



## CORPORATE TAX AND FINANCIAL PERFORMANCE: EVIDENCE FROM LISTED CONSUMER GOODS FIRMS IN NIGERIA

Kingsley Sweetwilliams<sup>1</sup>, Lucky Onmonya<sup>2</sup> and Kolawole Ebire<sup>3</sup>

<sup>1</sup>Department of Accounting, Nile University of Nigeria

<sup>2</sup>Department of Accounting, Nile University of Nigeria

<sup>3</sup>Department of Banking and Finance, Nasarawa State University, Keffi

Corresponding Author: [kolawole.ebire@gmail.com](mailto:kolawole.ebire@gmail.com)

### Cite this article:

Sweetwilliams K., Onmonya L., Ebire K. (2023), Corporate Tax and Financial Performance: Evidence from Listed Consumer Goods Firms in Nigeria. African Journal of Accounting and Financial Research 6(2), 44-54. DOI: 10.52589/AJAFR-F1WXFXU3

### Manuscript History

Received: 10 Feb 2023

Accepted: 1 April 2023

Published: 14 April 2023

### Copyright © 2022 The Author(s).

This is an Open Access article distributed under the terms of Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International (CC BY-NC-ND 4.0), which permits anyone to share, use, reproduce and redistribute in any medium, provided the original author and source are credited.

**ABSTRACT:** *The study examined the effect of corporate tax on the financial performance of Nigerian listed consumer goods companies from 2011 to 2021. A sample of sixteen (16) consumer goods firms was used for the study. Secondary data source was generated from the annual reports of the selected firms. The random effect panel regression results revealed that company income tax negatively affects financial performance. The study also revealed that education tax has a significant positive effect on financial performance. While Value Added Tax (VAT) has a significant negative effect on financial performance. In conclusion, corporate tax has a statistically significant effect on the financial performance of consumer goods firms in Nigeria. Based on these findings, the study recommends that to leave enough net income in the hands of the listed consumer goods companies, the federal government should offer more tax exemptions that will lower company income tax payments.*

**KEYWORDS:** Company income tax, Education tax, Value added tax, Nigeria.



## INTRODUCTION

The question of how well a company is doing is critically important to various groups of people. This is because all agents tasked with making any kind of financial decision regarding firms are concerned with the company's financial position. As a result, businesses, directors, financiers, financial institutions such as banks, lenders, corporate partners, staff, and even the authorities are constantly keen on models that assist in analysing and forecasting company performance.

A company's performance is a primary concern because it can absorb shocks from the market and impact the overall growth of the system and the stability of the company in particular. Taiwo and Oyedekun (2022) opined that shareholders focus most of their attention on a company's performance before engaging in business with that company. As a result, profitability has evolved into the primary factor that is used to evaluate a company's financial performance. However, some of these companies have achieved the exact opposite of their goals, making it more difficult for firms to attain the standards they have set for themselves. They are required to utilise a variety of different firm performance management systems, considering that a company's performance is likely to be driven by a variety of factors. The issue of taxation and its impact on firm performance is one of the most important issues that policymakers and firm executives focus on (Iormbagah, Abiahu & Ibiam, 2021). Improving a company's performance and achieving its objectives are reliant on management. Identifying the drivers of firm performance and allocating resources in accordance with these drivers is also crucial. It makes it simpler for businesses to set goals in terms of achievable milestones and timeframes.

The term company income tax refers to the tax that corporate organisations must pay globally. The earnings of businesses presumed to have amassed, generated or imported into a nation are subject to mandatory payment of company income tax over several years. Nwaeke, Adegbe and Ogundajo (2022) observed that, as amended, the Companies and Allied Matters Act (CAMA) 2020 defines Nigerian companies as those incorporated in the country. Any revenue generated by such firms may be presumed to have amassed, been obtained from, or been transferred into the country. Additionally, for foreign companies, that is, companies founded under laws that are not legally binding in Nigeria, any revenue generated by such companies may be considered to have amassed, been sourced from, or been raised outside of Nigeria to the degree of not ascribable to operations within Nigeria.

The slow but failing rate in consumer goods companies in Nigeria is becoming more prevalent due to the degeneration in their profit. The compelling desire to utilise corporate tax assessment to solve poor performance cannot be overemphasised. In this study, the corporate tax is a proxy as company tax, education tax and Value Added Tax (VAT), while financial performance is a proxy as Return on Asset (ROA). The Companies Income Tax Act (CITA), passed in 1979 and derived from the Income Tax Management Act of 1961, is responsible for creating the CIT. According to Adejare (2015), CIT is a tax levied against the profits of Nigerian-registered and foreign businesses conducting any business in Nigeria. The primary law governing how companies are taxed in Nigeria is the CIT Act, 2007 (as amended), which also gives the Federal Inland Revenue Service Board (FIRSB) the authority to evaluate and receive taxes from all limited companies that are operation in Nigeria, except for those that are expressly exempt from taxation under the ACT. The tax system is set up so domestic companies can be taxed on their assessable profit, which comes from all of their global operations.



In contrast, multinational firms can only be taxed on the income they receive from their domestic operations within the jurisdiction. The Act mandates that businesses pay 30% of their assessable profit as tax to the government after deducting all allowable expenses under the Act's guidelines. Olaoluwa (2021) noted that the Finance Act (2021) and Tertiary Education Trust Fund (TETF) Act stipulated that the education tax is payable by companies registered in Nigeria at the rate of 2.5% of the assessable profit. According to Feyijuwa and Aderonke (2021), VAT is a consumption tax that is applied to all goods and services delivered in Nigeria or imported into the country. The VAT rate in Nigeria is currently 7.5%.

The findings on corporate taxes and financial performance are inconclusive. Previous studies found that corporate taxes levied on firms increases performance (Otwani, Namusonge & Nambuswa, 2017; Olaoye & Oluwatoyin, 2019; Taiwo & Oyedokun, 2022). In contrast, other studies found that corporate taxes impede the financial performance of firms (Oladipo, Iyoha, Fakile, Asaleye & Eluyela, 2019; Yoke & Chan, 2018), while other studies found no association between corporate taxes and performance (Nwaorgu, Oyekezie & Abiahu, 2020; Iormbagah, Abiahu & Ibiam, 2021). These studies focused on Small and Medium Scale Enterprises (SMEs), manufacturing firms, and financial and non-financial firms. This study aims to fill this gap by examining if corporate tax affects the financial performance of listed consumer goods in Nigeria. The study's main objective is to examine the effect of corporate tax on the financial performance of listed consumer goods companies in Nigeria.

### *Statement of Hypotheses*

H<sub>01</sub>: Company income tax has no significant effect on ROA of listed consumer goods firms in Nigeria.

H<sub>02</sub>: Education tax has no significant effect on ROA of listed consumer goods firms in Nigeria.

H<sub>03</sub>: Value added tax does not have a significant effect on ROA of listed consumer goods firms in Nigeria.

Following the introduction, the remainder of the paper is as follows: Section 2 presents the underpinning theory of corporate tax and financial performance and the review of literature on corporate tax and performance. Section 3 discusses the methodology, population, sampling and model specification. Section 4 highlights the findings from the analysis and section 5 presents the conclusion and recommendations.

## **BRIEF LITERATURE REVIEW**

This study is hinged on the ability to pay theory propounded by Adam Smith. This theory proposes that taxes should be funded by the income of individuals and the amount they can contribute without receiving anything in return (Neumark & McLure, 2020). According to the ability-to-pay principle, each person's share of the tax burden must be allocated based on their ability to pay it, considering all pertinent personal factors.

Prior empirical studies have argued that corporate tax positively influences performance. For example, Otwani et al. (2017) found a positive association between CIT and the ROA of listed companies in Kenya. Chude and Chude (2015) evaluated the impact of CIT on the profit of



Nigerian companies in the aspect of return on assets spanning 2000 to 2012. Earnings per share were used to measure profitability, while CIT was used as the independent variable to represent company tax. The results of the study showed that the amount of corporate tax has a significant impact on profitability.

Similarly, the effect of CIT on company profitability in Nigeria from 2007 to 2016 was investigated by Olaoye and Oluwatoyin (2019). The results of the pooled OLS showed that CIT has a positive and significant effect. In addition, Taiwo and Oyedokun (2022) examined how corporate taxes affected Nigeria's SMEs financial outcomes. The results showed that taxes on education are significantly associated with the financial performance of SMEs in Nigeria; however, this association is negative. On the contrary, CIT has an insignificant effect on that performance. The study finds that CIT, education tax, and personal income tax are the main factors influencing the financial performance of SMEs in Nigeria. This finding also aligns with Akadakpo and Akogo's (2022) study, which investigated how corporate performance is affected by income tax from 2011 and 2020. Data from 12 firms listed on the Nigerian Exchange Group (NGX). The study showed that CIT significantly and positively impacts profit after tax and ROE.

On the contrary, empirical findings show that paying corporate tax negatively affects the performance of firms. For example, Oladipo et al. (2019) study on the impact of taxes on the manufacturing sector output in Nigeria found that VAT significantly negatively affects manufacturing output. Findings showed a reversal where VAT has a significant positive effect on manufacturing output and corporate income tax has a negative effect on manufacturing output in the short-run. Similarly, Yoke and Chan (2018) found that VAT negatively affects manufacturing firms' performance.

In another vein, Nwaorg et al. (2020) established that the corporation tax rate does not significantly impact firms' ROE. The study was based on data from 10 Nigerian manufacturing companies that are publicly traded from 2013 to 2017. Data from the studies were analysed using basic linear regression and was used to analyse them. Iormbagah et al. (2021) argued that the tax exemption accessible to manufacturing companies are insufficient to increase manufacturing activities for business expansion. As a result, the companies are forced to postpone paying their taxes, which results in deferred tax liabilities. The impact of the corporate tax mix on the financial performance of listed manufacturing firms in Nigeria was examined in their study from 2014 to 2018. Information was gathered from 10 manufacturing companies listed on the NGX.

Nwaeke et al. (2022) investigated the connection between Nigerian quoted companies' financial performance and corporate income tax. The study's population include all 173 quoted financial and non-financial companies on the NGX as at 2019 from 2006 to 2020, using a quota system and a stratified sampling technique to obtain a sample of 30. The results showed that among the sampled Nigerian quoted companies, financial performance has a substantial impact on the CIT.



## RESEARCH METHODOLOGY

This study adopts *ex post facto* research design since it relied on secondary data to establish the effect between corporate tax and the financial performance of listed Nigerian consumer goods and employed the panel regression method in testing the hypotheses of selected and quoted listed Nigerian consumer goods on the NGX from 2011 to 2021. A sample of sixteen consumer goods firms were purposely selected from a population of twenty listed firms on the NGX. This was based on data availability for the period under review.

### *Model specification*

The model for this study was developed using the Multiple Regression technique.

$$ROA_{it} = \beta_{0it} + \beta_1CIT_{it} + \beta_2ET_{it} + \beta_3VAT_{it} + e_{it}$$

Where:

ROA =Return on Assets

CIT = Company Income Tax

ET = Education Tax

VAT = Value Added Tax

$\beta_0$  = Constant

e = Error Term

$it$  = cross-sectional time series

**Table 1: Variables and their measurements**

Variables	Type	Description
ROA	Dependent variable	Measured by profit after taxes divided by total assets
CIT	Independent variable	Measured as the 30% of assessable profit
Education tax	Independent variable	Measured as the total amount paid as educational tax
VAT	Independent variable	Measured as the total amount of consumption tax paid on all goods and services

Source: *Authors' Compilation (2023)*.



## RESULTS AND DISCUSSIONS

This section discusses the findings derived from the sampled companies' annual reports. The findings are presented below:

### Descriptive statistics

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
<b>Roa</b>	176	.1476527	.1256714	-.013035	.467272
<b>Cit</b>	176	375636.2	260944.1	-14762	994223
<b>Edu</b>	176	448.8409	704.7014	12	7654
<b>Vat</b>	176	7025.472	12223.75	770	87764

Source: *Authors' Computation (2023)*.

Table 2 highlights the statistics of the data of the study. It demonstrates that ROA has a mean score of .1476527, implying that the average ROA in this domain is 15%. The standard deviation of ROA is 13%, indicating that the deviation from the mean is quite small, and thus the data are concentrated around the mean. The firms' ROA has a minimum value of -1% and a maximum value of 48%. This result reveals that the minimum value deviates significantly from the maximum value. As a result, some firms have very high ROA while others have low returns.

According to the financial statements, the average company income tax is 375636.2, with a minimum and maximum of 14762 and 994223, respectively, and a standard deviation of 260944.1. This demonstrates that companies paid an average of N375,636.2 in profit after tax, with a maximum loss of N14,762 and a maximum profit of N994,223. The standard deviation of N260,944.1 indicates that the profit after tax of the companies under consideration deviated from the mean value by up to N260,944.1.

Table 4.1 also shows that the mean education tax as indicated by the mean is 448.8409, indicating that the average amount the sampled companies paid as education tax is N448.8409 with the standard deviation of 704.7014, representing the average variability of education tax of the firms within the period covered by the study. The tables' minimum and maximum are N12 million and N7,654 million, respectively.

Furthermore, value added tax has a mean score of 7025.472, which implies that the average value added tax firms paid from company profit is N7,025.472 with a standard deviation of 12223.75. The result also reveals a minimum value of N770 and a maximum value of N87,764, respectively.

**Table 3: Correlation Matrix**

	ROA	CIT	EDU	VAT
ROA	1.0000			
CIT	-0.2483	1.0000		
EDU	0.2335	-0.1355	1.0000	
VAT	-0.1771	0.1670	0.0965	1.0000

Source: *Stata Output (2023)*.

Each pair of variables is represented by a correlation matrix. Each independent variable's relationship with the dependent variable is expected to be strong, while the association between each pair of independent variables is expected to be weak. Gujarati and Porter (2009) opined that the correlation between two independent variables greater than 0.8 is considered extreme and may signal the presence of multicollinearity. Table 3 shows, however, that all of the correlation coefficients between the pairs of independent variables are less than 0.8, implying that the three independent variables can be well-fitted into a single regression model.

The correlation matrix table revealed that the correlation coefficient between financial performance and company income tax is -0.2483. The result implies that CIT has a negative association with the ROA of Nigeria's sampled companies. The larger the company's income tax, the lower the ROA.

The result also shows that the association coefficient between education tax and ROA is 0.2335. The result means that education tax has a positive association with ROA. It implies that an increase in education tax will result in an increase in ROA and vice versa.

Table 3 further revealed that the correlation coefficient between the ROA and value added tax is -0.1771. This means that VAT negatively affects the ROA of the sampled companies in Nigeria. The result infers that as VAT increases ROA of the sampled companies decreases. Hence, an increase in VAT will result in a decline in financial performance.

**Table 4: Random Effect Regression Result**

	Coef.	Std. Err.	t	P> t
CIT	-.1531484	.0588692	2.60	0.010
EDU	.1022671	.0330583	3.09	0.002
VAT	-.0074273	.003234	-2.30	0.023
_cons	.1224912	.2532087	0.48	0.629
R-squared = 0.5290				
F( 3, 172) = 48.49				
Prob > F = 0.0000				

Source: *Regression Result (2023)*



The multicollinearity test is performed to test for the presence of multicollinearity. The results revealed that all VIF values are less than 10 and tolerance values are greater than 0.1. Furthermore, the average VIF is 1.04. As a result, no indication of multicollinearity among the explanatory variables is found.

A heteroscedasticity test was also performed to verify the regression model's homoscedasticity assumption. The presence of heteroscedasticity contradicts the homoscedasticity assumption and may result in an incorrect inference. This study used the Breusch-Pagan/Cook-Weisberg test to perform the heteroscedasticity test. The test's null hypothesis is "constant variance" (presence of homoscedasticity). As a result, if the p-value falls below or equal to 5%, there is reason to reject the null hypothesis. The study's Breusch-pagan/Cook-Weisberg test results show that the chi2 value is 0.69 and the chi2 p-value is 0.13400, suggesting the absence of heteroscedasticity.

The Hausman specification test was used to choose between the random and fixed effect models. The Hausman test revealed that the chi2 value is 1.24 and the prob>chi is 0.7441. The probability of chi2 reporting an insignificant value indicates that the Hausman test favors the random effect model.

As a result of the outcome of the Hausman test, the Breusch and Pagan Lagrangian multiplier test for random effect was used to select between the random effect and pooled regression results. The chi2 value was 0.06 with prob>chi2 = 0.4054. The result indicated that the OLS regression model is the best to interpret.

The R<sup>2</sup> value indicated how well the corporate tax variables explained the ROA. Table 4 shows that the R<sup>2</sup> is 0.5290. This means that the corporate tax variables in the study explained 53% of the ROA. The F-statistic has a value of 48.49 and a probability of chi2 = 0.000. The probability of chi2 is 5%, which indicates that the model is fit. This gives sufficient reason to deduce that the variables chosen for the study, CIT, education tax, and VAT, are appropriate for explaining the financial performance of consumer goods firms in Nigeria.

### ***Hypothesis Testing***

Table 4 shows the result of the hypotheses formulated in section 1. Below are the findings:

*H<sub>01</sub> : Company Income Tax has no significant effect on ROA of listed consumer goods companies in Nigeria.*

From Table 4, the company income tax has a coefficient of -.1531484, t-value of -2.60 and p-value of 0.010 which explains a significant negative effect on ROA. This implies that any 1% increase in company income tax results in a 15% decrease in ROA. That is, as company income tax increases, there is a reduction in ROA, holding all other variables constant. The study, therefore, has enough reason to reject the null hypothesis that states company income tax has no significant effect on return on assets. The result from the study reveals that CIT in the listed consumer goods companies in Nigeria has a negative effect on the return on assets of the sampled firms. This finding aligns with the opinion of Oladipo et al. (2019), who evaluated the effect of CIT on financial performance. Their study indicated a significant negative impact of CIT on ROA. The finding also agrees with the results of Yoke and Chan (2018), who affirmed that when the CIT burden increases, the level of financial performance decreases. However, this finding contradicts the study of Chude and Chude (2015), Taiwo and Oyedekun (2022)





and Akadakpo and Akogo (2022), who found a significant positive effect between CIT and firm performance.

*H<sub>02</sub>: Education Tax has no significant effect on ROA of listed consumer goods companies in Nigeria.*

The education tax coefficient shows a significant positive effect on ROA since the coefficient is .1022671, t-value of 3.09 and a p-value of 0.002. This implies that for every 1% increase in education tax, there is a resulting 10% increase in ROA at a significant level. Therefore, the study has enough evidence to reject the null hypothesis; education tax does not significantly affect ROA. This finding aligns with Taiwo and Oyedekun (2022), who found that education tax positively affects human capital development. This implies that as the education tax increases so do ROA increases. This may be due to the reaction to the amount paid as tax as some companies adopt strategies to recover such money, thus increasing their profit and the circle continues.

*H<sub>03</sub>: Value Added Tax does not have a significant effect on the ROA of listed consumer goods companies in Nigeria.*

The VAT coefficient shows that intangibles have an insignificant negative effect on ROA with coefficient of -.0074273, t-value of -2.30 and p-value of 0.023. This explains that every 1% increase in VAT causes a decrease in ROA by 0.07%, which is statistically significant. Therefore, the study has sufficient reason to reject null hypothesis three, which states that VAT has no significant effect on ROA. According to Oladipo et al. (2019), the burden of VAT is borne directly by the VAT tax reducing companies' sales volume and, consequently, wealth maximisation.

## CONCLUSION AND RECOMMENDATIONS

The main objective of this research was to assess the effect of corporate taxes on the financial performance of listed consumer goods companies in Nigeria from 2011 to 2021. Specifically, the study examined the effect of CIT, education tax and VAT on the financial performance of consumer goods firms in Nigeria. The random effect panel regression shows that CIT negatively affects the ROA of consumer goods firms in Nigeria. The study also found that the education tax positively and significantly affected the ROA of consumer goods firms in Nigeria. Furthermore, the study found that VAT negatively affects the ROA of consumer goods companies in Nigeria. Based on these findings, the study concludes that company income tax decreases financial performance. Implying that company income tax levied against the sampled companies reduces the company's ability to retain profit which could be channelled into other productive activities. Furthermore, the education tax is an important driver of the ROA of consumer goods firms in Nigeria. This suggests that economic development will occur when tax revenue is used effectively to provide infrastructure and to uplift human capital. In other words, by investing in human capital development through the use of education taxes, the nation will produce more productive people who will be employed and involved in activities that will improve performance. The study observed that the reason behind the negative relationship is premised on the fact that consumers always bear the consumption tax burden. The increase in VAT will impact consumer purchasing power and, in turn, the company's financial performance.



Based on the conclusions of the study, the following recommendations were proffered:

- i. The study recommends that to leave enough net income in the hands of the listed consumer goods companies, the federal government should offer more tax exemptions that will lower company income tax payments.
- ii. Companies should be encouraged to pay education tax as it has a positive effect on the profitability of the firms.
- iii. This study also recommends that efficient tax rebates to consumer goods firms can cushion the negative effect of VAT on performance. Government and policymakers must review the tax incentive and tax rebate policy to boost the consumer goods firm's performance

## REFERENCES

- Adejare. A. (2015). The analysis of the effect of corporate income tax (CIT) on revenue profile in Nigeria. *American Journal of Economics, Finance and Management*, 1(4), 1-10
- Akadakpo, B. A. & Akogo, O. U. (2022). Impact of company income tax on corporate profitability in Nigeria, *Indian Journal of Finance and Banking*, 9(1), 104-114. DOI: 10.46281/ijfb.v9i1.1567
- Chude, D. I. & Chude, N. P. (2015). Impact of company income taxation on the profitability of companies in Nigeria: A case study of Nigerian breweries. *European Journal of Accounting, Auditing and Finance Research*, 3(8), 1-10.
- Feyijuwa, A., & Aderonke, A.A. (2021). *Nigeria: Nigeria's Value Added Tax (VAT) Regime; Regulatory Update*. Retrieved March 8, 2023, from Mondaq: <https://www.mondaq.com/nigeria/sales-taxes-vat-gst/1110590/nigeria39s-value-added-tax-vat-regime-regulatory-update#:~:text=What%20is%20VAT%3F,%2C%20companies%2C%20and%20government%20agencies>.
- Iormbagah, J. A., Abiahu, M. C. & Ibiam, O. (2021). Corporate tax mix and financial performance of listed manufacturing firms in Nigeria, *International Journal of Contemporary Accounting Issues*. 10(2), 64-84.
- Neumark, F. & McLure C. (2020). *The benefit principle*. Retrieved March 6, 2022, from Britannica: <https://www.britannica.com/topic/taxation/Shifting-and-incidence>
- Nwaeke, A. P., Adegbe, F. F. & Ogundajo, G. (2022). Financial performance and companies income tax of listed companies in Nigeria, *CALEB International Journal of Development Studies*, 5(1), 151-163. <https://doi.org/10.26772/cijds-2022-05-01-09>
- Nwaorgu, I. A., & Abiahu, M. F. C. (2020). Effect of corporate tax on sustainable financial performance of listed firms in Nigeria. *Journal of Taxation and Economic Development*, 19(1), 50-63.
- Oladipo, O. A., Iyoha, O. F., Fakile, A. S., Asaleye, A. J., & Eluyela, D. F. (2019). Do government taxes have implications on manufacturing sector output? Evidence from Nigeria. *Journal of Management Information and Decision Sciences*, 181-190
- Olaoye, O. C., & Oluwatoyin, A. E. (2019). Effect of corporate taxation on the profitability of firms in Nigeria. *Journal of Economics and Behavioral Studies*, 11(1), 191-201



- Otwani, M. N., Namusonge, G. S., & Elizabeth, N. M. (2017). Effect of corporate income tax on financial performance of companies listed on the Nairobi securities exchange in Kenya, *International Journal of Social Sciences and Information Technology*, 3(8), 2467-2477
- Otwani, M. N. Namusonge, G. S. & Nambuswa, E. M. (2017). Effect of corporate income tax on financial performance of companies listed on the Nairobi securities exchange in Kenya. *International Journal of Social Sciences and Information Technology*, 3(8), 2467-2477
- Taiwo, A. O. & Oyedokun, G. E. (2022). Corporate taxed and financial performance of small and medium enterprises in Nigeria, *Journal of Accounting and Taxation*, 2(3), 107-121
- Yoke, L. M. & Chan, S. (2018). The impact of value added tax on manufacturing performance in ASEAN. *International Journal of Business, Economics and Law*, 17(1), 7-15