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Dividend Payment Procedure in Joint Stock Companies of EU Countries And their Tax Mechanism

Narimonov Sayfullakhon Sunnatillo ugli
Doctoral Student of Tashkent Institute of Finance

Abstract
In this article, dividend policy, approaches to dividend payment, dividend payment procedure, general requirements for dividend policy, activity of agents in dividend policy and their necessity are highlighted. An analysis of the level of tax rates levied on dividend income in EU countries is also provided.

Keywords: dividend, shares, dividend policy, joint stock companies (JSC), EU, dividend agents, taxes from dividend.

Introduction

The market value of a company is usually understood as the price at which this company can be sold in the market under conditions of free competition. These issues are more relevant to JSC. The increase in the value of the company's assets today brings the main income to the owners of capital. Investors are primarily interested in increasing the market price of shares. Maximizing the market value of a company's stock is based on the assumption that increasing the wealth of the company's owners consists not in increasing the income in the form of dividends, but in increasing the market price of the stock. Therefore, there has been a constant interest and need to improve the practical means of assessing the market value of the company and its management, as well as to manage the processes of increasing the market value of the company. Thus, the concept of company value management appeared in management theory.

Many scientific studies have been devoted to the issue of effective dividend policy formation in the market economy. In theoretical approaches, the process of forming a company's dividend policy is considered in terms of its impact on the market value of the company and the welfare of the owners.

1. Literature Review

According to the Law of the Republic of Uzbekistan "On joint stock companies and protection of shareholders' rights", dividend is defined as the part of the company's net profit distributed among shareholders [1].

The model presented by M. Miller and F. Modigliani founded the theory of the insignificance of dividends. In other words, the dividend policy is not a factor affecting the market value of the company, it follows that dividends should be calculated on a residual basis after financing acceptable investment projects [2].

According to the definition of R.Braley and S.Myers, dividend policy is a compromise between, on the one hand, profit reinvestment and, on the other hand, payment of dividends by issuing new shares [3].

According to V.Kovalev, the market values companies that pay large dividends. The theory of the importance of dividend policy, or "bird in the hand", this theory assumes the existence of a dividend policy that determines the target (optimal) amount of dividends [4].

According to I. Lukasevich, the issue of profit distribution, dividend policy is one of the ten most urgent problems not solved in economic theory. To this day, this issue remains a subject of debate between scientists and practitioners [5].

John Lintner argued against the independence theory of dividend policy, arguing that dividend policy affects the amount of total shareholder wealth. An investor always wants to eliminate or minimize financial risk, for him it is better to receive dividends than to wait for future income. In addition, dividend payments serve to reduce the level of uncertainty among investors regarding the feasibility and profitability of investing in the company [6].

The role of stock market instruments as alternative resource sources in improving the resource bases of commercial banks was considered in the studies of our economists J. Ataniyazov and S. Narimonov [7].

The formation of international financial centers and its recognition at the world level, the researches related to the expansion of the scope of activity of JSC and expansion of their resource bases were carried out by E. Alimardonov [8].

2. Research Methodology

The paper employs research methods such as induction and deduction, systematic and comparative analysis, and economic and statistical methods to develop scientific findings and suggestions following an examination of the current state of development of dividend policy by JSC.

3. Analysis and Results

Different definitions of dividend and dividend policy have been formulated in the economic literature. The following should be noted as the most common and generalizing definitions of these concepts: Dividend policy is a mechanism for obtaining profit and distributing it among shareholders. Dividend policy can be viewed as an element of financial strategy aimed at efficient distribution of profit in order to maximize shareholder wealth. Dividend is a type of income that is distributed by joint-stock companies to shareholders of a certain share of the company's net profit. Almost all companies summarize their financial results for the previous year during the first quarter and submit financial reports to tax authorities. At the general meeting of founders or shareholders, the issue of paying dividends is considered in the I and II quarters of the year following the reporting year, and the issue of paying them or not is decided. The mechanism of formation of the value of dividends in joint-stock companies begins with the process of distribution of net profit. The decision on the distribution of net profit is approved by the general board of shareholders after its adoption by the board of directors. The distribution of net profit includes funds allocated for the purpose of expansion of the production process, expansion of activities, attraction of new equipment and technologies, formation of a reserve fund and payment of dividends on shares. Management decisions in the field of dividend payment by joint-stock companies are made through the dividend policy approved by the company. The amount of dividends differs according to the type of shares. Dividends on ordinary shares are not constant, they depend on the amount of profit and its share distributed among shareholders. On the contrary, in the case of a preferential share, the dividends are constant and do not depend on the amount of profit. Therefore, the development and implementation of an effective dividend policy by joint-stock companies is one of the important areas of the financial manager's activity and requires a deep understanding of the factors affecting it.

Paying dividends is the most important corporate process that earns investor confidence. Companies are a complex system that requires constant cooperation with shareholders, tax authorities, banks and other organizations to ensure the net profit of society. It is necessary to emphasize the importance of the registrar (depository), which assumes the functions of the agency for the payment of dividends for the issuer and strictly follows the procedure established by law. The undoubted advantages of paying dividends by agency are shown in figure 1.

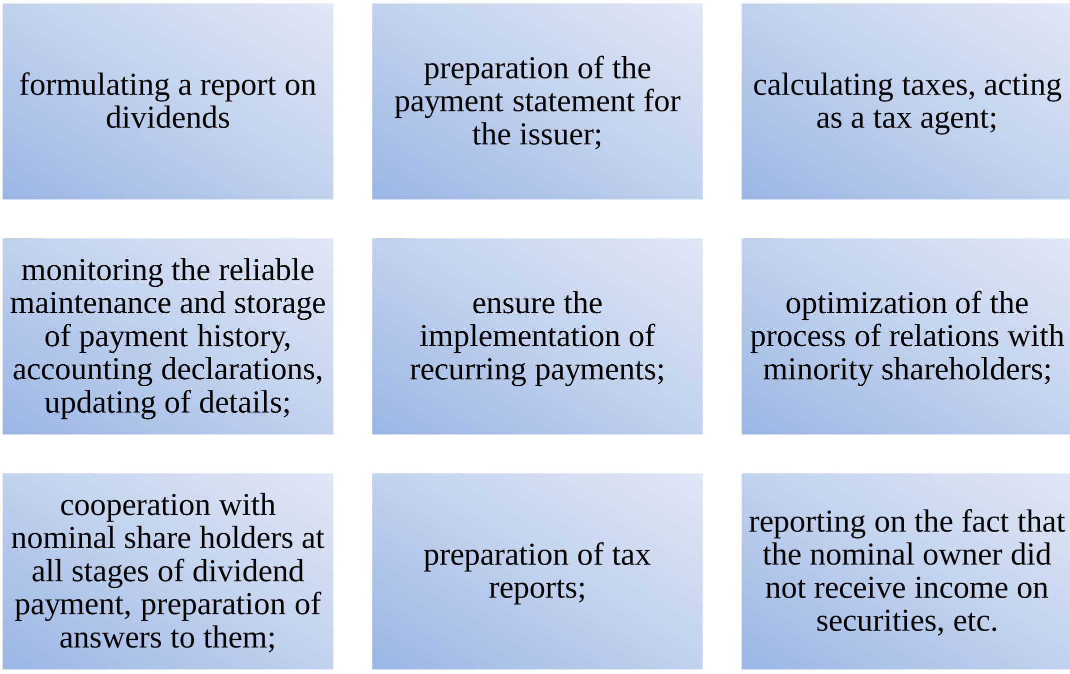

Figure 1. Advantages of paying dividends by agency for the payment of dividends

The procedure and conditions for receiving dividends are determined by the dividend policy, and the amount of dividends is approved by the general meeting of the JSC. In this case, the dividend policy refers to the place and importance of the organization's activities, as well as the attention of business and financial management.

The formation of dividend policy in each joint-stock company has its own characteristics, but all companies have the following general stages:

- choosing the type of dividend policy in accordance with the developed development strategy;
- determining the terms and forms of dividend payment;
- evaluating the efficiency of the dividend policy.

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Dividend policy raises key questions such as whether dividend payments affect a company's market value and how the market values companies that pay large dividends to their shareholders. The following factors affect the amount of dividends are highlited in figure 2.

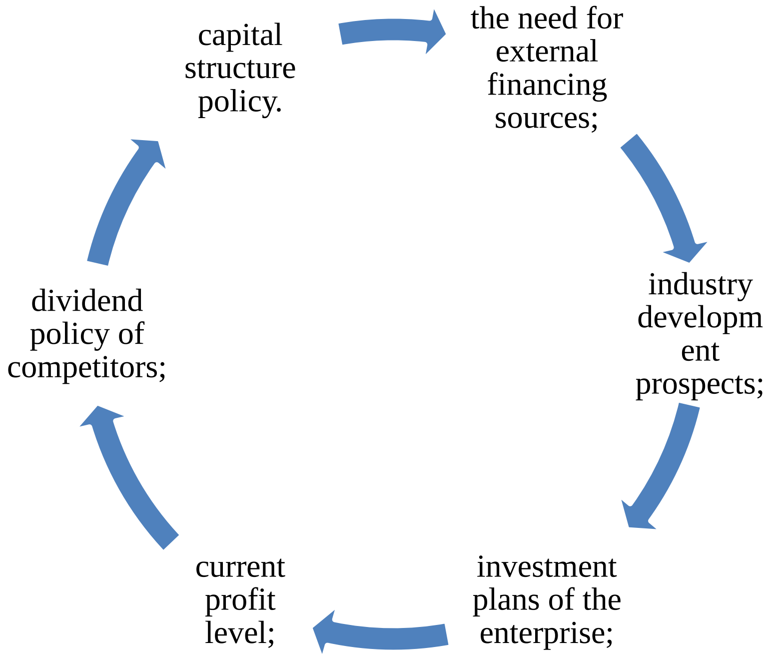

Figure 2. Factors affecting to dividens

One of the most controversial and important determinants of investor behavior in markets is the level of taxation on investor income. The research of Robert Litzenberger and Krishna Ramaswamy laid the foundation for the theory of tax stratification, according to which capitalized income, rather than dividends, was preferable from the perspective of shareholders, since capitalized income was taxed less than income received in the form of dividends. If the tax rate on dividends is higher than the capital gains tax rate, investors will demand a higher return on their investments in the stocks of dividend-paying firms, which will cause the stock prices of dividend-paying firms to fall relatively low. The importance of the theory of tax differentiation is confirmed by the fact that it focuses on tax regulation of the level of dividend payment [9].

In different countries, there are different approaches to the problems of setting tax rates in relation to the income received by investors on securities of joint-stock companies. For example, Germany and Japan have a high income tax rate on dividends, while France has a low one; The UK, Australia and Canada have the same tax rates on dividends and reinvested income. In many countries, tax rates differ for different categories of taxpayers, so the dividend policy of joint-stock companies is often tailored to a specific group of investors.

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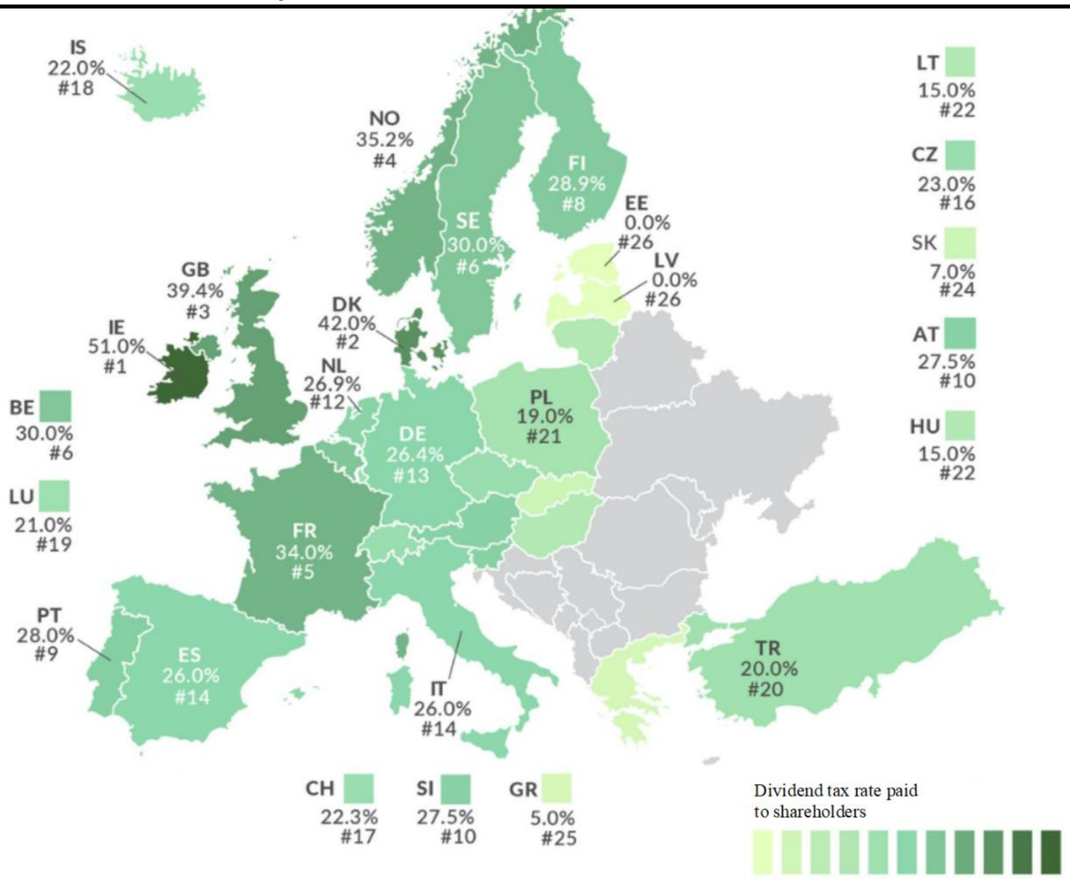

Figure 3. Dividend tax rate in European countries

Figure 3 shows the tax rate on dividend income in European countries in 2022 according to OECD data, according to which the highest dividend tax rates in Europe are Ireland 51%, Denmark 42%, Great Britain 39%, 4%, Norway 35.2%, France 34%, Sweden and Belgium 30%, Finland 28.9%, Portugal 28 %, Austria and Switzerland 27.5%. Based on the data of the figure, it can be said that the income tax on dividends is very high in EU member countries. Spain has a dividend tax rate of 19% for non-residents, compared to other European countries such as France or Germany, where tax rates are as high as 34%.

To date, the debate over dividend policy has shaped the opinions of three opposing groups: conservatives, radicals, and centrists. A group of conservatives believes that an increase in dividend payments will lead to an increase in firm value. The Radical group believes that such an increase will reduce the value of the dividend. According to the group of centrists, who occupy an intermediate position between them, dividend policy has nothing to do with value [3].

Modern studies of the dividend policy of various companies show that recently the shares of companies that regularly pay dividends to their shareholders are becoming more attractive. At the same time, institutional investors are more willing and able to monitor corporate governance than smaller and more dispersed owners. As a result, corporate dividend policies can be designed to attract institutional investors who, in turn, provide monitoring services.

Today, a clear attitude towards the dividend policy has not been formed. Dividend policy is defined as an attribute of the joint-stock company's successful activity and an indicator of the stability of the corporate management system. The indicator of the effectiveness of the dividend policy in a modern company is not only the dividend income per share, but also the detailed and flexibility of the established procedure for calculating the amount of dividends depending on the company's financial situation and development strategy. Determining the procedure for calculating, approving and paying dividends in the internal documents of the joint-stock company serves the purpose of informing shareholders and interested parties about the principles of exercising property rights on ordinary and preferred shares.

Despite the economic changes in our country, there is still not enough attention paid to the study of dividend policy and the peculiarities of its formation. At the same time, today the main principles of the dividend policy of the leading companies of our country, the mechanism of profit distribution, the calculation procedure and conditions for the payment of dividends have been developed. At the same time, a comparative analysis of the activities of the leading companies shows that, depending on the operating conditions and stages of development, they follow different types of dividend policy - from the policy of the residual principle to the policy of maintaining a stable volume or growth of dividends. The companies of our country allocate 10-20% of the net profit of the society, and commercial banks allocate a maximum of 5% for paying dividends. In global practice, this value reaches 40%. As a result, the investors' interest in securities in these countries will be relatively high.

At the same time, paying dividends to the company is not considered as a mechanism for changing its market value. The main goal of the dividend policy is to increase the investment attractiveness of the company by increasing the amount of dividends.

4. Conclusion

The priorities between the interests of investors and the interests of the joint-stock company can shift in different directions. Under conservative policies, the benefits would go to businesses that reinvest their earnings. Often, this policy is used by young enterprises or enterprises with insufficient growth rates of income, but even now many leading companies of the world, including our country's companies, use it. Dividends are paid on a residual basis and are often permanent.

A moderate policy includes a guaranteed minimum percentage of profits paid to shareholders and additional bonuses if the financial position is good. Aggressive policies that shift priorities to consumption. Thus, we can conclude that there is currently no uniform dividend policy for companies.

At different stages of its formation and development, in different situations in the market, the company's activity is aimed at increasing the fund or increasing the payment of dividends to shareholders, rather than increasing the market value of the entire company, it is aimed at increasing investment attractiveness and financial and economic activity. contributes more. When comparing tax systems, it is important to consider the specific laws and regulations in each country. Dividend tax rates and rules vary by country.

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