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IMPLICATIONS OF CORPORATE DIVIDEND POLICY ON CORPORATE TAXATION: A STUDY ON SELECTED LISTED PHARMACEUTICALS COMPANIES IN BANGLADESH

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Abstract: *Corporate dividend policy is related with corporate tax liability. Tax liability of companies may vary depending on the payment of dividend. Effective corporate dividend policy can reduce corporate tax liability. Thus, effective corporate dividend policy can help corporations maximize shareholders' wealth by reducing effective tax rate. Tax liability may increase or decrease depending on the dividend payment of a company. The objective of this study includes justifying the implications of Corporate Dividend Policy on Corporate Taxation in case of listed pharmaceuticals companies in Bangladesh. In this study 6 listed pharmaceuticals companies in Bangladesh have been included and it has been found that when those companies paid dividend at prescribed level as per corporate tax law, they got tax rebate on their regular tax rate. Thus, after deducting the tax rebate those companies paid tax liability at reduced rate and this eventually lessened effective tax rate. Companies may ensure payment of dividend in away, so that retained earnings can be used for future investment opportunities as well as the tax burden becomes logical. They should make balance between dividend policy and tax liability to maximize the wealth of shareholders.*

Keywords: *Corporate Dividend Policy, Corporate Taxation, Effective Tax Rate, Listed Pharmaceuticals Companies.*

Introduction

Corporate tax management is essential for achieving corporate ultimate goal for all time. Appropriate dividend decision is related with corporate tax liability, which canbe different depending on the payment of dividend. In corporate tax policy, the ability to measure the effects of taxation is very essential work. In addition with that, taxes are in fact important element in corporate decision making and the determination of a firm's tax liability is based on a separate set of rules than income reported to shareholders (Plesko, 2000).An optimal corporate dividend policy may lessen corporate tax liability, which consequently, can help corporations to maximize shareholders' wealth. The government of the People's Republic of Bangladesh changes the corporate tax rates when necessary, considering various economic conditions. If companies pay lower amount of dividend, the tax rate may be higher, and if the companies pay higher amount of dividend, the tax rate may be lower. Taking into account that matter, corporate management can make efficient dividend policy with an objective of minimizing tax burden. Harris and Feeny (2000) states that tax incentives decrease the tax burden of businesses and mean non-objectivity of the tax system. The ultimate goal of companies is to maximize

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shareholders' wealth. Considering the financial performance; a company may keep free reserve ensuring consistent and prudent dividend policy. While there may be reasonable profit available for distribution, the investment pipeline may also be rich. For this reason, it is necessary to pay dividend in a realistic manner, and to retain adequate funds to finance the capital expenditures for capacity building to sustain the growth of the company.

In present the regulatory environment forces tax functions to deal with multiple challenges and tasks. The traditional role of a tax function in relation to a financial function such as offering qualified tax advice covering tax issues, managing local compliance matters and defending technical positions during a tax audit, has been replaced by increasingly complex rules. The tax function's new role is based on contributing value to the company's overall strategy as an integral part of the business. Quality tax data is part of the reporting cycle to produce accurate financial information (International Tax Review, 2^{nd} edition, 2008, p.14).

According to the U.S. Government Accountability Office (GAO) in August 2008 report, "Statutory tax rates do not provide a complete measure of the burden that a tax system imposes on business income because many other aspects of the system, such as exemptions, deferrals, tax credits, and other forms of incentives also determine the amount of tax a business ultimately pays on its income. The average effective income tax rate that a business faces—the amount of income tax it pays divided by its pretax income—reflects the combined effects of all these tax system components" (GAO 2008, p. 1).

Pharmaceutical industry is one of the major and promising ones in the developing economy of Bangladesh, and corporate tax rates are in great importance in all aspects. Various previous researches showed only the relationship between corporate dividend policy and other issues in different cases in diverse fields of business in Bangladesh. However, in case of pharmaceutical industry, no previous researches expressed the evidential proof of using the actual tax and dividend data from the financial statements of listed pharmaceutical companies in Bangladesh. Additionally, in previous researches, any statutory tax liabilities of companies, after deducting tax rebates due to providing required level of dividend payments have not been shown. Furthermore, this study included and showed the effective corporate tax rates in different assessment years of 6 listed pharmaceutical companies in Bangladesh, which is also a new research work in Bangladesh.

Literature Review

Numerous disagreements on the topic of taxes and dividend policy have attracted many researchers and academicians. The question over the importance of dividend policy came in front rows when Miller and Modigliani (1961) expressed that the dividend policy of a firm has no effect on its stock value and cost of capital in their dividend irrelevance theory. They made some assumptions and one of those are no existence of taxes, that is same tax rate is applied on both dividends and capital gains. But in real world, there is no existence of perfect capital markets and taxes are prevalent in the capital markets. Corporate dividend policy of various business organizations is vastly affected by taxes (Brennan, 1970). In addition, Masulis and Trueman (1988) stated that taxes have effect on corporate dividend policy. Wu (1996) suggested that, if government changes income tax policy, the authority of an organization should consider that, and take initiative to change the dividend policy accordingly. Projected amount of dividend in future years and past dividend trends are the prime determinants of dividend policy (Lintner, 1956). Dividend declaration practice of a business is a cultural experience that changes continuously in relation to surroundings and moment in time (Frankfurter and Wood, 1997). Taxes are inevitably significant to investors and companies. Brealey, Myers and Marcus, (1991) stated that though the shareholders tax burden is influenced by dividend, in most cases it does not change the taxes that must be paid, not considering of whether the business provides or retains profit. A study was conducted by Amidu and Abor (2006) in the perspective of Ghana and the results of the study point out that there is positive connection between the dividend payout ratio, cash flows, profitability and corporate tax. Allen, Bernardo, and Welch, (2000) expressed that the tax difference between institutions and retail investors determines dividend payments, not the absolute tax payments. Fama and French (1998) conclude that dividends and debt express information about profitability that leads any tax effects of financing decisions.

The net income after tax of a company is influenced by corporate taxation, which, eventually, establishes the ability of the company to pay dividends. Conversely, corporate taxation may have repercussions for the net value given to the shareholders. Corporate tax is imposed on the income of a company and corporate dividend tax is imposed on the amount of dividend declared, and paid by the company (Monica Singhania, 2006). In most of the cases the researchers stated the situations of taxation on capital gains (capital gain tax) and dividends payment (dividend tax). When companies realize that high rate of tax may be imposed on dividend income of shareholders in that case companies may retain a large portion of profit and on the other hand tax rate is lower on capital gains compared to dividend income.

If companies make profit, it is obligatory duty and essential corporate responsibility to pay taxes with other statutory taxes to the government of respective countries. In profit making companies for the payment of taxes, profits are decreased and thus the retained earnings and probable amount of dividends are affected. Owners or shareholders get dividends at the end of specified period of time against their investment in businesses (Samuel, S.E. and Inyada, S.J. 2010). As per the recommendations of board of directors, dividends are given on the declared profit at the end of particular periods of companies. Additionally, businesses do not declare profit when they fail to earn profit. An optimum dividend policy makes trade-off between payment of dividend and retained earnings. If a business has feasible investment opportunities in future, that can make decision to give importance on retaining a large portion of profit and giving less dividend payment to its shareholders. On the contrary, payment of lower amount of dividend may cause payment of high tax on profit according to corporate tax rates.

Income tax expenses comprise current and deferred tax. Income tax expense is recognized in the income statement except to the extent that it relates to revaluation to property, plant and equipment which is recognized directly in equity. Current tax for the current and prior periods is recognized as a liability to the extent that it has not yet been settled, and as an asset to the extent that the amounts already paid exceeds the amount due (IAS 12.12). Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or subsequently enacted after the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences (IAS 12.12). Deferred tax is recognized using the balance sheet method. Deferred tax arises due to temporary difference deductible or taxable for the events or transactions recognized in the statement of comprehensive income. A temporary difference is the difference between the carrying amounts of assets and liabilities and its tax base amount in the statement of financial position. Deferred tax asset or liability is the amount of income tax recoverable or payable in future period(s) recognized in the current period. The deferred tax asset/ income or liability/ expense do not create a legal liability/ recoverability to and from the income tax authority. Deferred tax also arises due to revaluation of property, plant and equipment. The resulting impact of deferred tax assets/ liabilities on revaluation surplus is included in the statement of changes in equity.

Fernández-Rodríguez and Martínez-Arias (2014) express that, companies should not focus so much on the Statutory Tax Rate (STR) as on the tax burden causedby Corporate Income Tax rather should focus on the Effective Tax Rate (ETR) because, this measure is nearer to reality and is therefore more important. On the other hand, companies and society in general tend to focus more on the STR,which is the available rate. For financial reporting purposes, Effective Tax Rate is the sum of current and deferred tax expense divided by net income before tax (Scholes, Wolfson, Erickson, Maydew, &Shelvin, 1992).Effective Tax Rate (ETR) provides proper summary information of tax performance, which describes the amount of taxes paid by a business organization in relation to its gross profit (Harris &Feeny, 2000).In a broader sense, Effective Tax Rate (ETR) is a scale of the company's tax burden because it states the rate of taxes paid by a company on its earnings. Effective Tax Rate (ETR) has long been used by policy makers and interest groups, particularly those associated with corporate tax provisions, in tax restructuring disputes (Gupta & Newberry, 1997). Effective Tax Rate (ETR) gives an abstract of the progressive effects of various tax incentives, for that reason, it becomes a concern in corporate tax issues. Rohaya et el., 2010 suggested that, larger companies endure higher ETR and also, lower ETRs are considerably linked to extremely leverage companies, larger investment in fixed assets and lower investment in inventory. Companies with high return on assets face lower ETR and companies from trading and services, properties and construction sectors face higher ETR.

Corporate Effective Tax Rate (ETR) changes for different companies and with the passage of time. Therefore, Corporate Effective Tax Rate (ETR) is used as an instrument to recognize objectivity level of the tax system of various companies and the features of companies with higher and lower tax liabilities. From that viewpoint, corporate Effective Tax Rate (ETR) has also been used as a validation to establish reform (Harris & Feeny, 2000). For this reason, one of the objectives of this research is to scrutinize the level of corporate effective tax rates of listed pharmaceutical companies in Bangladesh.

Objectives of the study

The objectives of the study are as follows:

a. To analyze and justify the effects of corporate dividend payments on corporate taxation in case of selected listed pharmaceuticals companies in Bangladesh.

b. To analyze how paying different amount of dividends fluctuate companies' consequent statutory tax liabilities, and the effective corporate tax rates.

Methodology

The data required for this study have been collected from secondary sources. Since, the necessary data are completely available of 6 out of 12 listed pharmaceuticals companies in Dhaka Stock Exchange in Bangladesh, so annual reports of 2006 -2014 of Square Pharmaceuticals Ltd, Beximco Pharmaceuticals Limited, Renata Limited, and ACI Limited, The Ibn Sina, and Glaxo SmithKline have been used to perform the study. In case of the data of Glaxo SmithKline Bangladesh, have been used for 2009 through 2014. Additionally, corporate tax rates of different assessment years applicable for those companies have been used from Bangladesh Tax Handbook 2009-2010,KPMG Tax Surveys 2006-2011, and National Board of Revenue, Paripatra (Income Tax), 2011-2012 to 2015-2016.Moreover, relevant information and ideas regarding the topic have been used from journal articles, books and websites.

Mainly quantitative information has been taken from the financial statements included in the annual reports of the aforementioned companies. Also, qualitative information has been used from different journal articles, books, documents, corporate income tax laws. To reach the objectives of the research, quantitative (numerical) description and qualitative analyses that is explanatory analysis have been performed. Dividend payments of the companies and statutory tax liabilities after deducting tax rebates associated with dividend payment according to corporate tax laws have been showed. Furthermore, Effective Tax Rate (ETR) formula, that is [ETR= (Current Tax + Deferred Tax)/Net Income Before Tax] has been used to calculate effective tax rates, which is an indicator of corporate tax performance. Data have been presented through required comprehensive calculations, quantitative depictions using tables, explanations, analyses and comments on the companies' tax burdens.

Analysis and Findings of the Study

Analysis of the Study

<u>Square Pharmaceuticals Ltd. Bangladesh</u>

The dividend policy of a company has effect on tax liability of that company. Table 2 shows that provision for income tax was made @ 30% on net profit of taxable unit for the year after adjustment of 10% rebate for declaration of Dividend above 20% in 2005-2006 (KPMG`s Corporate and Indirect Tax Rate Survey 2007, page12). and 2006-2007 (KPMG`s Corporate and Indirect Tax Rate Survey 2008, page 17)as per publicly traded company tax rate.

According to corporate tax law (Bangladesh Tax Handbook 2009-2010, page 28)the company paid dividend at required level, so provision for income tax was made @ 24.75% on net profit of taxable unit for the year after adjustment of 10% rebate on 27.50% tax rate (National Board of Revenue, Paripatra (Income Tax), 2011-2012 to 2015-2016) for declaration of Dividend above 20% for successive 6 years through 2007-2008 to 2012-2013 (Table 2).

Also, provision for income tax was made as per Income Tax Rules (National Board of Revenue, Paripatra, Income Tax; 2014-2015) after adjustment of 10% rebate for declaration of Cash Dividend above 30% in 2013-2014 (Table 2).

Table 1: Dividend Payment of Square Pharmaceuticals Ltd. Bangladesh

Year	Dividend(TK)	Dividend (%)	Cash Dividend (%)	Stock Dividend (%)
2005-2006	471,960,000	95	75	20
2006-2007	596,160,000	100	50	50
2007-2008	670,680,000	75	40	35
2008-2009	784,696,000	65	40	25
2009-2010	980,869,500	65	35	30
2010-2011	1,275,130,350	65	30	35
2011-2012	1,721,425,940	65	25	40
2012-2013	2,039,227,650	55	25	30
2013-2014	2,168,996,679	45	30	15
2014-2015	2,355,771,396	42.5	30	12.5

Source: Annual Reports (2006-2015)

Table 2: Tax Liability of Square Pharmaceuticals Ltd. Bangladesh

Year	Tax Liability (TK)	Statutory Tax Liability (%)	Current Tax (TK)	Deferred Tax (TK)	Effective Tax Rates*
2005-2006	367,177,998	30-10% of 30=27	333,310,560	33,867,438	23.95%
2006-2007	419,663,372	30-10% of 30=27	347,984,083	71,679,289	24.36%
2007-2008	486,771,097	27.5-10% of 27.5=24.75	409,660,827	77,110,270	26.05%
2008-2009	621,206,289	27.5-10% of 27.5=24.75	592,644,226	28,562,063	24.74%
2009-2010	737,197,452	27.5-(10% of 27.5)=24.75	688,499,602	48,697,850	26.09%
2010-2011	882,697,757	27.5% - 10% of 27.5 = 24.75	805,575,198	77,122,562	31.66%
2011-2012	958,906,349	27.5% - 10% of 27.5 = 24.75	958,906,349	122,322,098	27.17%
2012-2013	1,139,622,660	27.5% - 10% of 27.5 = 24.75	1,067,770,353	71,852,307	25.43%
2013-2014	1,661,767,439	27.5% - 10% of 27.5 = 24.75	1,518,801,391	142,966,048	28.11%
2014-2015	1,852,277,402	25%	1,679,877,193	172,400,209	26.60%
Arithmetic average		25.20%			26.416%

$$\text{*Effective Tax Rate (ETR)} = \frac{\text{Current Tax} + \text{Deferred Tax}}{\text{Net Income Before Tax}}$$

Source: Author’s own calculation based on Annual Reports (2006-2015)

The company is a publicly traded company; hence Tax Rate (National Board of Revenue, Paripatra, Income Tax; 2015-2016) is applicable @25% in 2014-2015(Table 2).

Table 3 represents that Square Pharmaceuticals Limited got 10% tax exemption for declaration of dividend at specified rate set by National Board of Revenue (NBR) and thus saved tax in large sums of money.

Table 3: Tax Savings of Square Pharmaceuticals Ltd. Bangladesh

Year	Tax Exemption (%)	Tax Saving(TK)
2006-2007	10	38,328,335
2007-2008	10	45,517,870
2008-2009	10	65,849,358
2009-2010	10	75,732,560
2010-2011	10	89,508,355
2011-2012	10	106,545,150
2012-2013	10	118,641,150
2013-2014	10	147,742,502

Source: Annual Reports (2007-2014)

BEXIMCO Pharmaceuticals Limited

Table 4: Dividend Payment of BEXIMCO Pharmaceuticals Limited

Year	Dividend(TK)	Dividend (%)	Cash Dividend (%)	Stock Dividend (%)
2006	156,145,968	15	5	10
2007	171,760,565	15	5	10
2008	377,873,241	30	10	20
2009	273,661000	15	0	15
2010	419,613,000	20	0	20
2011	528,712,000	21	0	21
2012	456,959,000	15	0	15
2013	525,502,000	15	10	5
2014	551,778,000	15	10	5

Source: Annual Reports (2006-2014)

Table 5: Tax Liability BEXIMCO Pharmaceuticals Limited

Year	Tax Liability (TK)	Statutory Tax Liability (%)	Current Tax(TK)	Deferred Tax (TK)	Effective Tax Rates*
2006	52,585,106	30	35,402,549	17,182,557	10.05%
2007	46,609,789	30	57,661,278	(11,051,489)	11.66%
2008	168,779,737	27.5-10% of 27.5=24.75	173,720,430	(4,940,693)	23.63%
2009	242,727,120	27.50	-	242,727,120	27.98%
2010	309,883,518	27.50	71,085,835	238,797,683	22.76%
2011	479,323,910	27.50	207,549,905	271,774,005	28.57%
2012	590,439,908	27.50	445,712,907	144,727,001	35.19%
2013	688,831,391	27.50	324,415,546	364,415,845	30.90%
2014	581,258,160	27.50	436,782,844	144,475,316	27.55%
Arithmetic average		27.75%			24.25%

$$\text{*Effective Tax Rate (ETR)} = \frac{\text{Current Tax} + \text{Deferred Tax}}{\text{Net Income Before Tax}}$$

Source: Author's own calculation based on Annual Reports (2006-2014)

The company is a publicly traded, so it paid tax at the rate of 30% in 2006 and 2007 in accordance with corporate tax law (KPMG`s Corporate and Indirect Tax Rate Survey 2007 &2008) in 2007 and 2008(Table 4).If the company had paid dividend more than 20% of paid-up capital in 2006 and 2007, the company would have got a tax rebate of 10%.However, the company got 10% rebate on corporate tax rate of 27.50% in 2008

(KPMG`s Corporate and Indirect Tax Rate Survey 2009) as it paid dividend of more than 20%, thus the tax rate was 24.75% according to corporate tax law in 2009(Table 5). On the other hand, Table 5 represents that, the company paid tax at the rate of 27.50% for successive 6 years, as it paid dividend at the rate of between 15%-20% and did not get any tax rebate because of failure to pay dividend at prescribed rate specified by the corporate tax law (National Board of Revenue, Paripatra, Income Tax, 2011-2012 to 2015-2016) in those years.

Renata Limited

Table 6: Dividend Payment of Renata Limited

Year	Dividend(TK)	Dividend (%)	Cash Dividend (%)	Stock Dividend (%)
2006	56,232,700	70	50	20
2007	67,479,250	75	50	25
2008	86,759,050	75	50	25
2009	122,908,640	85	60	25
2010	153,635,800	85	60	25
2011	192,044,750	85	60	25
2012	240,055,938	85	60	25
2013	353,023,430	100	75	25
2014	441,279,290	100	80	20

Source: Annual Reports (2006-2014)

Table 7: Tax Liability ofRenata Limited

Year	Tax Liability (TK)	Statutory Tax Liability (%)	Current Tax(TK)	Deferred Tax(TK)	Effective Tax Rates*
2006	105,090,130	30 -10% of 30 =27	98,232,128	6,858,002	30.27%
2007	130,695,719	30 -10% of 30 =27	121,815,058	8,880,661	37.64%
2008	176,774,164	27.5-10% of 27.5=24.75	166,444,936	10,329,228	28.98%
2009	219,505,643	27.5-10% of 27.5=24.75	190,711,707	28,793,936	26.67%
2010	278,175,022	27.5-10% of 27.5=24.75	235,480,759	42,694,263	30.42%
2011	351,117,807	27.5-10% of 27.5=24.75	300,877,218	50,240,589	24.40%
2012	474,449,485	27.5-10% of 27.5=24.75	400,255,434	74,194,051	27.71%
2013	495,194,525	27.5-10% of 27.5=24.75	293,237,957	201,956,568	26.26 %
2014	620,060,417	27.5-10% of 27.5=24.75	547,846,534	72,213,883	26.60%
Arithmetic average		25.25%			28.77%

$$\text{*Effective Tax Rate (ETR)} = \frac{\text{Current Tax} + \text{Deferred Tax}}{\text{Net Income Before Tax}}$$

Source: Author’s own calculation based on Annual Reports (2006-2014)

Table 7 represents that, the company qualifies as a publicly traded company and accordingly the rate of income tax (KPMG`s Corporate and Indirect Tax Rate Survey 2008 &2009) in 2007 and 2008 applied for the year 2006 and 2007 is 30% with applicable rebate of 10% as it declared dividend more than 20% of paid up capital of the company.

The company is a publicly traded for that reason, the actual rate of tax is 24.75% considering 10% tax rebate for declaring dividend of more than 20% of the paid up capital through 2008 to 2013 (Table 7). Also, Table 7 shows that, provision for income tax was made as per income tax rules after adjustment of 10% rebate for declaration of cash dividend above 30% in 2014(National Board of Revenue, Paripatra, Income Tax, 2011-2012 to 2015-2016).

ACI Limited

Table 8: Dividend Payment of ACI Limited

Year	Dividend(TK)	Dividend (%)	Cash Dividend (%)	Stock Dividend (%)
2006	97,000,000	60	60	-
2007	137,000,000	85	85	-
2008	194,040,000	120	100	20
2009	203,742,000	105	105	-
2010	236,577,072	120	120	-
2011	198,115,280	100	80	20
2012	238,184,020	100	80	20
2013	300,948,568	100	80	20
2014	398,367,290	115	100	15

Source: Annual Reports (2006-2014)

Table 9: Tax Liability of ACI Limited

Year	Tax Liability (TK)	Statutory Tax Liability (%)	Current Tax (TK)	Deferred Tax (TK)	Effective Tax Rates*
2006	122,478,216	30-10% of 30=27	137,361,942	(14,883,726)	42.18%
2007	169,224,712	30-10% of 30=27	177,604,949	(8,380,237)	31.82%
2008	107,928,740	27.5-10% of 27.5=24.75	98,683,532	9,245,208	9.12%
2009	120,927,651	27.5-10% of 27.5=24.75	117,416,377	3,511,274	10.92%
2010	216,455,844	27.5-10% of 27.5=24.75	213,842,650	2,613,194	24.23%
2011	212,153,539	27.5-10% of 27.5=24.75	194,212,347	17,941,192	23.75%
2012	191,527,198	27.5-10% of 27.5=24.75	199,460,929	(7,933,731)	25.99%
2013	250,124,700	27.5-10% of 27.5=24.75	258,442,537	(8,317,837)	24.66%
2014	321,176,317	27.5-10% of 27.5=24.75	358,255,364	(37,079,047)	25.25%
Arithmetic average		25.25%			26.96%

$$\text{*Effective Tax Rate (ETR)} = \frac{\text{Current Tax} + \text{Deferred Tax}}{\text{Net Income Before Tax}}$$

Source: Author's own calculation based on Annual Reports (2006-2014)

ACI Limited paid tax liability (KPMG`s Corporate and Indirect Tax Rate Survey 2008 &2009) of 27% in 2006 and 2007 in accordance with corporate tax law in 2007 and 2008(Table 9).The company enjoyed 10% tax rebate on 30% tax specified for publicly traded company because it declared dividend more than 20% of paid up capital of the company (Table 8 and 9).

Table 9 shows that, the company paid dividend more than 20% for successive 6 years through 2008 to 2013, so the company got 10% rebate on tax rate of 27.50% according to corporate tax law (National Board of Revenue, Paripatra, Income Tax; 2011-2012 to 2015-2016).Moreover, in 2014, the company got 10% tax rebate for declaration of cash dividend above 30% of paid up capital in 2014 (Table 8 and 9).

The IBN SINA Pharmaceutical Industry Ltd.

Table 10: Dividend Payment of The IBN SINA Pharmaceutical Industry Limited

Year	Dividend(TK)	Dividend (%)	Cash Dividend (%)	Stock Dividend (%)
2006	18,900,000	21	21	-
2007	20,700,000	23	23	-
2008	20,021,662	25	25	-
2009	22,710,459	27.5	7.5	20
2010	7,213,562	30	10	20
2011	45,360,000	35	10	25
2012	45,360,000	35	15	20
2013	56,700,000	35	25	10
2014	68,040,000	35	30	5

Source: Annual Reports (2006-2014)

Table 11: Tax Liability of The IBN SINA Pharmaceutical Industry Limited

Year	Tax Liability (TK)	Statutory Tax Liability (%)	Current Tax (TK)	Deferred Tax (TK)	Effective Tax Rates*
2006	7,596,837	30-10% of 30=27	7,596,837	-	26.99%
2007	9,018,376	30-10% of 30=27	9,018,376	-	24.32%
2008	10,887,997	27.5-10% of 27.5=24.75	13,224,807	(2,336,810)	20.09%
2009	11,888,975	27.5-10% of 27.5=24.75	14,299,488	(2,410,513)	19.45%
2010	21,766,279	27.5-10% of 27.5=24.75	20,330,550	1,435,729	26.59%
2011	19,16 6,092	27.5-10% of 27.5=24.75	20,372,732	(1,206,640)	25.87%
2012	20,466,758	27.5-10% of 27.5=24.75	24,005,623	(3,538,865)	23.45%
2013	28,615,072	27.5-10% of 27.5=24.75	18,606,428	10,008,644	24.71 %
2014	42,656,582	27.5-10% of 27.5=24.75	39,971,374	2,685,208	25.10%
Arithmetic average		25.25%			24.06%

$$\text{*Effective Tax Rate (ETR)} = \frac{\text{Current Tax} + \text{Deferred Tax}}{\text{Net Income Before Tax}}$$

Source: Author’s own calculation based on Annual Reports (2006-2014)

Table 11 represents that, The IBN SINA Pharmaceutical Industry Ltd. as a publicly traded company paid tax liability of 27% in 2006 and 2007 in accordance with corporate tax law (KPMG`s Corporate and Indirect Tax Rate Survey 2008 &2009) in 2007 and 2008.The company declared dividend more than 20% of paid up capital, so it enjoyed 10% tax rebate on 30% tax specified for publicly traded company. Additionally, the company got 10% rebate on tax rate of 27.50% and paid 24.75% according to corporate tax law for successive 6 years through 2008 to 2013 (Table 11). Also, in 2014, the company got 10% tax rebate (Table 11) for declaration of cash dividend 30% of paid up capital in 2014(National Board of Revenue, Paripatra, Income Tax, 2011-2012 to 2014-2015).

GlaxoSmithkline Bangladesh Limited

Table 12: Dividend Payment of GlaxoSmithkline Bangladesh Limited

Year	Dividend(TK)	Dividend (%)	Cash Dividend (%)	Stock Dividend (%)
2009	192744000	160	160	-
2010	240,930,000	200	200	-
2011	180,697,000	150	150	-
2012	180,697,000	150	150	-
2013	361,395,000	300	300	-
2014	505,951,000	420	420	-

Source: Annual Reports (2009-2014)

Table 13: Tax Liabilityof GlaxoSmithkline Bangladesh Limited

Year	Tax Liability (TK)	Statutory Tax Liability (%)	Current Tax (TK)	Deferred Tax (TK)	Effective Tax Rates*
2009	115035000	27.5-10% of 27.5=24.75	115,274,000	(239,000)	26.21%
2010	142583000	27.5-10% of 27.5=24.75	136,875,000	5,708,000	25.79%
2011	183,262,000	27.5-10% of 27.5=24.75	171,434,000	11,828,000	39.38%
2012	165,372,000	27.5-10% of 27.5=24.75	162,761,000	2,611,000	40.40%
2013	177,914,000	27.5-10% of 27.5=24.75	184,388,000	(6,474,000)	24.55%
2014	355,525,000	27.5-10% of 27.5=24.75	340,953,000	14,572,000	30.07%
Arithmetic average		24.75%			31.07%

$$\text{*Effective Tax Rate (ETR)} = \frac{\text{Current Tax} + \text{Deferred Tax}}{\text{Net Income Before Tax}}$$

Source: Author's own calculation based on Annual Reports (2009-2014)

According to corporate tax law, provision for income tax (Bangladesh Tax Handbook 2009-2010) was made @ 24.75% on net profit of taxable unit for the year after adjustment of 10% rebate for successive 6 years through 2009 to 2013 (Table 13).

Also,Table 13 shows that, GlaxoSmithKline Bangladesh Limited is a publicly traded company", and declared dividend of more than 20% of paid up capital, hence, in 2014 provision for income tax was made as per income tax rules after adjustment of 10% rebate for declaration of cash dividend above 30%(National Board of Revenue, Paripatra, Income Tax, 2011-2012 to 2015-2016).

Findings:

The dividend policy of a company has effect on tax liability of that company. Tax liability may increase or decrease depending on the dividend payment of a company. The followings are the findings about payments of dividends and its implications onselected 6 listed pharmaceuticals companies in Bangladesh:

Square Pharmaceuticals Ltd. Bangladesh

Square Pharmaceuticals Ltd. Bangladeshmade provision for income tax @ 30% on net profit of taxable unit for the year after adjustment of 10% rebate for declaration of dividend above 20% in 2005-2006 and 2006-2007 as per publicly traded company tax rate.The company declared and paid dividend above 20% for successive 6 years through 2007-2008 to 2012-2013 abiding by corporate tax law, so provision for income tax was made @ 24.75% on net profit of taxable unit for the year after adjustment of 10% rebate on 27.50% tax rate. Also, cash dividend above 30% in 2013-2014 was declared and paid, for that reason provision for income tax was made as per Income Tax Rules after adjustment of 10% rebate on 27.50% tax rate. The company is a "Publicly Traded Company", hence Tax Rate is applicable @25% in 2014-2015.In addition with that, the company got tax exemption for payment of dividend at required level and thus, saved Tk. 687,865,280 through 2006-2007 to 2014-2015.Undoubtedly, the company got increase in its wealth eventually from that tax savings.

Through the years of 2005-2006 and 2014-2015 the company paid statutory taxes at the average rate of 25.20% (Table 2).On the other hand, it has been found that, the company’s effective average tax rate is 26.416%. Although, the company’s effective average tax rate is bit higher than the statutory average tax rate, yet the tax performance is very well. However, the company performed the best in the year of 2005-2006, when its effective tax rate was only 23.95%.

BEXIMCO Pharmaceuticals Limited

The company is a publicly trade done, so it paid tax at the rate of 30% in 2006 and 2007 in accordance with corporate tax law in 2007 and 2008. The company would have got a tax rebate of 10%, if the company had paid dividend more than 20% of paid-up capital in 2006 and 2007.However, the company got 10% rebate on corporate tax rate of 27.50% in 2008 as it paid dividend of more than 20%, thus the tax rate was 24.75% according to corporate tax law in 2009.Furthermore, the company paid tax at the rate of 27.50% for successive 6 years through 2009 to 2014, as it paid dividend at the rate of between 15%-20% and did not get any tax rebate because of failure to pay dividend at prescribed rate specified by the corporate tax law.

From 2006 to 2014 the company’s average statutory tax liability rate is 27.75% (Table 5) and on the contrary, the company’s effective average tax rate is 24.25%. In this case, the company's effective average tax rate is lower than the statutory average tax rate, so the tax performance is very sound. Additionally, the company's best performance happened in this regard in 2006 and 2007, when the effective tax rate was 10.05% and 11.66% respectively.

Renata Limited

Renata Limited declared dividend more than 20% of paid up capital and accordingly the rate of income tax applied for the year 2006 and 2007 is 27% after adjustment of applicable rebate of 10% on 30% tax rate specified for publicly traded company. For declaration of dividend more than 20% of the paid up capital through the years 2008 to 2013, the company paid 24.75% tax rate considering 10% tax rebate on 27.50% tax rate. In addition with that, company declared cash dividend above 30% in 2014 and thus provision for income tax was made as per Income Tax Rules after adjustment of 10% rebate on 27.50% tax rate.

The company's average statutory tax liability rate is 25.25% (Table 7) and the company's effective average tax rate is 28.77%. Since, the company's effective average tax rate is higher than the statutory average tax rate, so the tax performance is not so good. Also, in 2011 and 2013 the effective tax rate was 24.40% and 26.26% respectively, which shows good performance.

ACI Limited

ACI Limited enjoyed 10% tax rebate on 30% tax specified for publicly traded company because it declared dividend more than 20% of paid up capital of the company and paid tax liability of 27% in 2006 and 2007 in accordance with corporate tax law in 2007 and 2008.Morever, the company paid dividend more than 20% for successive 6 years through 2008 to 2013, so the company got 10% rebate on tax rate of 27.50% and paid tax @24.75% according to corporate tax law. Additionally, in 2014, the company got 10% tax rebate on 27.50% tax rate and paid tax @24.75% for declaration of cash dividend above 30% of paid up capital in 2014.The statutory average tax rate is 25.25% and effective average tax rate is 26.96% but it becomes obvious that, the effective tax rate in 2006 was abnormally high and for that reason the average rate was also influenced (Table 9). Conversely, in 2008 the effective tax rate was only 9.12% and in 2009 the effective tax rate was 10.92%. Although, the company's effective average tax rate is bit higher than the statutory average tax rate, yet the tax performance is very well.

The IBN SINA Pharmaceutical Industry Ltd.

The IBN SINA Pharmaceutical Industry Ltd. declared dividend more than 20% of paid up capital, so it got 10% tax rebate on 30% tax specified for publicly traded company and paid tax liability of 27% in 2006 and 2007 in accordance with corporate tax law in 2007 and 2008.Furthermore, the company got 10% rebate on tax rate of 27.50% and paid 24.75% according to corporate tax law for successive 6 years through 2008 to 2013. In addition, for declaration of cash dividend of 30% of paid up capital in 2014, the company got 10% tax rebate.

Table 11 shows the company performed the best in 2008 and 2009, when the effective tax rate was 19.45% and 20.09% respectively. It has been found that, from 2006 to 2014 the company's average statutory tax liability rate is 25.25% (Table 11) and in contrast, the company's effective average tax rate is 24.06%. The tax performance is very sound since the company's effective average tax rate is lower than the statutory average tax rate.

GlaxoSmithKline Bangladesh Limited

GlaxoSmithKline Bangladesh Limited as a publicly traded company, declared dividend of more than 20% of paid up capital hence, according to corporate tax law, provision for income tax was made @ 24.75% on net profit of taxable unit for the year after adjustment of 10% rebate for successive 6 years through 2009 to 2013.Moreover, in 2014 for declaration of cash dividend above 30% of paid up capital, provision for income tax was made as per Income Tax Rules after adjustment of 10% rebate on 27.50% tax rate.

The statutory average tax rate is 24.75% and effective average tax rate is 31.07% but it becomes noticeable that, the effective tax rate in 2011 and 2012 was unusually high and that caused the higher effective average rate (Table 13). Conversely, in 2013 the effective tax rate was only 24.55%. However, the company's effective average tax rate is bit higher than the statutory average tax rate, yet it can't be said absolutely that the tax performance is bad.

In all the cases of 6 publicly traded pharmaceuticals companies, Effective Tax Rate (ETR) reduced for the effect of tax rebates that the companies obtained abiding by corporate tax law. Effective Tax Rate may be reduced by declaring dividend at prescribed rate specified by the National Board of Revenues. From the analyses and results it has been found that, the effective tax performance of "BEXIMCO Pharmaceuticals Limited" is 24.25% and of "The IBN SINA Pharmaceutical Industry Limited" is 24.06%, which is the best out of 6 listed companies.

Conclusion and Implications:

From the findings it has been found that Square Pharmaceuticals Ltd. Bangladesh, Renata Limited, ACI Limited, The IBN SINA Pharmaceutical Industry Ltd., and GlaxoSmithKline Bangladesh Limitedpaid dividend more than 20%,for that reason those companies got 10% tax rebate on their regular tax rate in different years according to corporate tax law. Thus, after deducting the tax rebate those companies paid tax liability of 24.75% in most of the cases. On the other hand, Beximco Pharmaceuticals Limited have different scenario. The company paid tax at the rate of 27.50% for 6 years, as it paid dividend at the rate of between 15%-20%. The company got 10% rebate on corporate tax rate of 27.50% only in 2008, as it paid dividend of more than 20%.

Furthermore, it has been found that Square Pharmaceuticals Ltd. Bangladesh, Renata Limited, ACI Limited, and GlaxoSmithKline Bangladesh Limited paid dividend in a way, so that they can provide satisfaction to the shareholders by ensuring cash dividend. Those companies kept enough retained earnings also to ensure future investment and paid a reasonable tax liability.

The ultimate goal of a company is to maximize the wealth of shareholders. Paying more dividends ensure tax rebate and reduce effective tax rate, but that can limit keeping more retained earnings for investing more. That is why, companies should make balance between dividend policy and tax liability. Companies should pay dividend in away, so that more profit can be retained for future investment opportunities as well as the tax liability becomes reasonable. Thus, wealth of shareholders can be maximized.

If companies and their managers take the proper decision regarding dividend payment keeping consideration in corporate tax rate, the companies will get tax rebates which will ultimately reduce the statutory tax burdens. Also, in most of the cases, effective tax rates will be in moderate conditions and it will lead the best tax performance and in consequence of this, the economy and the country will be benefitted.

If the study were performed covering all the listed pharmaceuticals companies in Dhaka Stock Exchange, better results of the study could be found. Also, the effective tax rate (ETR) is not the only measure of corporate tax performance; there are so many factors or indicators which are also relevant behind determining the tax performance of companies. Furthermore, comparative study among different companies under different industries may bring more meaningful results and applications.

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