

## Effect of Companies Income Tax on Financial Performance of Listed Manufacturing Companies in Nigeria

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DOI: 10.56201/ijefm.v8.no2.2023.pg25.49

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### **Abstract**

*The study empirically ascertains the effect of companies income tax on financial performance of quoted manufacturing companies in Nigeria. To achieve this objective theoretical, conceptual and empirical literature on companies income tax and financial performance was extensively reviewed. Companies income tax was proxied by capital gains tax, tertiary education tax and company income tax. The population of the study consists of sixty quoted manufacturing companies in Nigeria. The study adopts purposive sampling techniques to select thirty quoted manufacturing companies as a sample size. Secondary data was obtained from audited annual financial reports of quoted manufacturing companies in Nigeria from 2006-2020. Hypotheses formulated were tested using panel least squares regression through pooled effect, fixed effect, and random effect, determined by the Hausman test, fixed effect regression was preferred for results interpretation with the aid of EViews 10 econometric statistical software. Findings show that company income tax had a negative and insignificant effect on net profit margin of quoted manufacturing companies in Nigeria. Capital gains tax had positive and significant effect on net profit margin of quoted manufacturing companies in Nigeria. Tertiary education taxes had negative and insignificant effect on net profit margin of quoted manufacturing companies in Nigeria. The study concludes that companies income tax reduced financial performance of listed manufacturing companies in Nigeria. The study recommends among others that government must ensure the eradication of multiple taxations and ensure transparency in corporate tax administration in order to attract investors and ensure tax compliance. The government should implement tax harmonization policy to reduce multiple taxations. The government should adopt a single uniform company income tax rate for all types of companies in Nigeria to avoid multiple taxations. The government should ensure the smart use of information systems through the introduction of comprehensive tax reforms, leveraging big data to improve compliance and fight corruption capital gains tax should be scab to enable companies plough back their gains on sales of asset into their business.*

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**Keywords:** Companies Income Tax, Financial Performance, Nigeria

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## Introduction

Companies' income tax is mandatory contribution levy on corporation by government entities to enable government finance their numerous project. Government needs funds to implement various economic activities. Taxes are one of the sources of revenue for government to implement their social and economic activities. There are different types of companies' income tax in Nigeria such as tertiary education tax, national information technology development tax, capital gains tax, value added tax, withholding tax and petroleum profit tax. The Company Income Tax Act is the principal law that regulates the taxation of companies in Nigeria. The tax regime in Nigeria is a multi-level tax system, which simply means that taxation is administered by the three tiers of government. The Federal Inland Revenue Service administers or oversees the income tax for companies. Companies' income tax is a tax on the profits of registered companies in Nigeria. It also includes the tax on the profits of foreign companies carrying on any business in Nigeria. Companies income tax is payable upon the profit of all incorporated entities in Nigeria accruing in, derived from, brought into or received in Nigeria. Companies income tax is a direct tax imposed on the income or capital of corporations or analogous legal entities. The companies income tax is paid by limited liability companies inclusive of the public limited liability companies. Resident companies are liable to corporate income tax on their worldwide income while non-residents are subject to companies income tax on their Nigeria source income. Companies' income tax is based on accounting profits adjusted for tax purposes. According to the Black Law Dictionary (2012) tax is a charge, usually monetary, imposed by the government on persons, entities transaction or property to yield public revenue. The national tax policy (2012) view tax as a financial charge or levy imposed upon an individual or legal entity of the state. Kiabel (2016) reported that taxes embraces all government impositions on the person, properly, privileges, occupations and enjoyment of the people and includes duties, imports and excises. He noted that tax is an enforced or compulsory contribution, enacted pursuant to legislative authority and is any contribution imposed by the government, whether under the name of duty, custom, excise, levy or other name. This form of taxes extended to the profits of nonresident companies both private and public limited liability accrued from carrying on business in Nigeria. Companies' income tax was created by the companies tax Act (CITA) 1979 which regulates the assessment and collection procedures. It is one of the taxes administered and collected by the Federal Inland Revenue Service, and the tax had been contributing significantly to the revenue profile of the government. The profits of Nigeria incorporated companies shall be deemed to accrue in Nigeria wherever they have arisen worldwide and whether or not they have been brought into or received in Nigeria (Cornelius, & Oka 2016). These profits chargeable to tax shall be in respect of: any trade or business; rent or premium arising from use of property; dividends, interest, royalty, discounts, charges or annuities; fees, dues and allowances for services rendered; and any gains arising from acquisition and disposal of short term money instruments. The present chargeable rate of companies' income tax is 30%. Bassey (2019) reported that capital gains tax Act 1967 came into force on 1st April, 1967 (i.e. 1967/68 assessment year). The Act is now referred to as the Capital Gains Tax Act, Cap. C1, LFN 2004. The Act makes provisions for the taxation of capital gains accruing to any person on disposal of assets. The profits made by a company from the sale of its products or provision of services are taxable under the companies tax Act, but the gains arising from the sale of its fixed assets such as building, land, plant, machinery, furniture, etc are taxable under the Capital Gains Tax Act.

Capital gains occurs when a capital asset is disposed of and disposal occurs when ownership changes through the process of exchange or sale or when the owner divests himself or herself of his/her rights or interests in the property. Capital gains tax is charge at the rate of 10% of profit on disposal of assets. Kiabel (2019) assert that an assessment of capital gains tax is on current year basis, in the year chargeable gains arises. The year of assessment is therefore from 1st January to 31st December of each year. Kiabel (2016) stated that capital gains tax is chargeable on disposal of all forms of properties (assets). Chargeable assets include: Options, debts and incorporeal property generally, any currency other than Nigerian cogeny, any form of property created by a person disposing of it or otherwise coming to be owned without being acquired goodwill, stocks and shares of every description. The education tax act 1993 now referred to as the education tax act, Cap. E4, LFN 2004 imposes tertiary education tax at a rate of 2 percent on the assessable profits of companies registered in Nigeria. Tertiary Education Tax formerly Education Tax is a tax imposed on the assessable profits of all companies registered in Nigeria. It is established by the Tertiary Education Trust Fund (Establishment, Etc.) Act No 16, of 2011. The Federal Inland Revenue Service is charged with the responsibility for the assessment of this tax. The primary objective of the Education Tax is to achieve restoration, rehabilitation, consolidation and development of tertiary education in Nigeria. It does this via the Tertiary education trust fund, hence, any avoidance acts on this tax affects the ability to develop human capital in Nigeria via the educational institutions. Ifrah, Kerosi and Andabu (2015) posit that financial performance is the process of measuring the result of a firm's policies and operations in monetary terms. It is mostly used to evaluate the firm's general financial health at a given period of time and can be used to judge against similar firms within the same industry or to compare industries in other sector (Neely, 2012). Kaplan and Norton (2011) highlighted that there are many different ways to measure financial performance such as return on assets, net profit margin, return on equity, return on capital employed, profit after tax, and profit before tax. However, this study measures financial performance in terms of net profit margin. Damodaran (2017) stated that net profit margin measures how much net income or profit is generated as a percentage of revenue. It is the ratio of net profits to revenues for a company or business segment. Net profit margin helps investors assess if a company's management is generating enough profit from its sales and whether operating costs and overhead costs are being contained. Mosota (2014) stated that the critical challenges of companies income taxes in Nigeria come in a midst of high company income tax rate and multiple taxation that lead to high effective tax rates far above the statutory company income tax rate with the introduction of information technology tax, there are about forty different taxes levied on companies and individual, on the approved list for collection Act of 1998. Bammeke (2002) stated that many of these taxes from the different levels of government overlap and are forcefully extracted from companies. Nwaobia, Kwabai and Ogundajo (2016) highlighted that the effect of these tax extractions of course is high cost structure for companies. Desai and Dharmapala (2007) highlighted that tax policy affect the cost structure of manufacturing companies as it is factorized into the pricing of company's services. Tax is a liability to manufacturing companies eventual when payout depletes the distributable profit of manufacturing companies. Ishola, Falajmi and Chimeruo (2020) assert that these companies income tax translate to a substantial cost on organizations, if not properly planned and managed can have adverse effect on the cash flow and the capacity of the companies to invest or plough back profit into the companies.

There has been a divergent view of scholars on the impact of corporate tax on financial performance of companies in Nigeria. Nwaorga, Oyekezik and Abiahu (2020) reported that corporate tax payment has no significant effect on the return on equity of firms. Olatunji and

Owatoyin (2019) stated that corporate tax rate and education tax as the major taxes paid by companies have positive and significant effects on profit after tax. Adefunke and Usiomon(2022) assert that companies income tax has a positive and significant effect on profit after tax and return on equity. The positive impact of corporate tax on financial performance observed by some researchers maybe due to the tax incentives, tax reliefs and tax rebate given to the companies. Patience (2021) stated that companies' income tax and value added tax have positive and significant effect on business profitability. Aondoemha, Chidozien and Oti (2021) reported that corporate tax has a positive and insignificant effect on the net income of listed manufacturing firms in Nigeria. Gatsi, Gadzo and Kportorgbi (2013) reported that corporate income tax has significant and negative relationship on financial performance of listed manufacturing firms in Ghana. Amaniampong and Kumi (2018) reported that corporate income tax has negative influence on profitability mining companies in Ghana. Kurawa and Saidu (2018) reported that corporate tax has insignificant and negative effect on financial performance of listed consumer goods companies in Nigeria. See Abiola, Yekini, Reheed and Olushola (2022); Olatayo, Folusho, Joseph and Ibidum (2019); Otwan, Namusonge and Nambuswa (2017); Nwoye, Toyosi and Kingsley (2018). However all of these studies focused on companies in Nigeria but none was on quoted manufacturing companies in Nigeria. But the current study focused on companies' income tax and financial performance of quoted manufacturing company in Nigeria. The results of these studies mention above are mixed, with some studies indicating that there is a positive relationship between companies' income tax and financial performance while some shows that there is no positive relationship between companies' income tax and financial performance of companies in Nigeria. The current study adopts company income tax, capital gains tax and tertiary education tax as a measure of companies' income tax. Financial performance was proxied by net interest margin. Hence this study intends to investigate the effects of companies' income tax on financial performance of listed manufacturing companies in Nigeria.

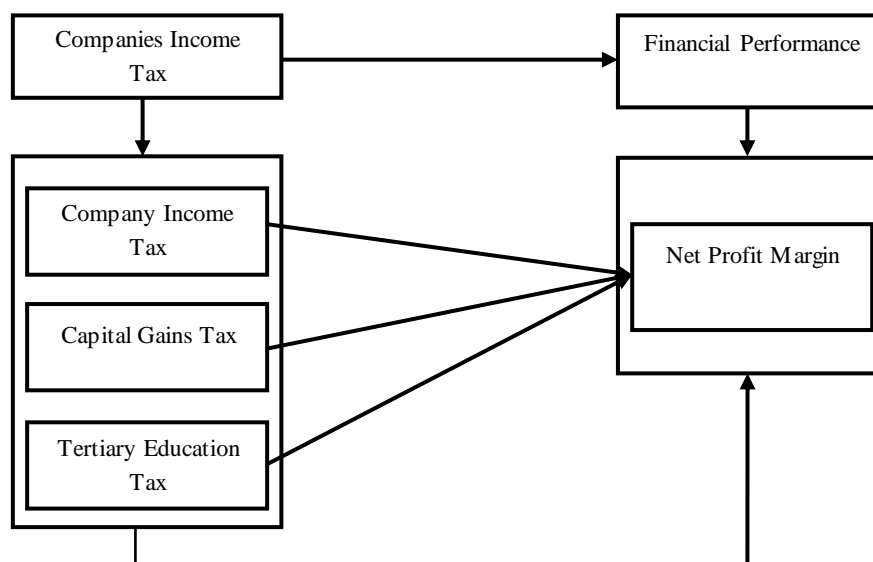
### **Statement of the Problem**

High corporate taxes can lead to a reduction in the net income and profitability of quoted manufacturing companies in Nigeria, which can affect their ability to invest in new technologies, research and development, and other growth initiatives. Corporate taxes can lead to lower profits, which can result in reduced dividends for shareholders. This, in turn, can affect the company's share price and market capitalization. High taxes can reduce the attractiveness of the manufacturing sector in Nigeria to potential investors, which can affect the sector's growth potential. The major challenge of corporate entities like manufacturing companies in Nigeria is high companies' tax rates and multiples taxes that lead to high effective tax rates far above the statutory company tax rate. With the introduction to the information technology tax, education tax, withholding tax there are about forty different taxes levied on companies and individuals (taxes and levies, approved list for collection Act 1998). Bammeke (2012) many of these taxes from the different levels of government overlap and are forcefully extracted from manufacturing companies. The effect of these tax extractions of course is high cost structure (Nwabia, 2013). Nnadi and Akpomi (2008) stated that tax policy defines the cost structure of manufacturing companies as it is factored into pricing. Tax costs and eventual payout deplete the disposable income of individuals as well as the distributable profit of manufacturing companies. These taxes translate into a substantial cost to organizations and if not properly planned and managed can have adverse impact on the bottom line, cash flow and capacity to invest; taxes constitute a high chunk of the cost that manufacturing company's incur and stand to reduce the financial performance to companies. Ohaka and Agundu (2012) stated that companies which receive tax incentives pay less tax and recorded a higher return on equity. Tax management like any other

businesses management practices, has the aim of contributing to the improvement of the economic and financial performance of companies by helping to maximize return to owners investment. The inefficient and ineffective tax administration in Nigeria do lead to the delegation of powers of revenue officials to third parties, who adopt unorthodox methods, including sealing off of companies premises in the revenue collection process. These create uncertainty in the tax system and lots of profit within the period of closure (Maiyz, 2012). Nwaobia (2014) stated that corporate taxes paid in advance through withholding tax are lost to government tax collector third parties; either as a result of non remittance or non issuance of credit note to payers to enable them take tax credit. Often companies are compelled to make additional cash payment for taxes already paid at source and this increases the tax burden on companies affecting their financial performance.

The non refund of excess tax to companies and payers, especially advance tax payments such as withholding tax due to the lack of an efficient tax system lead to another dimension to the negative side of companies' income tax in Nigeria. The overall effect of all these is increase in effective tax rate above the statutory tax rate lead to multiple taxation of companies and other taxpayers (Oladipupo & Okafor, 2013). Ihendinihu (2008) stated that multiple taxation and unfavourable tax policy as a major reason for the evolution of the subversive economy where law abiding companies income tax payers, manufacturing companies seek shelter from high tax regime, lead to tax avoidance and evasion. Tax avoidance arises in a situation where the tax payer arranges his financial affairs in the form that would make him pay the least possible amount of tax (Armanyanu & Jamilu, 2016). Tax avoidance scheme are carried out after a critical review of the tax laws and the taxpayer would then implement devices to exploit loopholes in the tax laws that would enable him to pay minimize tax (Shane & Maria, 2015). It should be noted that to a very large extent tax avoidance is legal once it is done within the permissible tax laws (Nanik & Ratna, 2015). Ogunda and Onakoya (2016) stated that legislative act cannot accurately foresee all schemes which a tax payer could devise so consideration should be given to the promulgation of general anti-tax avoidance legislation.

### Conceptual Framework



**Figure 1.1: Conceptual Framework of the relationship between companies' income tax and financial performance**

Conceptual framework is visual presentation of the relationship or association between the study variables. Conceptual framework guide the researcher to formulate the study

objectives, research questions, research hypotheses, research design, data collection, data analysis and presentation of findings. Thus, the above conceptual framework highlights the interrelationship and connection between the dimension of the predictor and criterion variable. The antecedent variable companies' income tax is proxed by company income tax, capital gains tax and tertiary education tax while the consequence variable is proxed by net profit margin. The researcher in this study aims to ascertain the extent and degree to which the dimensions of the regressor variables enhance the measures of the regressand variable.

### **Purpose of the Study**

The purpose of this study is to investigate the effect of companies' income tax on financial performance of listed manufacturing companies in Nigeria. The specific objectives are to:

1. Explore the effect of companies' income tax on net profit margin of listed manufacturing companies in Nigeria.
2. Identify the effect of capital gains tax on net profit margin of listed manufacturing companies in Nigeria.
3. Investigate the effect of tertiary education tax on net profit margin of listed manufacturing companies in Nigeria.

### **Research Questions**

The following research questions were addressed:

1. What is the effect of company income tax on net profit margin of listed manufacturing companies in Nigeria?
2. What is the effect of capital gains tax on net profit margin of listed manufacturing companies in Nigeria?
3. What is the effect of tertiary education tax on net profit margin of listed manufacturing companies in Nigeria?

### **Research Hypotheses**

The following research hypotheses were tested:

- H<sub>01</sub>:** There is no significant effect of companies' income tax on net profit margin of listed manufacturing companies in Nigeria.
- H<sub>02</sub>:** There is no significant effect of capital gains tax on net profit margin of listed manufacturing companies in Nigeria.
- H<sub>03</sub>:** There is no significant effect of tertiary education tax on net profit margin of listed manufacturing companies in Nigeria.

### **Literature Review**

#### **Theoretical Foundation**

##### **Stakeholder's Theory**

Stakeholder's theory was propounded by Dr. Edward Freeman in (1984). The stakeholder's theory states that there is interconnected relationship between a business and its customers, suppliers, investors, communities and others who have a stake in the organization. The theory argues that a firm should create value for all stakeholders, not just shareholders. Stakeholder theory states that an organization should be governed in the interest of its multiple stakeholders and not just that of shareholders alone. The stakeholder's theory is a theory of organizational management and business ethics that accounts for multiple constituencies impacted by business entities like employees, suppliers, local communities, creditors, government and others. It addresses moral and value in managing an organization such as those related to corporate social responsibility such as tax payment, market economic and social contract theory. The internal stakeholders of a company are employee, managers, and

owners, management while the external stakeholders of companies are suppliers, society, government, creditors, shareholders and customers, media, pressure group, labour union, agencies, general public and world society, future generation, environment, competitor, trade association, financial society, political group, customer advocate group. According to Freeman (1984) stakeholders are individuals and groups who can affect, or are affected by, corporate activities. Solomon (2010) explains the theoretical basis of stakeholder theory as the companies which are large, and their impact on society so pervasive, that they should discharge accountability to many more sectors of society than solely their shareholders. Not only are stakeholders affected by companies, but they in turn affect companies in some way. Stakeholder theory assumes that managers are accountable to all stakeholders (Chen & Roberts, 2010). Tax aggressiveness is an act aimed at minimizing tax liabilities in a planned manner. It is thus pertinent to know that the interests of stakeholders are not adequately protected as a firm becomes tax aggressive. Organizations tend to violate the codes of best practices that suggest that they be ethically and morally responsible to their stakeholders; thus they tend not to be socially responsible by minimizing their tax liabilities. For instance, tax aggressiveness affects the stake of the government directly and the public indirectly; as reduction in tax liabilities shrinks government revenue which were to be used in providing infrastructures for the country, which in turns brings about enhanced economic growth and development. This study is anchored on a stakeholder's theory because the companies operating in Nigeria have a social contract and social responsibility with their business environment to pay stipulated tax to the different government to enable the government perform their responsibility. Thus when this companies comply with the extant or relevant tax laws in the Nigeria it enable the government to carry out their developmental project.

## **Conceptual Review**

### **Companies Income Tax**

Okoye and Gbegi (2013) submitted that Company Income Tax is payable by all incorporated entities in Nigeria on profits accruing in, derived from, brought into or received in Nigeria. It also includes taxes on the profits of non-resident companies carrying on business in Nigeria and is paid by both private and public limited liability companies. Christopher (2021) stated that companies' income tax is charged on the profits of incorporated entities in Nigeria. It also includes the tax on the profits of non-resident companies carrying on business in Nigeria. The tax is paid by limited liability companies inclusive of the public limited liability companies. The companies' income taxes of the profit of companies are under the Company Income Tax Act 1990. (Companies income tax act 90) which stipulates the nature and type of companies and income to be subjected to the Nigerian tax. A Nigerian company is liable to company income tax on all its profits wherever they arise whether or not they have been brought into or received in Nigeria. Foreign company is also chargeable to tax on profits from any trade or business deemed to be derived from Nigeria to the extent to which such profits are not attributable to any part of the operations of the company carried on outside Nigeria. Thus, the profits of a foreign company are taxed to the extent that they are derived from sources within Nigeria. Adebite (2015) reported that corporate companies in Nigeria paid different type of companies' income tax such as corporate tax, tertiary education tax; value added tax, withholding tax, capital gains tax, petroleum profit tax. The Company Income Tax Act; Cap C 21 Volume 3 Law of the Federation (LFN) 2004 (as amended), provides legal backing to the imposition of Income tax on companies in Nigeria. Section 9(1) of the act provide that Company Income Tax is an annual tax, and for each year of assessment the tax shall be payable at the rate contained under Section 40 of the Act upon the profits of company accruing in, derived from, brought into, or received in, Nigeria.

Kiabel (2019) stated that the rate for companies income tax as provided under section 40(1) of companies income tax act is thirty Kobo for every naira (i.e. 30%) of a company's assessable profit. Section 29 of the Act provides the basis of computing assessable profit of a company. Companies that have been in operation for at least 4 calendar years are subjected to the minimum tax rule, except those specifically exempted by the law. Section 33(1) of Act provides that the Minimum tax rule comes into play when: a company has made a tax loss; total profits result in no tax payable; or tax payable is less than the minimum tax. In line with Section 33(2) of the Act, minimum tax that shall be computed/payable as follows: If the turnover of the company is NGN500,000 or below and the company has been in business for at least 4 calendar years, 0.5% of gross profit, 05.% of net assets, 0.25% of paid up capital, 0.25% of turnover (not exceeding NGN 500,000). Where the turnover exceeds NGN 500,000 the minimum tax is the sum of the highest of a above plus 0.125% of turnover in excess of NGN 500,000. Profits of a Nigerian company as provided under Section 13(1) of the Act shall be viewed as been made in Nigeria irrespective of where the profit might have arose and whether such profit have been brought into or received in Nigeria or not. Section 13 (2) of the act addresses the issue of residency of a non-Nigerian company as regards its exposure to companies income tax in Nigeria. A non-Nigerian company is a company or corporation that is not registered or incorporated in Nigeria, but which derives income or profits from Nigeria. It could also be referred to as a foreign company and it means any company established under any law in force in a territory or country outside Nigeria (Section 105 companies income tax act 2004). Bassey (2019) narrated that profits of a non-Nigerian Company as captured under Section 13(2)(a)-(d) of the Act shall be deemed to be derived from Nigeria for purpose of tax if. The company has a fixed base in Nigeria to the extent that the profit is attributable to the fixed base, the company does not have a fixed base in Nigeria but habitually operate a trade or business through a person or some other company authorized to act on its behalf, that trade or business or activities involve a single contract for surveys, deliveries, installations or construction; or where the trade or business or activities is between the company and another person controlled by it or which has a controlling interest in it to the extent that artificial or fictitious. Kiabel (2016) asserts that Section 24 & 28 of companies income tax act covers expenses and incomes that shall not be included in the computation of assessable profit for the purpose of tax, they include: Loss Relief; Capital allowance, Balancing Allowance and Balancing Charges. Section 24 of companies income tax act allows for expenses which are "wholly, exclusively, necessarily and reasonably" incurred of running the company, such expenses are to be deducted or set-off while computing the assessable profit of companies. Section 25 covers deductible donations while section 26 covers deduction for research and development. Section 27 of companies income tax act on the other hand covers that deduction that is disallowed from profit. Section 31 of companies income tax act covers the ascertainment/calculation of total profit. The total profits of any company shall be the amount of its total assessable profits from all sources for the year together with any addition made or allowed in accordance with the provision of section 31, 32 and the schedule to companies income tax act. Section 55 to 60 of companies income tax act covers the submission of returns to the tax authority. A newly incorporated company is to file its company's income tax within 18 months from date of incorporation or not later than 6 months after end of its accounting period, whichever is earlier. Existing companies are required to file their companies income tax returns within 6 months from the end of their accounting year. Best of Judgment (BOJ): This is the way which tax is assessed by the relevant tax authority in a



situation where the tax payable does not have any financial records or returns submitted to the tax authority to base the assessment on.

The BOJ means of assessment may be applied since the company's financial records are unreliable. Self-Assessment of Tax Payable: This mean of assessing the tax payable is a system where a company pays tax by installment and is permitted by the relevant tax authority to estimate the company's chargeable income and tax payable for that year of assessment. Self-assessment of tax payable is provided for under section 53 of the Company Income Tax Act, 2011. The currency of Assessment: This makes provision for the currency of assessment of tax payable by a company as stated under section 54. Under this section, the Act provides that, notwithstanding anything to the contrary in any law, an income tax assessment under sections 52, 53 or 55 of this Act shall be made in the currency in which the transaction giving rise to the assessment was effected. Company Income Tax Rates: The CIT is currently charged at the rate of 30% for companies having more than N100 Million Naira turnover. It is also charged at the rate of 20% for companies with a turnover between N25 Million and N100 Million. The tax is assessed on a preceding year basis (i.e. tax is charged on profits for the accounting year ending in the year preceding assessment). The companies having less than N25 Million turnover are not liable to pay company income tax in line with the Finance Act 2019. In respect of business profits, a non-resident company that has a fixed base or a permanent establishment (PE) in Nigeria is taxable on the profits attributable to that fixed base. As such, it is required to register for CIT and file its tax returns. The Finance (2020) Act and Tax policy Implications: the recently passed finance act also had some provisions that provided for tax incentives and reliefs. The Finance Act 2019, which was signed into law on 13 January 2020, contains various tax changes with effect from 13 January 2020. The Finance Act introduced over 80 amendments to the existing tax and regulatory legislations in Nigeria, including the Capital Gains Tax Act, companies' income tax Act, Personal Income Tax Act, Value Added Tax Act, Nigeria Export Processing Zone Act, Oil and Gas Export Free Zone Act, Federal Inland Revenue Service (Establishment) Act, and Customs and Excise Duties Act, among others. We discuss some of them below; new companies income tax rates New CIT rates, based on turnover, have been introduced. Company income tax is a charge on business profits of companies except such companies are clearly exempted under the Act. Companies in Nigeria were subjected to taxation at a rate of 30 percent on their taxable profits; however, the Finance Act 2019 introduced a progressive form of company income tax, exempting companies with annual turnover of less than N25m from company tax and minimum tax; and reducing the tax rate of medium sized companies (with annual turnover of N25m to N100m) to 20 per cent. Thus, only companies with annual turnover in excess of N100m will pay tax at the rate of 30%. Nigerian companies are also subject to withholding tax on dividend, interest, or royalties received by Nigerian companies or paid to non-Nigerian companies with economic presence in Nigeria. For companies subject to company income tax, tax represents a sacrifice based on the profits of companies for the purpose of creating revenue for the government (Finance Act, 2020).

### **Capital Gains Tax**

Capital Gains Tax (CGT) in Nigeria is a tax imposed on the profit or gain arising from the sale or disposal of assets, including shares, real estate, and other investments. It is regulated by the Capital Gains Tax Act (CGTA) and administered by the Federal Inland Revenue Service (FIRS). Capital gains tax refers to a tax on capital gains, the profit realized on the sale of a non-inventory asset that was purchased at a cost amount that was lower than the amount realized on the sale (Wikipedia, 2016). The most common capital gains are realized from the

sale of stocks, bonds, precious metals and property. According to Thomas (2010) capital gains are taxed as they are realized (that is, when the capital asset is sold or exchanged). Capital assets are property, but there are exceptions such as business inventory, accounts receivable acquired in the ordinary course of business, copyrights, and literary compositions. Embuka (2014) states that capital gains tax is triggered when assets are realized and not while they are held by an investor. Embuka (2014) considers Capital Gain as the profits realized from the sale of assets at a price. Nneka (2014) views capital gain as profit arising from increases in the market value of capital assets to a person or corporate body who does not habitually offer them for sale and in whose hands they do not constitute stock-in-trade. Capital gains tax is paid by corporate companies in Nigeria on profit of disposable assets. Afuberoh and Okoye (2014) narrated that gains tax act; Cap. C1 Volume 3 LFN 2004 (as amended) governs the imposition of Capital Gains Tax in Nigeria. Capital gains tax is a tax passed on the gains made on the disposal of an asset being the difference between the original purchase price of the assets and the sales price. Section 2(1) of the Act put the rate of capital gains tax in Nigeria at 10% on accrued gains on the disposed capital asset. Section 3 provides that chargeable assets include all forms of property whether situated in Nigeria or not, including options, debts and incorporeal generally, any currency other than Nigerian currency, any property created by the person disposing of it, or otherwise coming to be owned without being acquired. As provided under section 13 of the Act, allowable expenditure for the computation of capital gains tax includes the incidental costs which are wholly, exclusively and necessarily incurred for the purposes of the disposal, such as fees, commission or remuneration paid for the professional services of any surveyor or accountant, or agent, or legal adviser and costs of transfer or conveyance. Section 26 to Section 42 of the act covers Organizations, Statutory Bodies etc. excluded from capital gains tax as well as various exempted gains.

### **Tertiary Education Tax**

Cornelius, Ogar and Oka (2016) stated that Education Tax Act; CAP. E 4 Volume 17 LFN, 2004 and Education Tax Fund (Amendment) Act No.17, 2003, is now governed by the Tertiary Education Trust Fund Act 2011. Funds realized from the Education Tax are applied to the rehabilitation, restoration and consolidation of tertiary education in Nigeria. The funds are distributed between Universities, Polytechnics and Colleges of Education in the ratio of 2:1:1 respectively. The act requires every company incorporated in Nigeria to pay 2% of its assessable profit as Education Tax. The law is applicable under the Company Income Tax Act as well as the Petroleum Profit Tax Act. Tertiary education tax is a deductible tax for the purpose of determining the assessable profits of companies engaged in petroleum operation (upstream) as provided under Section 1(3) of the Act. The due date of filing Education Tax Returns is same as that of companies' income tax and petroleum profit tax. As provided by Section 11 of the tertiary education tax Fund Act, first offence against the Act is liable upon conviction to a fine of N1, 0000,000 or a term of 6 months imprisonment or both. Second and subsequent offences attract a fine of NGN 2,000,000 or a term of 12 months or both. Tertiary Education Trust Fund Act: The rate of tertiary education tax has been changed from 2% of assessable profits to 2.5% of assessable profits (Section 1 of tertiary education tax act). The Finance Act 2021 now increases the tertiary education tax payable by Nigerian Companies, from 2% to 2.5% of assessable profits. Small companies remain exempted from this tax. The timeline for payment of tertiary education tax has been reduced from 60 days to 30 days, thereby aligning the timing of payment of tertiary education tax with the companies' income tax and the current practice of the Federal Inland Revenue Services.

## **Financial Performance**

According to Farah, Farrukh and Faizan (2016) financial performance is an extent to which a company financial health over a period of time is measured. In other words, it is a financial action used in order to generate higher sales, profitability and worth of a business entity for its shareholders through managing its current and non-current assets, financing, equity, revenues and expenses. Its main purpose is to provide financial information to shareholders and stakeholders so as to enable them make well informed investment decisions. It can be used to evaluate similar companies from the same industry or to compare industries in aggregation. The concept of performance has become a great challenge across the world in recent times. Although several research works had been carried out on performance related issues as it affects organizations or firms but its definition posed a great challenge to researchers. Gavrea and Adelegan (2011) confirmed the fact that defining firm performance has been very challenging to researchers because of its many meanings. Watson (2007) defines performance as how well a company uses its recourses from its primary mode of business and generates revenues. Performance can also be defined as the accomplishment of specified business objectives measured against known standards, completeness and cost (Davis & Cobb, 2010). Financial performance is a composite of an organization's financial health, its ability and willingness to meet its long-term financial obligations and its commitment to provide services in a foreseeable future (Weber, 2008). Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. Financial performance is broadly viewed as the ability of the firm to meet its financial objectives.

## **Net Profit Margin**

Net profit margin is a financial ratio that measures the profitability of a company by calculating the percentage of profit earned from its total revenue. Net profit margin is calculated by dividing the company's net profit by its total revenue and multiplying the result by one hundred to express the figure as a percentage. Net profit margin is an important indicator of a company's financial health as it shows the percentage of revenue that is left after all expenses, including taxes and interest, have been paid. A higher net profit margin indicates that the company is generating more profits from its revenue, which is generally seen as a positive sign. Net profit margin is an important metric used by investors, analysts, and other stakeholders to evaluate the financial performance of a company. It can also be used to compare the performance of a company to its competitors or to industry benchmarks. The net profit margin, or simply net margin, measures how much net income or profit is generated as a percentage of revenue. Khanam, Nasreen and Pirzada (2014) suggested that net profit margin is net profits to revenues for a company or business segment. Net profit margin is typically expressed as a percentage but can also be represented in decimal form. The net profit margin show how much of each dollar in revenue collected by a company translates into profit. Net profit margin is one of the most important indicators of a company's financial health. By tracking increases and decreases in its net profit margin, a company can assess whether current practices are working and forecast profits based on revenues. Net profit margin is the percentage of revenue left after all expenses have been deducted from sales. The measurement reveals the amount of profit that a business can extract from its total

sales. The net profit margin is intended to be a measure of the overall success of a business. A high net profit margin indicates that a business is pricing its products correctly and is exercising good cost control. It is useful for comparing the results of businesses within the same industry, since they are all subject to the same business environment and customer base, and may have approximately the same cost structures. Generally, a net profit margin in excess of 10% is considered excellent, though it depends on the industry and the structure of the business. When used in concert with the gross profit margin, you can analyze the amount of total expenses associated with selling, general, and administrative expenses (which are located on the income statement between the gross margin and the net profit line items).

### **Empirical Review**

Olatunji and Oluwatoyin (2019) examined the effect of corporate taxation on the profitability of some selected firms in Nigeria from 2007 to 2016 using secondary data which was sourced from various publications of the firms' financial report. The study employed pooled ordinary least square as the estimation technique. The analytical results revealed that the coefficient of corporate tax on profit after tax was positive with the value of 2.418830 and its P-values were 0.0000, the coefficient of value-added tax was 14.51298 and its p-value was 0.0000. Equally, the coefficient of withholding tax was positive with the value of 7.256489 with p-value 0.0000. Furthermore, education tax result depicts that the coefficient is 36.28245 and its p-value is 0.0000. However, the study concluded that corporate tax rate and education tax as the major taxes paid by companies have positive and significant effects to influence profit after tax. It is also clinched that value-added tax rate and withholding tax being used as other variables that could have effects on profit after tax equally revealed positive and significant effects on profit after tax. Therefore, the study recommended that the government and relevant tax authorities should improve in the administration of corporate taxes to avoid non-compliance

Kurawa and Saidu (2018) examined the effect of company income tax on the financial performance of listed consumer goods companies in Nigeria from 2006-2016. Data for the study was collected from the annual reports and accounts of the companies and regression analysis was used as a technique for data analysis. The study finds that there is an insignificant negative relationship between corporate tax and financial performance using return on assets as a measure. Age and risk however exhibits a positive but not significant relationship with ROA. Size on the other hand shows a positive and significant relationship with performance confirming prior expectations. The study recommends that to improve the financial performance of listed Nigerian consumer goods, services of tax experts are needed to engage in legal tax planning like transfer pricing or structuring intra-company debt in order to reduce the net tax payment. By doing so, the net income after tax will increase which in turn increases financial performance.

Gatsi, Gadzo and Kportorgbi (2013) examined the effect of corporate income tax on financial performance of listed manufacturing firms in Ghana. The study used panel data methodology covering ten listed manufacturing firms over seven years to empirically determine the effect of corporate income tax on financial performance. The study revealed that there is an insignificant negative relation between corporate income tax and financial performance. On the other hand, firms' size, age of the firm and growth of the firm show a significant positive relationship with financial performance.

Omodero and Ogonnaya (2018) examine the impact of corporate tax on profitability of Deposit Money Banks in Nigeria. The specific objective of this study is to investigate the

extent to which company income tax (CIT) affects the profit after tax (PAT) of Deposit Money Banks in Nigeria. The research adopted a causal research design and a sample of 12 banks was selected out of the currently existing 21 banks based on Authors' judgment and data availability. The secondary data on PAT (dependent variable) CIT (independent variable) used were collected from the published financial statements of banks via their websites. The panel data used in this study covers a period from 2006 to 2016. Multiple regression analysis and t-test were used to analyze the data with the aid of SPSS version 20. The study revealed that there is a positive significant impact of CIT on PAT and existence of a positive relationship between PAT and CIT. While the rest of the other 9 banks showed both negative and lack of impact of CIT on PAT. The findings showed improper application of ability-to-pay theory in Nigeria. The study therefore recommends a review of the Nigerian fiscal policy and introduction of tax reforms that allow adequate tax incentives for banks especially during financial crises and to cope with liquidity challenges

### Methodology

This study adopts ex-post facto research design. This type of research design is used where the phenomenon under investigation has already taken place. Expost facto research design means after the event has taken place. Secondary data adopted from audited annual financial report of the sampled listed manufacturing companies in Nigeria had already occurred and existence. The population of this study comprises of (60) sixty quoted manufacturing companies on the Nigeria Stock Exchange Group. The purposive sampling technique was adopted in this study to select thirty (30) of the quoted manufacturing companies to represents the sample size. Secondary data was obtained from audited annual financial reports of quoted manufacturing companies in Nigeria from 2006-2020. Companies income tax was measure as 30% of total profit at the end of each year, capital gains tax was measure as 10% of gains on disposable assets at the end of each year, tertiary education tax was measure as 2.5% of total profit at the end of each year, net profit margin is measured as net income all over net sales or revenue at the end of each year. The study adopts panel least square regression through pooled effect, fixed effect, random effect, determined by Haus man test, to test the formulated hypothesis at 0.05 level of significances with the aid of EVIEWS 10 econometric statistical software. The study carryout unit root test, co-integration test, granger causality test, vector error correctional estimates, error correction model test as diagnostic test.

### Model Specification

The study adopt econometric model to investigate the effect of companies income taxes on financial performance. The functional models are state below

$$FPF = f(CIT) \quad (3.1)$$

$$FPF = \alpha_0 - \alpha_1 CIT + \varepsilon_{it} \quad (3.2)$$

$$NPM = f(CITA, CGT, EDT) \quad (3.3)$$

$$NPM_{it} = \beta_0 + \beta_1 CITA_{it} + \beta_2 CGT + \beta_3 TET_{it} + \varepsilon_{it} \quad (3.4)$$

Where

CIT = Companies income taxes

FPF = Financial Performance

CITA = Company Income Tax

CGT = Capital Gain Tax

TET = Tertiary Education Tax

NPM = Net Profit Margin

$it_1 - it_4$  = Slope

$\beta_1 - \beta_4$  = Regression Coefficient

$\alpha$  = Regression Constant  
 $\varepsilon_{it}$  = Error Term

### Result and Discussion

This segment present statistical analysis and interpretation of findings obtained from secondary data used for the study. The study empirically investigate the effect of companies income tax on financial performance of listed manufacturing companies in Nigeria from 2006-2020.

**Table 4.1: Univariate Analysis for Study Variables**

	CIT	CGT	TET	NPM
Mean	27365366	15255.58	1824638.	-2.126095
Median	633717.8	745.6500	43019.44	0.109547
Maximum	1.631409	921100.0	1.091708	128.1663
Minimum	-860802.6	-317.9000	45.70000	-1166.510
Std. Dev.	1.539508	66440.04	10193120	55.35007
Skewness	7.695956	8.519982	7.695990	-20.72810
Kurtosis	68.92231	93.39782	68.92283	437.2202
Jarque-Bera	85924.92	158664.9	85926.22	3567484.
Probability	0.072800	0.280103	0.307020	0.463026
Sum	1.232310	6865009.	8.211308	-956.7429
Sum Sq. Dev.	1.054919	1.989512	4.675816	1375570.
Observations	450	450	450	450

Source: EViews 10, 2022

Table 4.1 explained the descriptive or univariate analysis for the variables adopted for the study through mean, median, maximum, minimum, standard deviation, skewness, kurtosis, jargue-bear, probability. Companies income tax (CIT), capital gains tax (CGT), tertiary education tax (TET), return on equity (ROE).

**Table 4.2: Summary of Panel Unit Root Test at First Difference Level One for all Study Variables**

Variables	Methods of Test	Coefficient	Probability	Level	Discovery	Decision
CIT	Levin, Lin & Chu t*	-4.71780	0.0000	1(1)	No Unit Root	Stationary at 1 <sup>st</sup> Difference
	Im, Pesaran and Shin W-stat	-6.30773	0.0000	1(1)	No Unit Root	Stationary at 1 <sup>st</sup> Difference
	ADF - Fisher Chi-square	157.477	0.0000	1(1)	No Unit Root	Stationary at 1 <sup>st</sup> Difference
	PP - Fisher Chi-square	252.757	0.0000	1(1)	No Unit Root	Stationary at 1 <sup>st</sup> Difference
CGT	Levin, Lin & Chu t*	-4.86823	0.0000	1(1)	No Unit Root	Stationary at 1 <sup>st</sup> Difference
	Im, Pesaran and Shin W-stat	-8.62361	0.0000	1(1)	No Unit Root	Stationary at 1 <sup>st</sup> Difference
	ADF - Fisher Chi-square	193.139	0.0000	1(1)	No Unit Root	Stationary at 1 <sup>st</sup> Difference
	PP - Fisher Chi-square	520.691	0.0000	1(1)	No Unit Root	Stationary at 1 <sup>st</sup> Difference
TET	Levin, Lin & Chu t*	-4.55684	0.0000	1(1)	No Unit Root	Stationary at 1 <sup>st</sup> Difference
	Im, Pesaran and Shin W-stat	-6.21740	0.0000	1(1)	No Unit Root	Stationary at 1 <sup>st</sup> Difference
	ADF - Fisher Chi-square	155.947	0.0000	1(1)	No Unit Root	Stationary at 1 <sup>st</sup> Difference
	PP - Fisher Chi-square	245.041	0.0000	1(1)	No Unit Root	Stationary at 1 <sup>st</sup> Difference
NPM	Levin, Lin & Chu t*	1489.90	0.0000	1(1)	No Unit Root	Stationary at 1 <sup>st</sup> Difference
	Im, Pesaran and Shin W-stat	-7.06595	0.0000	1(1)	No Unit Root	Stationary at 1 <sup>st</sup> Difference
	ADF - Fisher Chi-square	169.845	0.0000	1(1)	No Unit Root	Stationary at 1 <sup>st</sup> Difference
	PP - Fisher Chi-square	342.483	0.0000	1(1)	No Unit Root	Stationary at 1 <sup>st</sup> Difference

Source: Extract from Panel Unit Root Test Result in EViews 10, 2022

Table 4.2 shows summary of panel data unit root test for all the variables adopted in this study. In panel data analysis, variables are expected to be stationary in order to avoid spurious regression and interpretation of coefficient estimates. The study adopt different unit root test method such as Levin, Lia and chu test, 1m, Pesaran and shin w-statistics test, ADF-fisher chi-square and pp-fisher chi-square test and the results show that all the variables are stationary at first difference because the probability value of the variable as indicated in the result are less than 0.05 significance level. Stationarity test on panel data analysis enhance validity and reliability of the result devoid of spurious regression. Hence since our data is stationary at first difference we proceed to conduct panel least squares regression analysis.

**Table 4.3: Fixed Effects for Net Profit Margin**

Dependent Variable: NPM

Method: Panel Least Squares

Date: 07/07/22 Time: 15:25

Sample: 2006 2020

Periods included: 15

Cross-sections included: 30

Total panel (balanced) observations: 450

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.085545	2.940181	-0.709325	0.4785
CIT	3.838508	3.329705	0.001152	0.9991
CGT	5.451307	5.363705	0.010159	0.0119
TET	-6.014607	0.000498	-0.001206	0.9990

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.965053	Mean dependent var	-2.126095
Adjusted R-squared	0.806693	S.D. dependent var	55.35007
S.E. of regression	55.53499	Akaike info criterion	10.94241
Sum squared resid	1286084.	Schwarz criterion	11.24375
Log likelihood	-2429.042	Hannan-Quinn criter.	11.06118
F-statistic	0.906711	Durbin-Watson stat	2.044738
Prob(F-statistic)	0.616798		

**Source: EViews 10, 2022**

Table 4.3: Described the fixed effect regression results for the joint effect of company income tax, capital gains tax and tertiary education tax on net profit margin of quoted manufacturing companies in Nigeria. Fixed effect model explore the relationship between predictor and outcome variable within an entity. Each quoted manufacturing companies has its own individual characteristics that may or may not influence the predictor variables. Fixed effect model assume that something within the individual quoted manufacturing companies may impact or bias the predictor or outcome variables and we need to control it. This is the rationale behind the assumption of the correlation between quoted manufacturing companies'

error term and predictor variables. Fixed effect model remove the effect of these time-invariant characteristics so we can assess the net effect of the predictors on the outcome variable. The fixed effects result shows that company income tax had positive and insignificant effect on net profit margin of quoted manufacturing companies in Nigeria. Empirical evidence shows that capital gains tax had positive and insignificant effect on net profit margin of quoted manufacturing companies in Nigeria. Empirical evidence revealed that the fixed effect model result indicates that tertiary education tax had negative insignificant effect on net profit margin of quoted manufacturing companies in Nigeria. The coefficient of determination which measure goodness of fit of the regression model as indicated by R-square is 0.965053. This implies that 96% of the variation observed in the independent variable (companies income tax capital gains tax and tertiary education tax) was attributed to variation in the dependent variables (net profit margin) while 4% of the changes were explained by unknown variable. The f-statistic value of 0.906711 and the probability of the f-statistic which is value at 0.616798 are greater than 0.05 at 5% level of significance. This suggest that company income tax, capital gains tax and tertiary education tax jointly has insignificant effect on net profit margin of quoted manufacturing companies in Nigeria. The Durbin Watson is a test statistic used to detect autocorrelation in the residuals from a regression analysis. A Durbin Watson value of 1.7 to 2.0 indicates that there is no autocorrelation in the regression residual. Thus our Durbin Watson value of 2.04473 is within the accepted threshold. We conclude that there is no autocorrelation in our regression model.

**Table 4.4: Redundant Fixed Effects Test for Net Profit Margin**

Redundant Fixed Effects Tests

Equation: Untitled

Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.998868	(29,417)	0.0202
Cross-section Chi-square	30.221604	29	0.4030

**Source: EViews 10, 2022**

Table 4.4: Illustrate the panel redundant fixed effects test that shows the best fit or superior model between the pooled ordinary least squares regression and the fixed effect model regression. The cross section f-statistics result shows 0.9988 with a probability value of 0.0202 which is less than 0.05 significances level. The hypothesis of the redundant fixed effect model test or likelihood ratio test state that if the cross section f-statistics probability is greater than 0.05 significance level then the pooled ordinary least square regression model is appropriate (null hypothesis) while if the cross section f-statistic probability value is less than 0.05 significance level the fixed effect model is appropriate (the alternate hypothesis). Based on the results of our redundant fixed effect test, which the cross section f-statistics probability is 0.0202 which is less than 0.05 significances level. We therefore accept the fixed effect model. Thus, based on our result, we proceed to determine the best model between fixed effect and random effect model using the Hausman specification test.



**Table 4.5: EViews Output for Hausman Specification Test for Net Profit Margin Model Three**  
 Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.089060	3	0.0331

Source: EViews 10, 2022

Table 4.5: Explicate the Hausman specification tests which compare between the fixed effect model and the random effect model the best fit for analysis. The Hausman is also called the Durbin-Watson Hausman test, it is used to check whether an estimate for an unknown parameter is consistent or not. It is also applied in the context of linear regression to decide whether to choose a fixed effect model or a random effect model. The hypothesis of the Hausman specification test state that if the cross section random probability value is greater than 0.05 significance level then (random effect is appropriate) (null hypothesis) while if the cross section probability is less than 0.05 significance level then (fixed effect model is appropriate) (alternate hypothesis). Based on the result of our Hausman specification test which the cross section random chi-square statistics indicates 0.089060 with a probability value of 0.0331 which is less than 0.05 significances level. Therefore, fixed effect model is the preferred and appropriate model to be adopted for analysis of our regression model.

**Table 4.6: Pedroni Residual Conintegration Test for Net Profit Margin**

Pedroni Residual Cointegration Test

Series: NPM CIT CGT TET

Date: 07/07/22 Time: 15:41

Sample: 2006 2020

Included observations: 450

Cross-sections included: 2 (28 dropped)

Null Hypothesis: No cointegration

Trend assumption: No deterministic trend

Automatic lag length selection based on SIC with a max lag of 1

Newey-West automatic bandwidth selection and Quadratic

Spectral kernel

Alternative hypothesis: common AR coefs. (within-dimension)

	Weighted			
	Statistic	Prob.	Statistic	Prob.
Panel v-Statistic	-1.460138	0.0279	-1.367914	0.0143
Panel rho-Statistic	1.035944	0.8499	0.917414	0.0205
Panel PP-Statistic	-2.237773	0.0126	-1.931490	0.0267
Panel ADF-Statistic	-1.083573	0.0393	-1.174326	0.0201

Alternative hypothesis: individual AR coefs. (between-dimension)

Statistic Prob.

Group rho-Statistic	1.007442	0.0431
Group PP-Statistic	-2.700270	0.0035
Group ADF-Statistic	-1.734991	0.0414

Source: EViews 10, 2022

Table 4.6: Discussed the Pedroni Residual Cointegration Test effect of the covariates and outcome variable of the study. Cointegration is a statistical method used to test the correlation between two or more non stationary time series in the long run or for a specified time period. Cointegration is the existence of long-run relationship between two or more variable. Researchers perform cointegration test when time series are nonstationary to determine whether they have a stable, long run relationship. PedroniCointegration method is used to evaluate the existence of long run relationship between controls and controlled variable of the study. The results of Pedronicointegration is divided into two groups. The alternative hypothesis common AR coefficient within dimension group and the alternate hypothesis individual AR coefficient between dimension group. The alternate hypothesis common AR coefficient within dimension group has statistical test such as panel v-statistic, panel rho-statistic, panel PP-statistic and panel ADF-statistic and the alternative hypothesis individual AR coefficient between dimension groups have rho-statistic, group PP-statistic and group ADF-statistic test. The within dimension has a total of eight test while the between dimension has a total test of three. Thus padroni residual cointegration test has a total test of eleven. Pedroni residual cointegration tests hypotheses state that if the probability value of the test result is greater than 0.05 significance level then there is no cointegration, suggesting that there is no long relationship between the variables of study but if the probability value of the statistical test is less than 0.05 significance level then there is cointegration. Showing there is long-run relationship between the predictors and predictand variables. Thus, based on our result with a total of eleven statistical tests, eight has a probability that is less than 0.05 significance level while three has a probability that is greater than 0.05 significance level. Thus, we conclude that there is cointegration between regressors and regressand and we conclude that there is long-run relationship between the covariates and outcome variable of the study.

**Table 4.7: Pairwise Granger Causality Tests for Net Profit Margin**

Pairwise Granger Causality Tests

Date: 07/07/22 Time: 15:43

Sample: 2006 2020

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
CIT does not Granger Cause NPM	390	0.02796	0.9724
NPM does not Granger Cause CIT		0.02516	0.9752
CGT does not Granger Cause NPM	390	0.29547	0.7443
NPM does not Granger Cause CGT		0.20813	0.8122
TET does not Granger Cause NPM	390	0.02796	0.9724
NPM does not Granger Cause TET		0.02515	0.9752
CGT does not Granger Cause CIT	390	47.8661	3.4219
CIT does not Granger Cause CGT		38.6385	5.8416

TET does not Granger Cause CIT	390	6.59405	0.9999
CIT does not Granger Cause TET		0.00049	0.9995
TET does not Granger Cause CGT	390	38.6373	5.1316
CGT does not Granger Cause TET		47.8661	3.3819

**Source: EViews 10, 2022**

Table 4.7: Analyze pairwise granger causality tests between predictor and criterion variable of the study. Granger causality test determines whether one time series is useful for forecasting another. Pairwise causality test shows the direction of causality between two or more variables. Granger causality is an econometric test used to verify the usefulness of one variable to forecast another. A variable is said to granger cause another variable if it is helpful for forecasting the other variable; fail to granger cause if it is not helpful for forecasting the other variable. The pairwise granger causality test shows that company income tax does not granger cause net profit margin and net profit margin does not granger cause company income tax. The probability value of 0.9724 and 0.9752 is greater than 0.05 critical levels. The result shows that there is a unidirectional relationship between corporate tax and net profit margin of quoted manufacturing companies in Nigeria. Pairwise granger causality test reveal that capital gains tax does not granger cause net profit margin and net profit margin does not granger cause capital gain tax. The probability value of 0.7443 and 0.8122 are greater than 0.05 significances level. The result shows that there is unidirectional relationship between capital gains tax and net profit margin of quoted manufacturing companies in Nigeria. The granger causality test result indicates that tertiary education tax does not granger cause net profit margin and net profit margin does not granger cause tertiary education tax. The probability value of 0.9724 and 0.9752 are greater than 0.05 significances level. The result shows that there is unidirectional relationship between capital gains tax and net profit margin of quoted manufacturing companies in Nigeria. The granger causality test results show that company income tax, capital gains tax and tertiary education tax does not forecast net profit martin of quoted manufacturing companies in Nigeria vice-versa.

**Table 4.8: Vector Error Correction Estimates for Net Profit Margin**

Vector Error Correction Estimates  
 Date: 07/07/22 Time: 15:51  
 Sample (adjusted): 2009 2020  
 Included observations: 360 after adjustments  
 Standard errors in ( ) & t-statistics in [ ]

CointegratingEq:	CointEq1
NPM(-1)	1.000000
CIT(-1)	-3.845305 (2.75905) [-1.43520]
CGT(-1)	-0.000606 (5.49105) [-11.2156]
TET(-1)	0.000578 (0.00040) [ 1.44218]
C	3.222664

**Source: EViews 10, 2022**

Table 4.8: Shows vectors error correctional estimate for dependent variable net profit margin and independent variable companies' income tax, capital gains tax and tertiary education tax of quoted manufacturing companies in Nigeria. The vector error correctional model shows that one percent change in companies' income tax will lead to -3.845305 decreases in net profit margin of quoted manufacturing companies in Nigeria. The result of the vector error correctional estimates show that 1% change in capital gains tax and tertiary education tax will result to -0.000606 and 0.000578 percentage increase in net profit margin of quoted manufacturing companies in Nigeria.

**Table 4.9: Error Correction Mechanism for Net Profit Margin**

System: UNTITLED

Estimation Method: Least Squares

Date: 07/07/22 Time: 15:52

Sample: 2009 2020

Included observations: 360

Total system (balanced) observations 1440

	Coefficient	Std. Error	t-Statistic	Prob.
ECM(-)	-0.081731	0.002628	-0.658709	0.0102
D(NPM(-1)	-0.514617	0.047334	-10.87207	0.0000
D(NPM(-2)	0.000241	0.000690	0.350029	0.7264
D(CIT(-1)	-8.814708	3.878507	-0.227525	0.8200
D(CIT(-2)	-7.612108	3.832407	-0.198692	0.8425
D(CGT(-1)	-1.133606	1.516406	-0.743817	0.4571
D(CGT(-2)	-1.372907	9.589307	-0.142626	0.8866
D(TET(-1)	1.326406	5.811806	0.227139	0.8203
D(TET(-2)	1.134806	5.753706	0.197422	0.8435
C	-0.031134	0.042923	-0.725342	0.4684

**Source: EViews 10, 2022**

Table 4.9: Provides estimate which shows the momentum with which the model converges to symmetry. The vector of interests is the net profit margin which the coefficient of error correctional model is -0.081713. It is probably sign which means the entire variable are valid that is given validating that the entire variables have a long run stability relationship. The negative sign further indicate that the modificationdepict the path to reinstate the long run equilibrium. The extent of error correctional model coefficient indicates that the velocity of adjustment is 81% and statistically significant considering the probability value of 0.0102 which is less than 0.05. This implies that there was actually a long run relationship among the variables. The error correction mechanism result indicating the velocity at which the dependent variable net profit margin returns to equilibrium after change in other independent variables such as companies' income tax, capital gains tax and tertiary education tax. The coefficient of current and past lag one and two values of companies income tax is negative indicating that increases in companies income tax lead to decreases in net profit margin and their t-statistic are insignificant at 0.05 significances level. Also their probability value is insignificant at 0.05 significances level. The coefficient of the current and past lag one and two of companies income tax are negative, which suggest that as companies income tax increase it bring about decrease in net profit margin and their t-statistics are insignificant at 0.05 significance level. Their probability is significant at lag one and insignificant at lag two. The coefficient of current and past lag one and two of capital gains tax value is negative. Which indicate that as capital gains tax increase it leads to decrease in the activities of net profit margin and their t-statistics is insignificant at 0.05 significance level.

### Conclusions

The study sought to investigate the effect of companies income tax on financial performance of quoted manufacturing companies in Nigeria. Companies' income tax enables government to generate revenue to provide social amenities and infrastructure. Companies' income tax

revenue is used to assist the government to achieve macroeconomic, fiscal and monetary policy objectives of a given country. Companies income tax enable government to raise revenue to meet public expenditure. The conclusions drawn are based on the findings of the study. The study concludes that companies income tax had insignificant effect on financial performance of quoted manufacturing companies in Nigeria. Company income tax had a negative and insignificant effect on net profit margin of quoted manufacturing companies in Nigeria. Capital gains tax had positive and significant effect on net profit margin of quoted manufacturing companies in Nigeria. Tertiary education taxes had negative and insignificant effect on net profit margin of quoted manufacturing companies in Nigeria.

### Recommendations

The government should reduce companies' income tax rate in Nigeria from 30% to 20% to ensure prompt payment of tax by taxpayers, which will reduce their tax burden and improve the financial performance of corporate organizations. The government should introduce new tax incentives, tax exemptions, tax allowances, tax relief, tax rebates, and tax shelters for companies income tax to help reduce the negative impact of companies income tax on financial transactions. Capital gains tax should be scrapped to enable companies to plough back the profit on the sale of assets into their business operations to ensure capital for investment and improve financial performance. The government must ensure the eradication of multiple taxation practices and ensure transparency incorporate tax administration in order to attract investors and ensure tax compliance. New regulations to curtail excess companies income tax should be formulated in order to reduce the tax burden and liability on corporate organizations to ensure high liquidity and avoid profit shifting to lower tax jurisdictions, which will enhance financial performance. The government should implement tax harmonization policy to reduce multiple taxation practice in Nigeria. The government should adopt a single uniform company income tax rate for all types of companies in Nigeria to avoid multiple company income tax practices. The government should ensure the smart use of information systems through the introduction of comprehensive tax reforms, leveraging big data to improve compliance and fight corruption.

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