dividends and shift regular dividends in response to the tax reform. In addition, Jacob, Michaely and Alstadsæter (2015) further explored on dividend tax reform in United States by looking at ownership structure and tax status of investors and found that dividend taxation has a large impact on dividend payouts but when the firm has four or more owners, owners' tax preferences do not shape the payout policy of the firm. Furthermore, Deslandes et al. (2015) had examined the effects of dividend tax rate reduction on firms' payout policies in Canada and also found that firms which shareholders benefited more on the tax reduction increased their dividend payout.

In some situations, the interest of clientele is not due to dissimilarities of tax rate between capital gains and dividend income. In certain countries such as Taiwan, the capital gains is free from tax but companies still paid larger dividends when the government abolished double taxation on dividend income (Kao & Chen 2011). According to Kao and Chen (2011), this situation occurred due to directors ownership as a stockholders who received more tax credits from dividend income. Furthermore, Chazi, Boubakri and Zanella (2011) had studied corporate dividend payouts using a tax-free environment where there is no tax on capital gains and dividend income in United Arab Emirates, and found that companies pay dividend for the purpose of maintaining good credit rating and attracting more retail and institutional investors to invest in their company. Based on these findings, it seems that even in a tax-free environment, clientele preferences do affect companies' dividend payouts.

As explained above, clientele preference towards dividend income mainly due to dividend tax reform did affect company dividend payouts policy. However, the inconclusive evidence to prove that specially for developing countries like Malaysia need further exploration. Table 2 provides the summary of the empirical evidences on the relationship between dividend tax reform and dividend payouts.

CURRENT TRENDS OF MALAYSIAN DIVIDEND INCOME AND TAX DEDUCTIONS

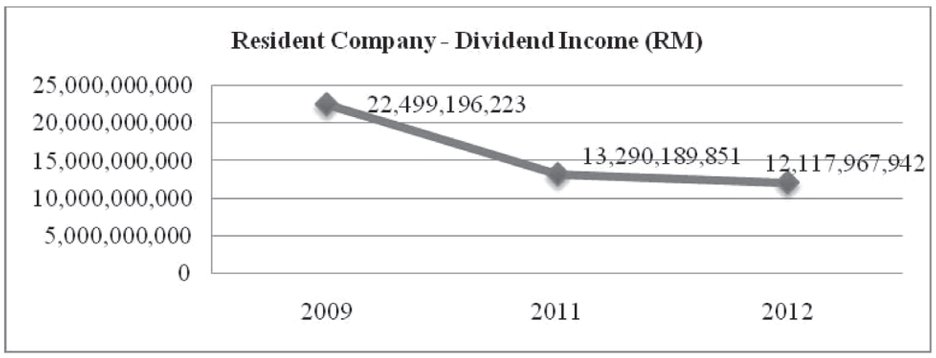
In Malaysia, income will only be charged to tax if resident person received income from inside or outside Malaysia. In the case of non-resident person, tax will only be charged on the income derived from Malaysia. Figure 1 and Figure 2 show the trend of dividend income in Ringgit Malaysia (RM) declared by resident and non-resident company for the year of assessment 2009, 2011 and 2012. From both figures, it shows that there is a substantial reduction in term of amounts declared by both resident and non-resident company from 2009, 2011 and 2012. From those figures, it gives an early indicator that taxable dividend income declared by both types of companies becomes disfavored transactions among industry players. It might be because companies are moving towards dividend exemptions where there is no need to declare dividend income in their tax return.

Furthermore, under full imputation system, it is acceptable for shareholders (example individual or company) that received dividend income to claim back under Section 110 of ITA 1967 for any amount previously tax deducted from that dividend income. This is to avoid double tax payment since companies who declared that dividend to their shareholders already paid corporate tax on its profit using Section 108 account. The trend of tax deductions claimed under Section 110 of ITA 1967 by both resident and non-resident company also shows a substantial reduction in term of amounts set-off by both resident and non-resident company from year of assessments 2009 until 2012. The trend of tax deductions claim under Section 110 of ITA 1967 can be seen in Figure 3 and Figure 4.

In summary, from both trends highlighted in dividend income and Section 110 set-off accounts, it shows that companies are trying to change their policies to meet the requirements of STT where the six years transitional periods begin in 2008 and expired in 2013. Under STT, dividend income received is exempted from tax. Therefore, Section 110 set-off accounts and Section 108 accounts become irrelevant to be maintained by the company. It is the reason for the significant reduction in both trends of dividend income and Section 110 set-off accounts among the selected company.

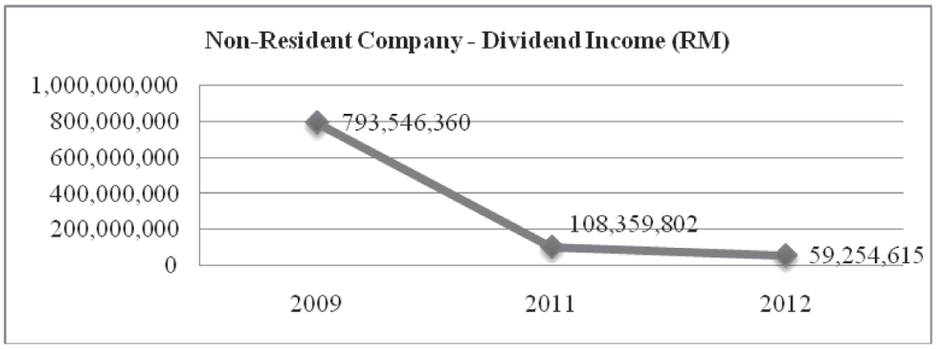
TABLE 2. Summary of the empirical evidence on dividend tax reform and dividend payouts

Authors	Type of Country	Dividend Tax Reform	Findings
Chetty & Saez (2005)	Developed	2003 Dividend Tax Cut in U.S.	• Significant increase of about 20 percent in dividends payout after the 2003 dividend tax cut. • Firms with large taxable institutional owners or large shareholdings independent directors tend to increase their dividends payout in respond to the 2003 tax cut.
Brown et al. (2007)	Developed	2003 Dividend Tax Cut in U.S	• Top executives with greater stock ownership have the incentive to increase dividends for liquidity reasons, which lead to significantly greater likelihood of a dividend increase following the 2003 dividend tax cut.
Brav et al. (2008)	Developed	2003 Dividend Tax Cut in U.S	• Some firms did increase their dividends initiation and dividends payout due to 2003 tax cut. • The reduction in tax rate was less important than other factors such as the stability of future cash flows, cash holdings and historic level of dividends.
Kari et al. (2008)	Developed	Finnish Corporate and Capital Income Tax Reform 2005	• Firms that anticipated higher tax on dividend distributions increased their dividends payout even before the tax reform.
Wang & Guo (2011)	Developing	2005 Dividend Tax	• Companies with large individual shares, large investment fund shares and higher executive stock holdings were more likely to increase their dividends payout following the tax cut.
Pattenden & Twite (2008)	Developed	Change from Classical Tax System to Full Imputation tax System in Australia	• There were increases in terms of dividend initiations, all dividend payout measures and dividend reinvestment plans subsequent to the introduction of dividend imputation system
Deslandes et al. (2015)	Developed	2006 Dividend Tax Cut in Canada	• Following the tax cut, firms increased their dividend payouts, with larger increases for firms in which shareholders benefited from the reduced tax rate.



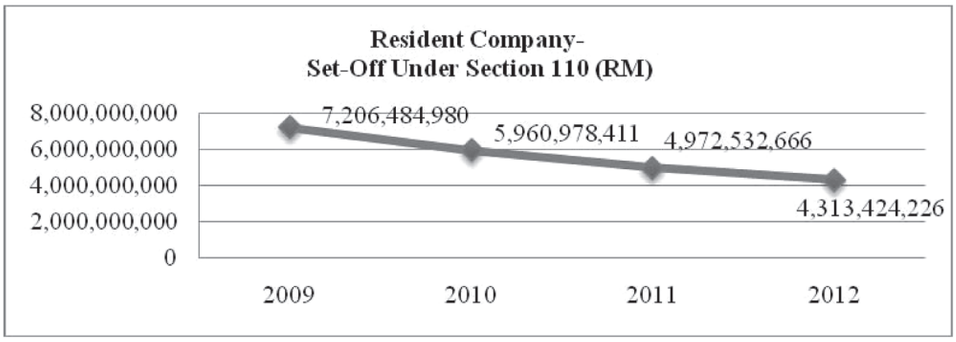
Sources: Inland Revenue Board of Malaysia Taxation Statistics 2009, 2011 and 2012.

FIGURE 1. The trend of dividend income declared by resident company for the year of assessment 2009, 2011 and 2012



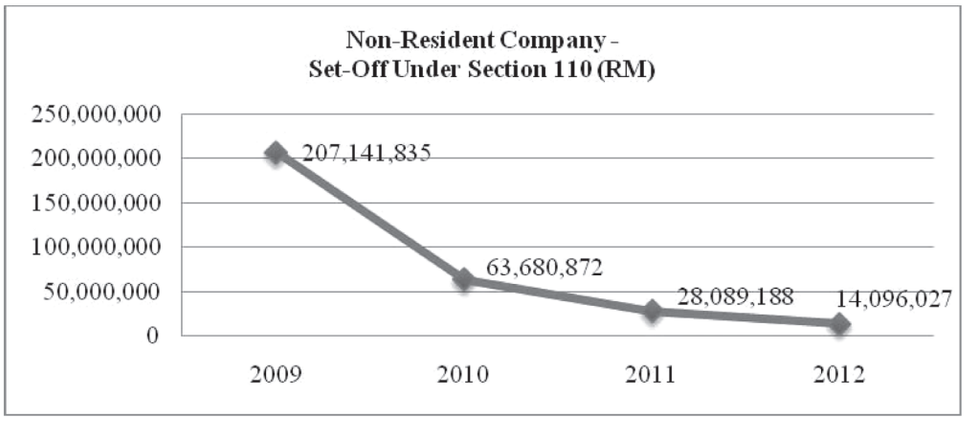
Sources: Inland Revenue Board of Malaysia Taxation Statistics 2009, 2011 and 2012.

FIGURE 2. The trend of dividend income declared by non-resident company for the year of assessment 2009, 2011 and 2012



Sources: Inland Revenue Board of Malaysia Taxation Statistics 2009 until 2012.

FIGURE 3. The trend of amounts set-off under section 110 by resident company for the year of assessment 2009 until 2012



Sources: Inland Revenue Board of Malaysia Taxation Statistics 2009 until 2012.

FIGURE 4. The trend of amounts set-off under section 110 by non-resident company for the year of assessment 2009 until 2012

METHODOLOGY

SAMPLE DESCRIPTION AND DATA COLLECTION

Initially, all companies that are listed in Bursa Malaysia for both Main and Ace Market contributed to the population of this study. This study used Datastream to collect information regarding the type of industry and number of companies that listed under Bursa Malaysia. This study excluded industries that fall under finance, banking and REIT since they have different regulation and accounting methods in their preparation of financial statements. Finally, 7 industries with 760 companies were selected. However, 37 companies had incomplete information, so the total listed companies available become 723 companies. According to Sekaran and Bougie (2014), if the number of population is 723 companies, the sample size should not be less than 186 companies. Therefore, this study decided to select 254 companies as a sample. Table 3 shows the total number of companies and the fraction of sample size for each industry for further understanding.

As a preliminary study, this study only focused on the two biggest industries in Malaysian market, namely, industrial products as well as trading and services industry as a sample. This was because both industries have the highest number of companies that contributed to the highest sample selection compared to other type of industries. From both industries, companies were randomly selected without knowing whether they pay dividend to their shareholders or not. In total, 141 companies that consist of 77 industrial products companies and 64 consumer products companies became the sample for this study.

Following this, the sample of 141 companies based were divided into 3 categories; best, moderate and poor performance group as one of the contribution of this study. These categories are important for this study to examine which group of companies that actually pay significant dividend to the shareholders. The sorting of categories began by identifying the percentage of return on equity (ROE) for the year of 2015. Once the percentage of ROE was fully collected, this study ranked the companies based on the value of ROE, from the highest to the lowest value. From the ROE ranking, the company was divided into 3 categories (best, moderate and poor performance) with the formula of total number of company divided by 3. If the answer was in decimal number, it was converted to the nearest even number.

TABLE 3. Total number of company for each industry based on population and sample size

No.	Industry	Number of company	Number and percentage of company with incomplete data		Total (N)	Sample Size	
1.	Properties	91	(5)	5%	86	(86/723)*254	30
2.	Construction	46	(1)	2%	45	(45/723)*254	16
3.	Industrial Products	239	(19)	8%	220	(220/723)*254	77
4.	Plantations	40	(1)	3%	39	(39/723)*254	14
5.	Technology	28	–	0%	28	(28/723)*254	10
6.	Consumer Products	125	(4)	3%	121	(121/723)*254	43
7.	Trading & Services	191	(7)	4%	184	(184/723)*254	64
	Total	760	(37)	5%	723		254

Once the companies were completely divided into their categories, this study randomly chose 77 industrial products companies that comprise 26 companies from each best and moderate performance group, together with 25 companies from poor performance group. The same selection process was applied to companies under trading and services industry where a total of 64 companies that consisted of 21 companies from each best and moderate performance group, and 22 companies from poor performance group, were selected. In summary, Table 4 shows the composition of the sample classified by each industry.

Then, two specific periods had been selected in order to answer the objective of this study. The first period selected was the year of 2002 until 2013. This would represents 6 years before transitional period (2002-2007) and another 6 years during transitional period (2008-2013). The second period selected was the year of 2012 until 2015. This 4 years selection would represent 2 years before (2012-2013) and 2 years after (2014-2015) the compulsory effects of STT. In consideration of two specific periods, this study would have two different set of observation for each period. Finally, number of firm-years observations is 3,382 and 1,126 for the year 2002 until 2013 and 2012 until 2015 respectively after removing extreme values. For further understanding, Table 5 shows the construction of the sample observation for two specific periods.

TABLE 4. Composition of the sample classified by industry

Group – Performance	Industry		Total (unit)
	Industrial Products	Trading & Services	
Best	26	21	47
Moderate	26	21	47
Poor	25	22	47
Total number of company	77	64	141

TABLE 5. Construction of the sample observation for two specific periods

	Year 2002-2013		Year 2012-2015	
	No. of firms	No. of firm-years observations	No. of firms	No. of firm-years observations
Total initial firms & observations	141	3,384*	141	1,128**
(-) Extreme values for specific year	-	(2)	-	(2)
Total firms & observations	141	3,382	141	1,126

Note: * Total number of firm-years observations consists of 141 companies times 12 years times 2 types of dividend.
** Total number of firm-years observations consists of 141 companies times 4 years times 2 types of dividend.

Finally, this study identified dividend payouts for each company for the year of 2002 until 2015. This study defined dividend payouts as cash income dividend payment declared by the company each year. This study had classified dividend payouts into two categories, which are regular dividend and special dividend. In line with Chetty and Saez (2005), this study considered final dividend, half yearly dividend, interim dividend, quarterly dividend and yearly dividend as regular dividend based on type of dividend explained in Datastream. On the other hand, this study followed the definition by Blouin, Raedy and Shackelford (2004) who referred to one time events or non-recurring events as special dividend. This study includes extraordinary dividend as part of special dividend as specified by Datastream.

RESULTS

DESCRIPTIVE STATISTICS

In order to understand the characteristics of the data used in this study, this section presents the descriptive results of the data. Table 6 presents three panels of descriptive information. Panel A summarizes the statistics for full sample within two periods which are before and during transitional period (2002-2013) as well as before and after the compulsory effects of STT (2012-2015). In Panel A of Table 6, as a pool sample, dividend payouts had lower mean value (0.0362) for the period of 2002-2013 compared to 2012-2015 with the amounts of 0.0433. Similar trend appeared for regular dividend when the mean value of 0.0602 in 2002-2013 was lower than 0.0705 in 2012-2015. In contrast with special dividend, mean value (0.1225) was higher in the period of 2002-2013 compared to 2012-2015 (0.0160).

Panel B of Table 6 specifically split the statistics figures according to industrial products as well as trading and services industry. Overall, mean value of dividend payouts, regular dividend and special dividend for both industries were lower for the period of 2002-2013 compared to 2012-2015. However, when comparing both industries, it showed that trading and services industry had higher mean value for regular and special dividend for both periods compared to industrial products industry. Besides, trading and services industry also had higher maximum value for special dividend for both periods compared to industrial products industry.

Panel C of Table 6 provides the summary of statistics based on three categories of companies, which are best, moderate and poor. As explained before, these categories were based on ranking of company's ROE. Looking at the mean column across two periods (2002-2013 and 2012-2015), mean values of regular and special dividend for the best companies were constantly the highest among the three groups. Then, followed by moderate companies where the mean values were higher than poor companies except for special dividend (0.0061) in the period of 2012-2015. Nevertheless, it is interesting to highlight that moderate companies had lower maximum value of regular dividend and special dividend than poor companies for both periods. It seems that, even though on average, moderate companies had higher mean values of dividend payouts (0.0267 and 0.0302) than poor companies, poor companies had higher maximum value of regular dividend (0.8250 and 0.9600) and special dividend (1.1893 and 1.1893) for both periods.

Besides descriptive information, this study also analyzed the frequency of dividend payouts made by the companies for 15 consecutive years. Referring to Table 7, it shows the number of dividend payment in terms of regular dividend and special dividend paid by companies under industrial products as well as trading and services industry for the year of 2002 until 2015. It seems that under the industrial products industry, companies paid more special dividend during the transitional period (2008-2013) but not for regular dividend and the number increased with the mean value of 4.5 after the compulsory effects of STT (2014-2015). In contrast with trading and services industry, companies paid both regular dividend and special dividend higher during the transitional period (2008-2013) than before the transitional period (2002-2007) but the number decreased after the compulsory effects of STT (2014-2015). It is worth noting that the number of regular dividend (40) and special dividend (4.5) paid by the companies after the compulsory effects of STT (2014-2015) were approximately equal to the trend before the transitional period (2002-2007). From those figures, it showed that both industries were responding positively to the implementation of STT by increasing the frequencies of dividend payments either through regular dividend or special dividend.

TEST OF SIGNIFICANT DIFFERENCE: DIVIDEND PAYOUTS, REGULAR DIVIDEND AND SPECIAL DIVIDEND

To further analyze on whether changes in dividend tax really influenced company dividend payouts, this study examined the significant difference between the mean value of dividend payouts for two specific periods, namely before transitional period (2002 until 2007) with during transitional period (2008 until 2013) and before compulsory effects of STT (2012 until 2013) with compulsory effects of STT (2014 until 2015). The process was divided into two levels. The first level examined the significant difference using full sample, and then split the results according to type of industry and company's category (best, moderate and poor company). On the other hand, second level examined the significant difference among the payers only when this study eliminated zero values of dividend payouts for the purpose of increasing validity of the results. Results on the second level were presented based on type of dividend and company's category.

T-Test for Full Sample Table 8 illustrates the results for both periods selected and details the results into dividend payouts, regular dividend and special dividend. It is evident that the difference is significant for all categories, namely regular dividend (–3.284), special dividend (–1.775) and dividend payouts (–3.550) when comparing before and during transitional period. Both regular dividend and dividend payouts had significant levels of $p < 0.01$ while special dividend had significant level of $p < 0.1$. With regards to these results, firms tend to pay more dividends either through regular dividend or special dividend when the government provided 6 years of transitional period from the year of 2008 until 2013. It shows that firms' responded immediately after the dividend tax change announcement by the government. The firms did not wait until the compulsory effects take place since there is no significant difference appears across the column of

TABLE 6. Summary statistics for full sample, type of industry and company's categories for two specific periods

Panel A: Summary for full sample						
Period (year)	Dividend	Mean	Std dev	Min	Max	N
2002-2013	Regular Dividend	0.0602	0.1045	0.0000	0.9200	1,692
	Special Dividend	0.1225	0.0839	0.0000	1.7000	1,690
	Dividend Payouts (Pool sample)*	0.0362	0.0977	0.0000	1.7000	3,382
2012-2015	Regular Dividend	0.0705	0.1267	0.0000	0.9600	564
	Special Dividend	0.0160	0.0918	0.0000	1.1893	562
	Dividend Payouts (Pool sample)*	0.0433	0.1139	0.0000	1.1893	1,126

Panel B: Summary according to type of industry							
Period (year)	Industry	Dividend	Mean	Std dev	Min	Max	N
2002-2013	Industrial Products	Regular Dividend	0.0523	0.0959	0.0000	0.9200	924
		Special Dividend	0.0068	0.0478	0.0000	0.6000	924
		Dividend Payouts (Pool sample)*	0.0295	0.7912	0.0000	0.9200	1,848
	Trading & Services	Regular Dividend	0.0697	0.1133	0.0000	0.8400	768
		Special Dividend	0.0187	0.1127	0.0000	1.7000	766
		Dividend Payouts (Pool sample)*	0.0443	0.1158	0.0000	1.7000	1,534
2012-2015	Industrial Products	Regular Dividend	0.0627	0.1299	0.0000	0.9200	308
		Special Dividend	0.0133	0.0889	0.0000	1.1000	307
		Dividend Payouts (Pool sample)*	0.0381	0.1139	0.0000	1.1000	615
	Trading & Services	Regular Dividend	0.0798	0.1223	0.0000	0.9600	256
		Special Dividend	0.0192	0.0952	0.0000	1.1893	255
		Dividend Payouts (Pool sample)*	0.0496	0.1137	0.0000	1.1893	511

Panel C: Summary of statistics according to company's categories							
Period (year)	Dividend	Company's categories	Mean	Std dev	Min	Max	N
2002-2013	Regular Dividend	Best	0.1081	0.1455	0.0000	0.9200	564
		Moderate	0.0481	0.0678	0.0000	0.5600	564
		Poor	0.0245	0.0574	0.0000	0.8250	564
	Special Dividend	Best	0.0276	0.1280	0.0000	1.7000	562
		Moderate	0.0053	0.0422	0.0000	0.6500	564
		Poor	0.0037	0.0517	0.0000	1.1893	564
	Dividend Payouts (Pool sample)	Best	0.0680	0.1428	0.0000	1.7000	1,126
		Moderate	0.0267	0.0603	0.0000	0.6500	1,128
		Poor	0.0141	0.0556	0.0000	1.1893	1,128
2012-2015	Regular Dividend	Best	0.1385	0.1712	0.0000	0.9200	188
		Moderate	0.0542	0.0698	0.0000	0.4300	188
		Poor	0.0187	0.0808	0.0000	0.9600	188
	Special Dividend	Best	0.0340	0.1226	0.0000	1.1000	187
		Moderate	0.0061	0.0434	0.0000	0.5000	187
		Poor	0.0080	0.0893	0.0000	1.1893	188
	Dividend Payouts (Pool sample)*	Best	0.0864	0.1577	0.0000	1.1000	375
		Moderate	0.0302	0.0628	0.0000	0.5000	375
		Poor	0.0134	0.0852	0.0000	1.1893	376

Note: * Dividend payouts (pool sample) is the combination of regular dividend and special dividend collected in this study.

TABLE 7. Dividend frequencies and mean value for the year of 2002 until 2015 for industrial products and trading and services industry

Year	Industrial Products				Trading & Services				Period
	Regular Dividend		Special Dividend		Regular Dividend		Special Dividend		
	Freq	Mean	Freq	Mean	Freq	Mean	Freq	Mean	
2002	45	47.83	2	4.17	36	39.5	6	4.50	Before TP
2003	47	4		38	3				
2004	51	3		39	2				
2005	49	5		40	4				
2006	48	7		41	6				
2007	47	4		43	6				
2008	50	47.33	5	4.33	46	44.33	7	7.83	During TP
2009	47	-		45	3				
2010	50	3		42	5				
2011	49	6		43	11				
2012	43	5		46	10				
2013	45	7		44	11				
2014	42	42.00	4	4.50	41	40.00	3	4.50	After Compulsory STT
2015	42	5		39	6				

Note: Freq refers to frequency or number of regular dividend and special dividend paid in each year.
Before TP refers to before transitional period (2002-2007).
During TP refers to during transitional period (2008-2013).
After compulsory STT refers to after compulsory of STT (2014-2015).

TABLE 8. Test of significant different for full sample

Period	Regular Dividend (RM)	Special Dividend (RM)	Dividend Payouts (RM)
Before TP	0.0519	0.0086	0.0303
During TP	0.0685	0.0158	0.0422
Difference	-0.0166	-0.0072	-0.0119
t-value	-3.284***	-1.775*	-3.550***
N	1,692	1,690	3,382
Before Comp. STT	0.0730	0.0182	0.0456
Comp. STT	0.0679	0.0138	0.0410
Difference	-0.0050	-0.0043	-0.0046
t-value	-0.4770	-0.5670	-0.6850
N	564	562	1,126

Note: Before TP refers to before transitional period (2002-2007) while during TP refers to during transitional period (2008-2013).
Before Comp. STT refers to before compulsory single tier tax system (2012-2013) while Comp. STT refers to compulsory single tier tax system (2014-2015).
*,**,*** significant with $p < 0.1$, $p < 0.05$ and $p < 0.001$ respectively.

dividend payouts, regular dividend and special dividend. This finding supported clientele theory when companies responded towards changes in dividend tax by paying higher dividend immediately after the announcement of the changes. Furthermore, similar reaction was also found in U.S., when Blouin et al. (2004) claimed that 95 per cent of sample firms declared dividend immediately after the enactment of dividend tax reform.

Then, this study split the sample according to type of industry to provide evidence on which industry contributed to the increment of dividend payouts. Table 9 showed that industrial products as well as trading and services industry had immediately responded to the implementation of STT by paying significantly higher dividend during transitional period than before transitional period at $p < 0.05$ and $p < 0.01$ respectively. However, both industries had increased their regular dividend instead of special dividend during the transitional period. There was an indicator that both industries had reduced their dividend payouts after the compulsory effects of STT took place but it was insignificant and the results were consistent with Table 8.

TABLE 9. Test of significant different by industry

Period	Industrial Products			Trading & Services		
	Regular Dividend (RM)	Special Dividend (RM)	Dividend Payouts (RM)	Regular Dividend (RM)	Special Dividend (RM)	Dividend Payouts (RM)
Before TP	0.0452	0.0057	0.0254	0.0600	0.0120	0.0361
TP	0.0595	0.0079	0.0337	0.0795	0.0254	0.0524
Difference	-0.0142	-0.0021	-0.0082	-0.0194	-0.0133	-0.0163
t-value	-2.271**	-0.684	-2.238**	-2.386**	-1.640	-2.768***
N	924	924	1,848	768	766	1,534
Before C.STT	0.0654	0.0093	0.0373	0.0823	0.0289	0.0556
Comp. STT	0.0601	0.0174	0.0388	0.0774	0.0095	0.0436
Difference	-0.0052	0.0080	0.0014	-0.0048	-0.0193	-0.0119
t-value	-0.3570	0.7930	0.157	-0.3170	-1.6290	-1.1920
N	308	307	615	256	255	511

Note: Before TP refers to before transitional period (2002-2007) while during TP refers to during transitional period (2008-2013).
Before Comp. STT refers to before compulsory single tier tax system (2012-2013) while Comp. STT refers to compulsory single tier tax system (2014-2015).
*,**,*** significant with $p < 0.1$, $p < 0.05$ and $p < 0.001$ respectively.

Further analysis was executed to distinguish which category of company actually paid more dividends to their shareholders. To achieve this analysis, this study divided the sample into best, moderate and poor category of company. As shown in Table 10, it indicates that the best companies had higher mean values for regular dividend (–3.447) followed by special dividend (–0.928) and dividend payouts (–3.044) during transitional period than before transitional period. However, only regular dividend and dividend payout were significant at $p < 0.01$ while special dividend was insignificant. It shows that the best companies had increased their dividend payouts by focusing more on regular dividend. In contrast with moderate companies, they also had increased their dividend payouts but paying more on special dividend (–1.951) where the difference was significant at $p < 0.1$. On the other hand, there is no significant difference between the mean value of regular dividend and special dividend among poor companies for before and during transitional period. Similar with the results in Table 8 and Table 9, there was no significant difference between the mean value of dividend payouts in all categories of company for before compulsory of STT and after compulsory of STT.

TABLE 10. Test of significant difference by company's category

	Best			Moderate			Poor		
	RD	SD	DP	RD	SD	DP	RD	SD	DP
Before TP	0.0872	0.0226	0.0550	0.0445	0.0019	0.0232	0.0240	0.0014	0.0127
TP	0.1291	0.0326	0.0808	0.0516	0.0088	0.0302	0.0249	0.0061	0.0155
Diff.	-0.041	-0.010	-0.025	-0.007	-0.006	-0.007	-0.000	-0.004	-0.003
t-value	-3.447***	-0.928	-3.044***	-1.251	-1.951*	-1.957*	-0.193	-1.080	-0.852
N	564	562	1,126	564	564	1,128	564	564	1,128
Before C.STT	0.1447	0.0300	0.0873	0.0540	0.0118	0.0329	0.0204	0.1295	0.0167
Comp. STT	0.1324	0.0380	0.0855	0.0545	0.0004	0.0276	0.0169	0.0031	0.0100
Diff.	-0.012	0.008	-0.001	0.000	-0.011	-0.005	-0.003	-0.009	-0.006
t-value	-0.492	0.450	-0.114	0.048	-1.806*	-0.816	-0.294	-0.748	-0.752
N	188	187	375	188	187	375	188	188	376

Note: Before TP refers to before transitional period (2002-2007) while during TP refers to during transitional period (2008-2013).
Before Comp. STT refers to before compulsory single tier tax system (2012-2013) while Comp. STT refers to compulsory single tier tax system (2014-2015).
RD, SD and DP refer to regular dividend, special dividend and dividend payouts respectively.
*,**,*** significant with $p < 0.1$, $p < 0.05$ and $p < 0.001$ respectively.

T-Test for Payers To investigate further on the validity of results found in the analysis discussed above, this study eliminated zero values of dividend payouts that creates the sample into payers only. Once the elimination process complete, the total samples was reduced to 1,197 firm-years observations for before and during transitional period and 391 firm-years observations for before and after compulsory STT. Table 11 showed that a slightly different result was found when this study removes zero value of dividend payouts in the sample selected. Both regular dividend (–3.015) and dividend payouts (–3.103) had significantly increased the mean values during transitional period than before transitional period at $p < 0.01$. This was dissimilar with initial findings where special dividend also increased the mean values but it was insignificant. Furthermore, it is worth noting that the mean values of regular dividend (0.0011), special dividend (0.0866) and dividend payouts (0.0059) showed different pattern with earlier findings for period before compulsory of STT and after compulsory of STT. It showed that the companies had increased their dividend by issuing more regular and special dividend after the compulsory effects of STT took place. However, the difference was insignificant.

TABLE 11. Test of significant different among payers

Period	Regular Dividend (RM)	Special Dividend (RM)	Dividend Payouts (RM)
Before TP	0.0838	0.1455	0.0892
TP	0.1055	0.1839	0.1146
Difference	-0.0216	-0.0383	-0.0254
t-value	-3.015***	-0.783	-3.103***
N	1,074	123	1,197
Before Comp. STT	0.1157	0.1560	0.1220
Comp. STT	0.1168	0.2426	0.1280
Difference	0.0011	0.0866	0.0059
t-value	0.0710	1.102	0.3580
N	342	49	391

Note: Before TP refers to before transitional period (2002-2007) while during TP refers to during transitional period (2008-2013).
Before Comp. STT refers to before compulsory single tier tax system (2012-2013) while Comp. STT refers to compulsory single tier tax system (2014-2015).
*,**,*** significant with $p < 0.1$, $p < 0.05$ and $p < 0.001$ respectively.

TABLE 12. Test of significant different among payers and company's category

	Best			Moderate			Poor		
	RD	SD	DP	RD	SD	DP	RD	SD	DP
Before TP	0.1188	0.1865	0.1284	0.0678	0.0765	0.0681	0.0513	0.0444	0.0509
TP	0.1504	0.2193	0.1606	0.0717	0.1130	0.0758	0.0670	0.1919	0.0769
Diff.	-0.031	-0.032	-0.032	-0.003	-0.036	-0.007	-0.015	-0.147	-0.026
t-value	-2.216**	-0.483	-2.050**	-0.534	-0.523	-0.956	-1.572	-1.159	-2.011**
N	449	76	525	388	29	417	237	18	255
Before C.STT	0.1639	0.1762	0.1659	0.0746	0.0855	0.0764	0.0712	0.3044	0.1013
Comp. STT	0.1705	0.2530	0.1838	0.0711	0.0400	0.0707	0.0840	0.3000	0.0948
Diff.	0.006	0.076	0.0178	-0.003	-0.045	-0.005	0.012	-0.004	-0.006
t-value	0.234	0.872	0.650	-0.286	-0.297	-0.436	0.281	-0.007	-0.104
N	156	30	186	140	14	154	46	5	51

Note: Before TP refers to before transitional period (2002-2007) while during TP refers to during transitional period (2008-2013).
Before Comp. STT refers to before compulsory single tier tax system (2012-2013) while Comp. STT refers to compulsory single tier tax system (2014-2015).
RD, SD and DP refer to regular dividend, special dividend and dividend payouts respectively.
*,**,*** significant with $p < 0.1$, $p < 0.05$ and $p < 0.001$ respectively.

Of particular interest were the results of best, moderate and poor companies among the payers. As expected, the best companies had significantly increased dividend payouts (–2.050) during transitional period by paying more regular dividend (–2.216). Nevertheless, the results were different for moderate and poor companies when only poor companies had significantly increased the mean value of dividend payouts (–2.011) at $p < 0.01$ but not for moderate company. Furthermore, both regular dividend and special dividend were not statistically significant.

MANAGERIAL IMPLICATION

This study contributes to the literature in several ways. Firstly, this study provides empirical evidence to prove that companies attempt to meet their clientele preference by changing their dividend policy when dividend taxes are changed, as described by clientele theory. It is worth highlighting that even in the situation where the interest of clientele is not due to dissimilarities of tax rate, clientele preference towards dividend income still affects company dividend policy.

In addition, discussion about Malaysian dividend tax laws together with explanation on current trends of dividend income and tax deductions contributes to the understanding of Malaysian dividend tax reform in which there are limited empirical study that has investigated this issue. It is expected that with a clear explanation on the effect of dividend tax reform may ease the future study to further explore on this area.

In terms of practical contribution, shareholders who are interested to receive dividend from their investments may use the findings of this study to plan which type of company that they should invest in order to get higher dividend. Return on equity are proven to be one of the useful indicators for them in making investment decisions.

Lastly, this study is aware that when dividend tax laws was changed, companies had no authority to disagree with the new law. However, the intention of this study is to provide real response by public companies towards the implementation of new tax laws. As a result, the findings are valuable for regulators to improve legal requirement regarding dividend policy among public listed company due to issues of unpaid dividend among profitable companies which has been discussed in local newspaper, The Edge Malaysia dated 24 April 2017 with the title of "*Should company be forced to pay dividend?*" (Liew 2017). It is expected that the findings can be used as guidance for the basis of implementing new dividend listing criteria in Malaysia. In addition, these findings can also be used as a guide for regulators if they decide to change tax policy in the future.

DISCUSSION AND CONCLUSION

As far as this study is concerned, one of the governments' intentions to change dividend tax laws is to encourage companies to pay more dividends to their shareholders since STT would discard all tedious processes under imputation system. Inland Revenue Board of Malaysia (IRBM) also highlighted in their website (www.hasil.gov.my) stating that STT would encourage companies with huge Section 108 frank accounts balance to pay special dividends during the transitional period since this account is impracticable after the end of transitional period. In addition, through STT, companies with extra cash but insufficient balance of Section 108 accounts may immediately declare dividends without any constraints appearing under imputation system. Therefore, STT is expected to be a platform to encourage company to pay more dividends to their shareholders.

Results of this study provide empirical evidences to prove that companies paid more dividends during the six years transitional period. This is in line with IRBM's expectation when this study found that companies paid not only higher special dividend but also regular dividend to their shareholders. However, when this study split the sample into type of industries, the results showed that both industries had significantly increased their regular dividend but not for special dividend. In other words, companies positively responded towards STT by paying higher dividend on a regular basis instead of as one-time payment. These findings are in line with previous studies such as Chetty and Saez (2005), Kari et al. (2008) and Wang and Guo (2011)[1] where they also found significant increase in dividend payouts after dividend tax reform.

In addition, there were difference responses between best, moderate and poor performance companies towards the implementation of STT. The results showed that only the best companies significantly increased their dividend payouts for regular dividend during transitional periods, but not for moderate and poor companies. Moreover, inconsistent results were found for moderate and poor companies where moderate companies had significantly increased their dividend payouts through special dividend during transitional period in the first level of analysis. However, the results were not repeated in the second level of analysis when only poor companies showed significantly higher dividend payouts during transitional period. This study expected that inconsistent results were found among moderate and poor companies because poor companies had higher maximum value of special dividend than moderate companies even though on average, moderate companies had higher mean value of special dividend than poor companies. This can be seen in Panel C of Table 6.

On the other hand, this study found inconsistent pattern of dividend payouts for the period after the compulsory effects of STT since there was evidence to show that companies decreased their dividend payouts when using full sample but then, increased the dividend

when using sample among payers only. This study is aware that limitation in terms of period covered after compulsory effects of STT contributes to the inconsistency of the results. Currently, only data before the year of 2015 is available to be collected. Therefore, this study expected that further research is required.

Theoretically, there are reasons to link between dividend tax changes towards dividend payouts policy of the company. As discussed earlier, clientele preference towards dividend income might affect company's decision on dividend policy especially in the event of dividend tax changes. In Malaysian context, clientele do not have to choose between dividend income and capital gains since no tax are imposed on both incomes, however there is empirical evidence to prove that companies changed their dividend policy to meet clientele preference specifically during the six years transitional period. Furthermore, this study also found that the best performance companies had consistently changed their dividend policy by paying higher regular dividend to their shareholders, but this is not the case for moderate and poor performance companies. Nevertheless, the generalizability of these results is limited since this study had only focused on the two biggest industries. The findings may have different results when applied to different industries. Therefore, future research is required.

NOTE

[1] Chetty and Saez (2005) examined dividend payouts using 2003 dividend tax cut in U.S., Kari et al. (2008) studied on dividend distributions using Finnish Corporate and Capital Income Tax Reform while Wang and Guo (2011) examined dividend payouts using 2005 China Tax Reform.

REFERENCES

Al-Malkawi, H. N., Rafferty, M. & Pillai, R. 2010. Dividend policy: A review of theories and empirical evidence. *International Bulletin of Business Administration* 9(9): 171-200.

Ardestani, H.S., Rasid, S.Z.A., Basiruddin, R. & Mehri, M. 2013. Dividend payout policy, investment opportunity set and corporate financing in the industrial products sector of Malaysia. *Journal of Applied Finance & Banking* 3(1): 123-136.

Baker, H.K. 2009. *Dividends and Dividend Policy*. John Wiley & Sons, Inc.

Becker, B., Jacob, M. & Jacob, M. 2013. Payout taxes and the allocation of investment. *Journal of Financial Economics* 107(1): 1-24.

Blouin, J., Raedy, J. & Shackelford, D. 2004. *The Initial Impact of the 2003 Reduction in the Dividend Tax Rate*. *NBER No 10301*, 10301.

Brav, A., Graham, J.R., Harvey, C.R. & Michaely, R. 2008. Managerial response to the May 2003 dividend tax cut. *Financial Management* 37(4): 611-624.

Brown, J.R., Liang, N. & Weisbenner, S. 2007. Executive financial incentives and payout policy: Firm responses to the 2003 dividend tax cut. *The Journal of Finance* 62(4): 1935-1965.

Chang, C., Chen, M. & Chen, V.Y.S. 2017. Are corporate tax reductions real benefits under imputation systems? *European Accounting Review* 26(2): 215-237.

Chazi, A., Boubakri, N. & Zanella, F. 2011. Corporate dividend policy in practice: Evidence from an emerging market with a tax-free environment. *Pacific Basin Finance Journal* 19(2): 245-259.

Chetty, R. & Saez, E. 2005. Dividend taxes and corporate behavior: Evidence from the 2003 dividend tax cut. *The Quarterly Journal of Economics* 120(3): 791-833.

Deslandes, M., Landry, S. & Fortin, A. 2015. The effects of a tax dividend cut on payout policies: Canadian evidence. *International Journal of Managerial Finance* 11(1): 2-22.

Edgerton, J. 2013. Four facts about dividend payouts and the 2003 tax cut. *International Tax and Public Finance* 20(5): 769-784.

Elton, J.E. & Gruber, M.J. 1970. Marginal stockholder tax rates and the Clientele effect. *The Review of Economics and Statistics* 52(1): 68-74.

Eng, L.H., Daud, N., Kuan, J.Y.S. & Mohamed, M. 2008. Single Tier Tax System. *Berita Hasil*.

Hanlon, M. & Heitzman, S. 2010. A review of tax research. *Journal of Accounting and Economics* 50(2-3): 127-178.

Hanlon, M. & Hoopes, J.L. 2014. What do firms do when dividend tax rates change? An examination of alternative payout responses. *Journal of Financial Economics* 114(1): 105-124.

Harding, M. 2013. Taxation of dividend, interest, and capital gain income. *OECD Taxation Working Papers* 19(19): 1–57.

Jacob, M., Michaely, R. & Alstadsæter, A. 2015. *Taxation and Dividend Policy: The Muting Effect of Diverse Ownership Structure*. *Accounting Research Centre, Chicago Booth*,.

Kao, L. & Chen, A. 2011. Dividend policy and elimination of double taxation of dividends. *Asia-Pacific Journal of Financial Studies* 40(2): 261-284.

Kari, S., Karikallio, H. & Pirttilä, J. 2008. Anticipating tax changes : Evidence from the Finnish Corporate Income Tax reform of 2005. *Fiscal Studies* 29(2): 167-196.

Khan, N.U., Burton, B.M. & Power, D.M. 2011. Managerial views about dividend policy in Pakistan. *Managerial Finance* 37(10): 953-970.

Korkeamaki, T., Liljeblom, E. & Pasternack, D. 2010. Tax reform and payout policy: Do shareholder clienteles or payout policy adjust? *Journal of Corporate Finance* 16(4): 572-587.

Liew, J.T. 2017. Should companies be forced to pay dividends? *The Edge Malaysia*, 14.

Lin, L. & Flannery, M.J. 2013. Do personal taxes affect capital structure? Evidence from the 2003 tax cut. *Journal of Financial Economics* 109(2): 549-565.

Lintner, J. 1956. Distribution of incomes of corporations among dividens, retained earnings, and taxes. *The American Economic Review* 46(2): 97-113.

Miller, M.H. & Modigliani, F. 1961. Dividend policy, growth and the valuation of shares. *Journal of Business* 34(4): 411-433.

Pattenden, K. & Twite, G. 2008. Taxes and dividend policy under alternative tax regimes. *Journal of Corporate Finance* 14(1): 1-16.
Sekaran, U. & Bougie, R. 2014. *Research Methods for Business*. United Kingdom: John Wiley & Sons Ltd.
Wang, C.F. & Guo, Y. 2011. Do dividend tax cuts lead firms to increase dividends: Evidence from China. *China Journal of Accounting Research* 4(4): 197-209.

Ida Suriya Ismail (corresponding author)
Faculty of Accountancy
Universiti Teknologi MARA (Segamat Campus)
KM 12, Jln Muar
85000 Segamat, Johor, MALAYSIA
E-Mail: idasu634@johor.uitm.edu.my

Mohd Rizal Palil
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
43600 UKM Bangi, Selangor, MALAYSIA.
E-Mail: mr_palil@ukm.edu.my

Rosiati Ramli
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
43600 UKM Bangi, Selangor, MALAYSIA.
E-Mail: rosie@ukm.edu.my

Mara Ridhuan Che Abdul Rahman
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
43600 UKM Bangi, Selangor, MALAYSIA.
E-Mail: mara@ukm.edu.my