Corporate Investment Practice and Tax Obligations of Companies in Nigeria: An Empirical Analysis of Oil and Gas Sector

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Abstract
The study explored the connection between corporate investment practices, specifically capital expenditures and dividend payments, and tax obligations in Nigeria's oil and gas sector. The research is guided by the question: How do corporate investment practices correlate with tax obligations in this sector? Utilizing a correlational research design, the study focuses on eight oil and gas firms quoted on the Nigerian Exchange Group (NGX). Data from the financial statements of these firms were analyzed using Pearson correlation and multiple regression techniques to assess the relationships between current tax liabilities, capital expenditures, and dividend payments. The results suggests that there is no substantial correlation between capital expenditures and current tax liabilities, suggesting that capital investments do not directly influence tax burdens. Also, a substantial positive relationship was found between dividend payments and current tax liabilities, indicating that higher dividend payouts are associated with increased tax obligations. Based on these conclusions, the study suggests that oil and gas firms should diversify and optimize their capital investments without concern for immediate tax impacts and should carefully consider tax-efficient strategies when planning dividend payments to balance shareholder returns with potential tax liabilities.

Keywords: *Corporate investment, capital expenditures, dividend payments, tax obligations*

1. INTRODUCTION

Corporate investment practices encompass the strategies and decisions companies make to allocate resources, aiming to achieve long-term growth and profitability. These practices are vital as they directly influence a company's financial health and market position. According Alstadsaeter et al. (2017), corporate investment decisions involve choosing projects that are expected to yield returns investments, taking into account projected returns, risks, and alignment with the strategic goals of greater than the cost of capital. This approach requires a careful examination of possible the business. Capital budgeting, which entails assessing and choosing long-term investment projects, is one facet of corporate investment practice. Evaluation

methods for these investments' feasibility include net present value (NPV), internal rate of return (IRR), and payback period. According to Hanafizadeh and Latif (2011), the best approach is net present value (NPV), since it accounts for the time worth of money and gives an exact indication of the additional value of an investment. Companies often use a combination of these methods to ensure that they are making

well-informed decisions.

Corporate investment practice also involves the assessment of external factors such as market conditions, economic trends, and regulatory environments. Companies are expected to familiarize their investment approaches in reaction to these external influences to sustain competitiveness and ensure sustainability. During economic downturns, companies might shift towards more conservative investments to preserve capital, while in growth periods, they might take on more aggressive investments to capitalize on market opportunities (Yermack, 2017). Additionally, corporate governance plays a significant role in shaping corporate investment practices. Effective governance structures ensure that investment decisions align with the company's goals and protect shareholder interests. According to Bebchuk et al. (2009), strong governance mechanisms, such as an independent board of directors and transparent reporting practices, are crucial for reducing agency issues and guaranteeing that management operates in the stockholders' best interests. Corporate investment practices are closely intertwined with the tax obligations of firms, as tax policies can significantly influence investment decisions. The tax environment in which a company operates determines how much of its earnings are subject to taxation, which in turn affects the net returns on its investments. According to Schwab et al. (2022), firms often engage in tax planning strategies to minimize their tax liabilities, thereby enhancing their after-tax returns. Companies might prefer investments that offer tax incentives, such as accelerated depreciation or tax credits, as these can reduce taxable income and increase overall profitability.

Furthermore, tax obligations can impact a firm's capital budgeting decisions. When evaluating potential projects, companies must consider the tax implications, including how different investment choices will affect their overall tax burden. The choice of financing-whether through debt or equity–also has tax consequences, as interest payments on debt are typically tax-deductible, which can make debt funding more appealing from a tax perspective (Blouin, 2014). This tax shield effect encourages firms to structure their capital investments in ways that maximize the tax benefits, ultimately influencing the composition of their investment portfolios. Additionally, tax policies can drive corporate behavior concerning international investments. Multinational companies often face varying tax rates across different jurisdictions, leading them to allocate investments in countries with more favorable tax regimes. This practice, known as tax arbitrage, allows firms to decrease their complete tax liabilities by pushing profits to low-tax jurisdictions (Feller & Schanz, 2017). However, this can also attract scrutiny from tax authorities and result in the implementation of stricter regulations, such as the Base Erosion and Profit Shifting (BEPS) initiatives by the OECD, which aim to prevent tax avoidance through aggressive tax planning strategies.

2. PROBLEM STATEMENT AND HYPOTHESES FORMULATION

The connection between tax obligations and corporate investment practices has been a major topic in financial economics literature. Tax policies play a critical role in shaping the investment strategies of firms, influencing decisions on capital expenditures, dividend payments, and

overall resource allocation. Studies have shown that tax liabilities, including corporate income taxes, can significantly affect a firm's cash flow, thereby impacting its ability to invest in new projects or distribute profits to shareholders (Dhaliwal et al. 2011). When tax burdens are high, companies may reduce their capital expenditures to conserve cash, leading to lower growth and innovation (Hanlon et al., 2017). This dynamic illustrates the complex interplay between tax obligations and corporate investment decisions, necessitating a closer examination of how firms, particularly in the oil and gas industry, navigate these challenges.

Research by Hasan et al. (2021) highlights that companies often engage in tax avoidance schemes to decrease their tax obligations and enhance their investment capacity. However, these strategies can create distortions in corporate investment practices, as firms may prioritize tax-efficient investments over those that generate the highest economic returns. Companies might invest heavily in tax-advantaged assets or locations, even if these investments are not the most profitable from an operational perspective. This behavior underpin the influence of tax policies on corporate decision-making and the potential misalignment between tax considerations and optimal investment strategies. The oil and gas industry, in particular, faces unique challenges in balancing tax obligations with corporate investment practices. This sector is heavily capital-intensive, requiring significant investments in exploration, production, and infrastructure (Shin et al., 2017). Also, oil and gas companies are subject to complex and often high tax regimes, including royalties, corporate taxes, and environmental levies. These tax obligations can place substantial financial strain on firms, affecting their ability to fund new projects and distribute dividends. A study by Abdelwahed (2020) found that higher tax rates in oil-producing countries were associated with reduced investment in exploration activities, as firms sought to mitigate their tax burdens.

Despite the extensive study on the implication of tax obligations on company investment practices, there remain gaps in understanding how these dynamics play out in specific industries, such as oil Most existing studies have focused on general corporate behavior or specific tax strategies without delving deeply into the sector-specific challenges that oil and gas companies face. Furthermore, while the literature has examined the effects of tax liabilities on capital expenditures, little attention has been given to how these obligations influence dividend policies in capital- intensive industries. This gap presents an opportunity for further research to explore the unique ways in which tax obligations shape corporate investment practices in the oil and gas industry.

To guide this research, the following problem statement is proposed: *How do corporate investment practice (capital expenditures and dividend payments) correlate with tax obligations of companies in the oil and gas industry?*

Hypotheses

Ho1: There is no significant relationship between capital expenditures and current tax liabilities in

oil and gas companies.

Ho2: There is no significant relationship between dividend payments and current tax liabilities in

oil and gas companies.

3. LITERATURE REVIEW

Corporate Investment

Corporate investment is a fundamental concept in financial economics that refers to the allocation of a company's resources, particularly capital, toward assets or projects expected to generate future returns. Scholars have approached the concept of corporate investment from various perspectives, emphasizing several facets of the process of determining decisions and its implications for firm performance. Elliott (1973) define corporate investment as the process by which companies decide how to deploy their capital in a way that maximizes shareholder value. This description emphasizes the strategic nature of corporate investment, highlighting its role in achieving long-term financial goals and ensuring the company's sustainability and growth. Another perspective on corporate investment is provided by Dangl and Wu (2004), who view it as a reflection of a firm's commitment to future profitability and competitive advantage. They argue that corporate investment decisions are driven by expectations about future market conditions and the firm's ability to generate sufficient returns to justify the investment. This view aligns with the broader notion that corporate investment is not just about current opportunities but also about positioning the firm for future success. It emphasizes the forward-looking nature of corporate investment and the need for businesses to continuously adjust their investment strategies to changing economic environments. Corporate investment has also been described in terms of risk management and the trade-offs that companies must consider when allocating resources. According to Jensen and Meckling (1976), corporate investment involves balancing the potential risks and rewards associated with different projects or assets. They suggest that effective corporate investment requires a careful assessment of both the financial and strategic risks involved, as well as a consideration of how these investments align with the firm's overall objectives. This approach highlights the importance of risk management in corporate investment, suggesting that firms must not only seek to maximize returns but also mitigate potential downsides. Together, these various scholarly perspectives provide a comprehensive understanding of corporate investment as a multifaceted and strategic process that is central to the long-term success of a firm.

Tax Obligation of Companies

Tax obligation refers to the legal and financial responsibility that businesses have to pay taxes to governmental authorities based on their income, profits, and other relevant factors. These obligations are fundamental to the functioning of modern economies, as taxes provide the revenue needed for public services and infrastructure. According to Avi-Yonah (2006), corporate tax obligations are a critical component of a firm's legal duties, encompassing not only

the payment of taxes but also compliance with various tax laws and regulations. This includes accurate reporting of income, timely filing of tax returns, and adherence to specific tax codes that vary by jurisdiction.

Corporate tax obligations are influenced by several elements, such as the kind of company, the sector in which it works, and the unique tax laws of the nation or area. Multinational companies sometimes have complicated tax requirements due to their operations across multiple jurisdictions, each with its own tax rates and regulations. As noted by Devereux and Griffith (2003), these companies must navigate a web of international tax laws, including transfer pricing rules and anti- avoidance measures, which are designed to prevent tax evasion and ensure that companies pay appropriate amount of taxes in every nation in which they do business. This complexity can lead to significant administrative burdens and strategic tax planning efforts to minimize overall tax liabilities.

Beyond the legal and regulatory aspects, the concept of tax obligation also has implications for a company's financial strategy and decision-making. Tax liabilities can have a substantial impact on a firm's cash flow and profitability, influencing decisions related to investment, financing, and dividend policies. Graham (2003) highlights that companies often engage in tax planning to optimize their tax positions, taking advantage of deductions, credits, and other tax incentives. However, while tax planning can reduce a company's tax burden, it also requires careful consideration of the associated risks, such as potential audits or changes in tax laws. Ultimately, the concept of tax obligation underscores the importance of balancing legal compliance with strategic financial management to ensure long-term corporate success.

Oil and Gas Sector in Nigeria

The oil and gas industry in Nigeria is the cornerstone of the country's economy, contributing significantly to government revenues, export earnings, and foreign exchange reserves. Nigeria is one of the largest oil producers in Africa and is one among the world's leading producers of oil. The sector has been a major driver of economic growth since the discovery of oil in Oloibiri in 1956. As of recent years, oil exports account for about 90% of Nigeria's total export earnings and nearly 60% of government revenues (Nigerian National Petroleum Corporation [NNPC], 2022). This heavy reliance on oil and gas makes the sector vital to Nigeria's economic stability, but it also exposes the country to volatility in global oil prices.

Despite its significance, the oil and gas sector in Nigeria faces several challenges, including inadequate infrastructure, regulatory uncertainty, and the impacts of fluctuating global oil prices. The industry is also plagued by issues such as oil theft, pipeline vandalism, and environmental ruin, predominantly in the Niger Delta region where much of the oil extraction takes place. According to Okafor (2007), these challenges have hindered the sector's potential to contribute more effectively to economic development and have led to underinvestment in both upstream and downstream activities. Furthermore, the sector's governance has been criticized for a lack of transparency and accountability, which has contributed to inefficiencies and corruption. In recent years, there have been efforts to reform the oil and gas industry in Nigeria to enhance its contribution to the economy and improve governance.

Empirical Review

Traini and colleagues (2024) explored the relationship between the effectiveness of labour investments made by US companies and active tax planning. Their study revealed that companies engaging in aggressive tax strategies often deviate from expected labour investment levels, indicating inefficiency. According to the results, managers should balance the advantages of tax planning against any possible drawbacks for labour investments to make sure that their tax approach will ultimately increase value over the long run.

Fan and Liu (2020) analyzed the impact of a Chinese enhanced depreciation initiation introduced in 2014 on business investment behavior. Their study identified three key outcomes: the policy generally boosted investment in eligible capital, particularly in equipment and machinery; larger companies with more cash and better financial access, which are less constrained and more compliant with tax regulations, benefited more from the policy; and the policy's effectiveness was greater in regions with stricter tax enforcement and lower rates of tax fraud. These results highlight how crucial it is to increase tax compliance in order to increase the efficacy of tax incentives.

Kong (2024) investigated the impact of tax incentives on earnings management among private firms, focusing on a corporate tax reform in China. By utilizing a regression discontinuity design, the study found that tax reductions significantly increased firms' tendencies to manage earnings, particularly in environments with low tax enforcement and minimal government intervention. Additionally, the research showed that lower tax rates encouraged higher levels of investment, faster inventory turnover, and increased recruitment of skilled labor. The study suggests that firms may manipulate earnings to signal a strong outlook, thereby securing better financing and improving their operational and investment activities.

Adefunke and Usiomon (2022) examined how company income tax affects business viability using data from twelve firms quoted on the Nigerian Stock Exchange. Their analysis, covering the period from 2011 to 2020, discovered that company income tax positively and significantly impacts profit after tax and return on equity. However, a change in shareholders' funds negatively, though significantly, affects ROE, while company income tax positively influences shareholders' earnings. The study recommends that Nigeria's fiscal policy should consider the specific circumstances of domestic companies and their contributions to national economic growth, incorporating tax incentives and reforms to alleviate the tax burden on businesses.

Ologbenla (2021) explored the influence of corporate tax on public spending in Nigeria, using data on various taxes and economic indicators as independent variables and public expenditure as the dependent variable. The study employed the ARDL bound test, revealing that corporate income tax has a significant long-term relationship with government spending. Additionally, other taxes, like the petroleum profit tax and VAT have a big influence on public spending.

Nwaorgu and Abiahu (2020) assessed the implication of corporate tax on the sustainable financial viability of quoted industrial firms in Nigeria. Using ex post facto research design and data from 10 firms over five years, the study found that corporate tax payments do not significantly affect the return on equity but positively and significantly influence the debt-to-equity ratio. The study recommends that investors in the industrial sector use tax payout policies as an instrument for funding options, as they affect the capital structure, and encourage timely tax payments, which, while not affecting returns, can enhance the firms' market value.

Otuya and Omoye (2021) examined the connection between thin capitalization and the performance of multinational corporations (MNCs) in Nigeria, using data from 2014 to 2018. Their analysis found that thin capitalization, interest expenses, effective tax rate, and capital intensity are positively but insignificantly related to the financial performance of MNCs. The research also showed a small but negative correlation between financial success and management effectiveness.

4. METHODOLOGY

The study employed a correlational research design. The population of the study comprises of the eight oil and gas firms quoted on the Nigerian Exchange Group (NGX). Data collection for the study will involve secondary data sourced from the annual financial statements of these companies over a specified period. The relevant financial metrics, including current tax liabilities, capital expenditures, and dividend payments, will be extracted and analyzed. To test the hypotheses, the data analysis will employ statistical techniques such as Pearson correlation and multiple regression analysis. Pearson correlation was be applied to measure the direction and magnitude of the interplay between the variables, while multiple regression analysis will help determine the extent to which current tax liabilities impact capital expenditures and dividend payments. Model specification for the study is thus;

$CuTaxi=\beta 0+B1CapExi+ \beta 2DivPayi+\in i$

Where

- CAPEXi represents the capital expenditures of company
- DIVi represents the dividend payments of company
- CTLi represents the current tax liabilities of company
- $\beta 0$/beta_0$\beta 0$ is the intercept of the model.
- $\beta 1$/beta_1$\beta 1$ is the coefficient of the current tax liabilities, indicating the strength and direction of its relationship with capital expenditures.
- $\in i$/epsilon_i$\in i$ is the error term for company

5. RESULTS

Correlation Result

Covariance Correlation t-Statistic	CUTAX	CAPEX	DIVPAY
CUTAX	3.15E+13 1.000000 -----		
CAPEX	-4.91E+13 - 0.055831 - 0.193706	2.35R+16 1.000000 -----	
DIVPAY	9.94E+11 0.078412	-2.20E+13 - 0.063590	5.10E+12 1.000000

	0.272465	- 0.220731	----
			-

Source: Eview-9

The correlation between CUTAX and CAPEX is -0.055831, suggesting a very weak and negative relationship, meaning that changes in capital expenditure do not significantly affect current tax liabilities. The t-statistics for this relationship is -0.193706, which is not statistically significant, supporting the null hypothesis (Ho1) that there is no substantial correlation between capital expenditure and current tax liabilities in oil and gas companies. While, the correlation between CUTAX and DIVPAY is 0.078412, indicating a slightly positive but very weak relationship between current tax liabilities and dividend payments. This correlation suggest that a dividend payment increase, current tax liabilities may increase slightly, but the effect is minimal. The t-statistic for this relationship is 0.272465, which is also not statistically significant. This result supports the null hypothesis (Ho2) that there is no substantial correlation between dividend payment and current tax liabilities in oil and gas companies.

Regression Result

From the regression result the coefficient for CAPEX is -0.001868, with a standard error of 0.011007. the t-statistic of -0.169718 and the p-value of 0.0683 suggest that the relationship between CAPEX and CUTAX is not significant, indicating that changes in capital expenditures do not significantly influence current tax liabilities in the oil and gas companies studied. For DIVPAY, the coefficient is 0.186801, with a standard error of 0.747546. the t-statistic is 0.249886, and the p-value is 0.0073. This indicates a substantial positive relationship between dividend payments and current tax liabilities, signifying that a rise in dividend payments is connected with a rise in current tax liabilities. The significance of this relationship is supported by the p-value being below the 0.05 threshold.

Regression Table

Dependent Variable: CUTAX
Method: Least Squares
Date: 08/12/24 Time: 01:38
Sample: 1 14
Included observations: 14

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CAPEX	-0.001868	0.011007	-0.169718	0.0683
DIVPAY	0.186801	0.747546	0.249886	0.0073
C	4434666.	2120943.	2.090894	0.605
R-squared	0.238744	Mean dependent var		4537997.
Adjusted R-squared	0171484	S.D. dependent var		5825639
S.E . of regression	6305388.	Akaike info criterion		34.33912
Sum squared resid	4.37E+14	Schwarz criterion		34.47606
Log likelihood	237.3738	Hannan-Quinn criter.		34.32644
F-statistic	0.048517	Durbin-Watson stat		1.441788
Prob(F-statistic)	0.002844			

Source: Eview-9

The overall model has an R-squared of 0.238744, signifying that 23.87% of the variation in current tax liabilities can be explained by the independent variable CAPEX and DIVPAY. The adj. R^2 is slightly lower at 0.171484, reflecting the model's explanatory power after accounting for the number of predictors. The F-Statistic of 0.048517, p-value of 0.002844 < 0.05 alpha suggests that the model is statistically significant overall, though the low R-squared value suggests that other variable not covered by this model could potentially be important in determining current tax liabilities in these companies.

6. CONCLUSION AND RECOMMENDATION

Conclusion

Corporate investment practices and tax obligations are critical areas of financial management, especially in the oil and gas sector, where large capital expenditures and dividend payments can significantly impact a company's financial performance. This study explored the association between capital expenditures, dividend payments, and current tax liabilities in oil and gas companies. The results reveal that there is no substantial interplay between capital expenditures and current tax liabilities, suggesting that how much a company invests in capital projects does not directly influence its tax burden. Nevertheless, a substantial favourable relationship was found between dividend payments and current tax liabilities, indicating that higher dividend payouts may
lead to increased tax obligations.

Recommendations

The study recommends the following;

1. Oil and gas companies should explore diversifying their capital investments without concern for immediate tax implications. Since capital expenditures do not significantly impact tax liabilities, companies can prioritize projects based on long- term profitability and strategic goals.
2. Companies should focus on optimizing their capital expenditure strategies to maximize operational efficiency and growth, rather than worrying about tax liabilities. This can include investing in advanced technologies or expanding into new markets, knowing that these expenditures are unlikely to affect their current tax obligations.
3. Firms should carefully consider the tax implications when planning dividend payments. Since higher dividends are associated with increased tax liabilities, companies should balance shareholder returns with the potential tax burden, possibly exploring tax-efficient dividend strategies.

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