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THE IMPACT OF DIRECT TAXES ON THE FINANCIAL PERFORMANCE OF LISTED CONSUMER GOODS FIRMS IN NIGERIA

Jimoh Tajudeen Shola and Adesina Omolola Kafayat

Department of Accounting, Finance and Taxation, Caleb University Lagos.

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ABSTRACT: *This study investigates the relationship between direct taxes and the financial performance of listed consumer goods firms in Nigeria. Using a quantitative research approach, we analyzed data from the financial statements of 15 listed consumer goods firms in Nigeria over a five-year period (2017-2021). Our results show that direct taxes have a significant negative impact on the financial performance of listed consumer goods firms in Nigeria, as measured by profitability and investment decisions. Specifically, we found that:. A 1% increase in direct taxes leads to a 0.8% decrease in profitability. A 1% increase in direct taxes leads to a 0.6% decrease in investment decisions. Our findings suggest that policymakers and regulatory bodies should consider reducing direct tax rates to improve the financial performance of listed consumer goods firms in Nigeria.*

KEYWORDS: Educational tax, Company income tax, value added tax.

INTRODUCTION

Organisation 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. 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). The question of how prepare a company is doing is critically important to various groups of people. This is because all agents assigned 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. Direct taxes, which include Value added tax, Education Tax, Company Income Tax, Capital Gains Tax are a significant source of revenue for the government of Nigeria. However, these taxes also have a substantial impact on the financial performance of businesses operating in the country. Listed consumer goods firms are affected by direct taxes, as they are required to pay taxes on their profits and sales.

Despite the importance of direct taxes and financial performance, there is a lack of research on the specific impact of direct taxes on the financial performance of listed consumer goods firms in Nigeria. This study aims to fill this knowledge gap by investigating the relationship between direct taxes and financial performance of listed consumer goods firms in Nigeria

Specifically, this study seeks to answer the following research questions:

- What is the impact of corporate tax on the financial performance of listed consumer goods firms in Nigeria

- How does education tax affect the financial performance of listed consumer goods firms in Nigeria

By investigating the impact of corporate taxes on financial performance, this study aims to provide insights for policymakers, investors, and stakeholders in the consumer goods sector in Nigeria. The findings of this study will contribute to the existing literature on taxation and financial performance and provide recommendations for improving the financial performance of listed consumer goods firms in Nigeria.

BACKGROUN TO THE STUDY

Direct taxes, which include Corporate tax, Education Tax, and Personal Income Tax, are a vital source of revenue for the government of Nigeria, accounting for a significant proportion of the country's total revenue. In 2020, direct taxes accounted for approximately 60% of Nigeria's total revenue, with corporate tax alone accounting for 30% (Federal Inland Revenue Service, 2020).

However, high direct tax rates can have a detrimental impact on the financial performance of firms operating in Nigeria. High tax rates can reduce profitability, increase the cost of doing business, and discourage investment (Oyeyemi, 2017). The findings on corporate taxes and financial performance are inconclusive. Previous studies found that corporate taxes levied on

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firms enhance performance (Otwani, Namusonge & Nambuswa, 2017: Olaoye & Oluwatoyin, 2019; Taiwo & Oyedokun, 2022). In contrast, other studies found that corporate taxes obstruct the financial performance of firms (Oladipo , Iyoha, Fakile, Asaleye & Eluyele, 2019; Yoke & Chan, 2018) While other studies found no relationship between corporate taxes and performance(Nwaorgu, Oyekezie & Abiahu 2020; Iormbagah, Abiahu & Ibiam, 2021)This can have far-reaching consequences for the economy, including reduced economic growth and development.

The consumer goods sector is a significant contributor to Nigeria's economy, accounting for approximately 20% of the country's Gross Domestic Product (GDP) (National Bureau of Statistics, 2020). Listed consumer goods firms in Nigeria, such as Nigerian Breweries Plc, Unilever Nigeria Plc, and Guinness Nigeria Plc, are major players in the sector and contribute significantly to the country's economic growth and development.

Despite the importance of direct taxes and their impact on financial performance, there is a lack of research on the specific relationship between direct taxes and financial performance of listed consumer goods firms in Nigeria. Understanding the impact of direct taxes on the financial performance of these firms is essential for policymakers, investors, and stakeholders in the sector. This study aims to investigate the relationship between direct taxes and financial performance of listed consumer goods firms in Nigeria, with a view to providing insights for improving the financial performance of these firms and contributing to the growth and development of the Nigerian economy.

STATEMENT OF THE PROBLEM

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.

OBJECTIVE OF THE STUDY

The objective of this study is to examine the impact of direct taxes on the financial performance of listed consumer goods firms in Nigeria, with a view to:

1. To investigate the effect of education tax on the financial performance of listed consumer goods firms in Nigeria.
2. To examine the impact of corporate tax on the financial performance of listed consumer goods firms in Nigeria

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RESEARCH QUESTIONS

- What is the impact of corporate tax on the financial performance of listed consumer goods firms in Nigeria
- How does education tax affect the financial performance of listed consumer goods firms in Nigeria.

RESEARCH HYPOTHESES

What is the relationship between direct taxes and profitability of listed consumer goods firms in Nigeria?

Hypotheses:

- **Null Hypothesis (Ho1):** There is no significant relationship between corporate tax and financial performance of listed consumer goods firms in Nigeria.

What are the implications of direct taxes on the financial performance of listed consumer goods firms in Nigeria?

Hypotheses:

- **Null Hypothesis (Ho2):** There is no significant relationship between education tax and financial performance of listed consumer goods firms in Nigeria.

These hypotheses provide a clear direction for the research and will be tested using appropriate statistical tools and techniques. The results of the hypothesis testing will provide insights into the relationship between direct taxes and profitability, as well as the implications of direct taxes on financial performance, of listed consumer goods firms in Nigeria.

SIGNIFICANCE OF THE STUDY

This study will contribute to the existing literature on taxation and financial performance in Nigeria and provide insights for policymakers and stakeholders in the consumer goods sector. The findings of this study will also provide recommendations for improving the financial performance of listed consumer goods firms in Nigeria and inform policy decisions on direct taxation in Nigeria.

LITERATURE REVIEW

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. 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

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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

GAP OF THE STUDY

The gap in the study is the lack of research on the impact of valued added tax on the financial performance of listed consumer goods firms in Nigeria.

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.

$FPit = \beta0it + \beta1CITit + \beta2ETit + \beta3VATit + eit$

FP =Financial Performance

CIT = Company Income Tax

ET = Education Tax

VAT = Value Added Tax

$\beta0$ = Constant

e = Error Term

it = cross-sectional time series

Table 1: Variables and their measurements

Variables	Type	Description
Company Income Tax	Independent variable	Measured as the 30% of assessable profit
Education Tax	Independent variable	Measured as the total amount paid as educational tax
Valued Added Tax	Independent variable	Measured as the total amount of consumption tax paid on all goods and services

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Table 2: 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

Hypothesis Testing

H01: Company Income Tax has no significant effect on financial performance of listed consumer goods companies in Nigeria. 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 financial performance. This implies that any 1% increase in company income tax results in a 15% decrease in financial performance. That is, as company income tax increases, there is a reduction in financial performance, 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.

H02: Education Tax has no significant effect on financial performance of listed consumer goods companies in Nigeria.

The education tax coefficient shows a significant positive effect on financial performance 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 financial at a significant level. Therefore, the study has enough evidence to reject the null hypothesis; education tax does not significantly affect financial performance. 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 financial performance 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.

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DISCUSSION OF FINDINGS.

The findings suggest that direct taxes have a significant negative impact on the financial performance of listed consumer goods firms in Nigeria. This implies that:

- High direct tax rates reduce the financial performance of listed consumer goods firms in Nigeria.
- Reducing direct tax rates can improve the financial performance of listed consumer goods firms in Nigeria.

CONCLUSION

The study concludes that direct taxes have a significant negative impact on the financial performance of listed consumer goods firms in Nigeria. This supports the alternative hypothesis and rejects the null hypothesis.

RECOMMENDATION

Based on the findings, the study recommends that policymakers and regulatory bodies should consider reducing direct tax rates to improve the financial performance of listed consumer goods firms in Nigeria. This can be achieved by:

- Reducing the corporate tax rate from 30% to 20%.

- Introducing tax incentives for listed consumer goods firms.

- Simplifying tax regulations to reduce compliance costs.

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