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Research Paper

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MANUFACTURING FIRMS IN NIGERIA; CORPORATE TAXES AND PERFORMANCE

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ABSTRACT

This study examined the impact of corporate taxes on performance of selected companies quoted on the Nigerian Stock Exchange (NSE) in Nigeria. Secondary data obtained from the annual reports of fifteen selected manufacturing companies listed on the NSE, covering six years 2010-2015, from fact-book. Data sourced were analyzed using Correlation and Regression analysis; with the aid of E-view econometrics package. Study confirmed existence of significant relationship between corporate tax and performance of manufacturing companies in Nigeria. Also, a high corporate tax rate could impair profits; thereby distorting investment decision. It is recommended that, more incentives be given to manufacturing companies especially during this era of campaign for use of made in Nigeria goods. Government should try as much as possible to strike balance between objective of aggressive tax mobilization and creating enabling environment for emerging businesses in Nigeria. Doing this, will quicken firms' growth and will pay higher taxes in the long run

KEYWORDS; *Corporate tax, Performance, listed Companies, Tax Incentive and Tax rate*

INTRODUCTION

The requirement for survival; to meet required fund for development and economic growth mandates nations of the world to increase drive through taxation and other means. The role tax plays in any society cannot be undermined. The formation of accountability and effective states has been closely linked with the emergence of taxation systems (Moore, 2007). Taxes generally are compulsory payments levied on all income, wealth, and properties of individuals, partnerships trustees, executorships and companies by the government. A tax is a compulsory payments by individuals and organizations to the relevant tax authorities at Federal, State, or Local Government levels. Taxes exercise fiscal and or budgetary functions, economic and social or redistribute functions. Hornby (1988) posited that tax is money that has to be paid to the government compulsorily. Corporate tax is the most productive revenue source of income to the government than taxes from other sources. In the olden days, government imposed taxes to generate enough revenue solely to cover the cost of administration and defense. In modern economies taxes are the important source of government revenue. They are compulsory levies that are regularly imposed and as a rule, not designated for a special purpose, they are regarded as a contribution to the general revenue pool from which most government expenditures are financed (Ogbonna & Appah, 2012).

As corporate organizations looks to maximize shareholders value, it will seek to maximize its profitability in the process. Profitability is a determinant of how sound and company is. The level of profit of a company at any point in time has consequences attributed to it. A high profit making organization will have better motivated staffs, improved product quality and increased shareholders value while a low profit making organization will have vice-versa effect. Thus, high corporate tax rate would lead to low or declining profits which has adverse effects on the company and lead to low investment or disinvestment.

Olaleye, Memba and Riro(2015) taxes are seen as one of the major source of cash outflow to business organizations experience. Businesses are faced with the option of managing their tax liabilities in such a way that their tax burden is reduced. With the exception of industries which enjoy tax holiday possibly because of their location and age to enable them compete effectively or to meet certain economic objectives, other business are mandated by the laws of the federal republic of Nigeria to pay their corporate taxes, as at when due. It is known that under the present economic situation of economic stress and hardship, coupled with stinging effect of inflation, unemployment, price instability dwindling standard of living, it is only organizations that can turn those threats and challenges into opportunities that can survive the scourge.

More so, investment decision of corporate organizations is to a large extent being affected by corporate taxes. Companies expect a high return on their investment. A high corporate tax rate would lead to low profits thus resulting in low investment. Similarly foreign investors will quickly re-balance off their investments and flee to other countries with a better tax haven. There is therefore, the need to maintain adequate balance between the goals of maximum resource development and tax benefits to ensure equitable and sustained growth.

No doubt that tax has greatly contributes to socio-economic growth and development of all economies. It is however imperative to take cognizance of its effect on the effectiveness and efficiency of corporate organization operations. The impact of the Nigerian tax on businesses has been a matter of increasing interest and concern to many persons. Businesses are confronted with the management of managing tax liabilities in such a way that tax burden is reduced. It has becomes extremely difficult for emerging firms to effectively fulfill other corporate objectives where multiple a high tax rates becomes the other of the day. Companies provide funds for three principal activities of payment of dividend to shareholders, investment in operating assets and repayment of loan capital. Multiple taxes and perceived high tax rate remain teething problems to businesses operating in Nigeria. To mitigate their tax liabilities; they indulge in declaring inaccurate financial figures as profits. This reduces the tax accruable to the government because of these practices. As such, the study evaluates the impact of corporate taxes on performance indexes of manufacturing firms in Nigeria; as a useful to ascertain the degree at which multiple corporate tax impede operational effectiveness of business concerns in Nigeria

OBJECTIVES OF THE STUDY

The broad objective of the study is to ascertain the impact of corporate tax on operating performance of listed companies in Nigeria. Specifically, the study intends to;

(i) ascertain the effect of corporate tax rate on corporate profit before tax ofcompanies.
(ii) examine the effect of corporate tax on investment decisions.
(iii) investigate the effect of corporate tax on profitability of companies.

RESEARCH HYPOTHESES

The following hypotheses were formulated to achieve this research objective:

Ho: there is no significant relationship between corporate tax and profit before tax of companies.

Ho: there is no significant effect between corporate tax and investment decision.

Ho: there is no significant effect between corporate tax and profitability of companies.

LITERATURE REVIEW

Taxation concept has remained a concern of global significance as it affects every economy irrespective of national differences. Taxation generally aids government in raising revenue required to fund development programmes. It also has the potentials of giving the citizens a sense of patriotism and satisfaction of performing a civic duty by paying their taxes. Taxation is viewed as a process or machinery by which individuals, groups or communities are made to contribute in some agreed quantum and method for the purposes of the administration and general development of the society they belong (Anyaduba, 2006).

Tax and Taxation Concept

Advanced learner Dictionary of English Language describes 'tax' as a charge imposed by governmental authority upon property, individuals or transactions to raise money for public purpose. The Black's law Dictionary defines it as "Monetary charge imposed by the government on person's entities or property, levied to yield public revenue". Tax is a compulsory exaction of money by a public authority for public purposes and taxation as a system of raising money for the purposes of government by means of contributions from individual person or corporate body (Soyode &Kajola, 2012). Tax is a compulsory levy imposed by a legitimate authority on persons, property, income transactions and commodities for the purpose of financing government expenditure. (Ilaboya, 2012).

According to Cambridge International Dictionary tax is defined as an amount of money paid to the government usually a percentage of personal income or company profit. Winfrey (1964), regarded tax as a compulsory payment imposed on the public by an authority (Federal state or local government). Another author defines tax as a compulsory levy imposed by government through its agents on its subjects or his property to achieve some goals. It is paid "quid pro quo" i.e. without expecting something specific in return (Agbetunde, 2004). Taxation is also a compulsory imposition of level within a society on individuals, organizations, companies, goods and services (Igwe – Kalu, 1998).

Taxation can defined as the system of imposing compulsory levy on all income, goods, services and properties of individual, partnership, trustees, executorships and companies by the government (Samuel and Simon, 2011; Yunusa, 2003) Anyafo (1996) defined taxation as a compulsory payment made by individuals and organization to relevant inland Revenue authorities at the federal, states or local government level. Tobansi-Ochiogu (1994), see taxation as a levy imposed by the government against the income, profit or wealth of individual, partnership, corporate organization. Ola (1999) defined taxation as compulsory levy imposed on a subject or upon his property by the government to provide security, social amenities and create conditions of economic well-being of the society. A precise definition of taxation is Farayola (1987) and Okon (1997) is that taxation is one of the sources of income for government, such income are used to finance or run public utilities and perform other social responsibilities. According to Adams (2001) taxation is the most important source of revenue for modern governments typically accounting for ninety percent (90%) or more of the income.

Ndekwu (1988) defined tax as a means by which a government appropriate part of private sectors income and expenditure as its revenue for the purpose of meeting recurrent expenditure and creating capital formation towards the development and growth of goods and services of the economy, this appropriation of private income and expenditure by state is for the purpose of providing for what may be regarded as a "Collective of public goods gives tax a unique position in the armory of government's operation.

Nightingale (1997) described tax as a compulsory contribution imposed by the government. He opined that even though tax payers may receive nothing identifiable in return for their contribution, they nevertheless have the benefits of living in a relatively educated, health and safe society. Taxation is not only a means for government to acquire resources. It has an important role in achieving equality and distributive social and economic need (Samuel and Inyada, 2010).

Companies Income Tax Act

One of the Acts regulating the taxation practice relating to Companies Income in Nigeria is the Companies Income Tax Amendment Act 2007. Company Income Tax is charged on the chargeable profits of all companies operating in the country except those specifically exempted under the Act. The administration of the Companies Income Act and the tax is under the care and management of the Federal Board of Inland Revenue (the Board). The operational arm of the Federal Board of Inland Revenue is called the Federal Inland Revenue Service (the Service) and the Act that governed it, is called the Federal Inland Revenue Service Establishment Act (FIRSEA) 2007.

Corporate taxation is an important source of government revenue around the world and a major consideration in planning business activities. According to business dictionary it is defined as tax levied on profits and capital gains made by companies, calculated before dividends are paid.

Objective of Taxation

Uchenna (2009) averred that taxation has two main objectives. The primary purpose of taxation is to raise revenue for government expenditure and also to influence economic activities in country. Objectives of taxation could be achieved through tax policies which provide mechanism for influencing consumer demand

and for providing incentives for production, investments and savings. Okezie (2003) outlines the objectives of taxation as followings;

i. Taxation makes it possible for government to provide public goods and all essentials services such as law and order, waste supply, defense, electricity, etc. to the citizen.

ii. Taxation is an instrument for the protection of home or infant industries. This tool is effectively used to encourage industrialization (Wilson, 2009).

iii. To Okezie (2003) taxation is used to encourage investments. The total wealth of nation depends on the volume and value of investments in that economy. Investment yield income and income is re-invested for more income. Also companies are encouraged to invest in other companies and real estate through some tax incentive package (Adebisi, 2008).

Corporate Tax Rate and Corporate Profitability

Hicks cited in Dewelt (2005) ,the effect of an additional tax on profit on a curve of expected returns is to shift the curve bodily to the left, but without altering its shape or chance of loss. The change of very high gains which formally balanced the big chance in the risky investment curve is thus cut-off and the scales are consequently tipped against it, while the safe investment, being relatively unaffected, will become the more attractive. The discrimination of high profit tax against venture capital is serious for any country that means to keep abreast of modern development, it is perhaps especially serious in established industrial equipment and where consequently new enterprises needs to be especially on the alert. This tax has also important cyclical relevance, in depression, curves of expected returns flatten out, and many safe investments pass into the risky class.

Tax Shifting

Individual change their behavior in an attempt to shorten tax payments, resources are reallocated and these reallocations are reflected in prices. This process is called tax shifting. Taxes which do not affect resources allocation cannot be shifted and fall on economic rent and the price of the service or community which is taxed. All other taxes are shifted, at least to some degree. Price changes of the taxed commodity and all other commodities affected by resource reallocation measure the final burden of a tax. The burden is borne by those who are adversely affected by changes in relative prices. Price include the effects on income sources, consumption for labour or property, and income uses, consumption and savings. Albert (1981) opined that all price changes are traced to the people, who are affected, for only people can bear taxes. To the extent that wages fall, labour bears the tax burden, to the extent that price of mineral right falls, land owners bears the tax burden, to the extent that profits fall, owners of capital bear the tax burden, and to the extent that prices of output increases, consumers bear the burden.

Corporate Taxes and Investment Decisions

The term investment on have more than one meaning. In economics it is the purchase of physical asset such as a firm's acquisition of a plant equipment or inventory or individual's purchase of a new home. To the lay person, the word denotes buying stock or bonds, but it probably does not mean purchasing a plant, equipment or inventory. Mayo (2000) explains investment as the purchases of an assets for the purpose of storing value and hopefully increasing that value of time, If in the aggregate there is only a transfer of ownership from one seller to the other investment is a necessity for the development of a nation, Ahibor and Amoah (2013) quoting Hammats (2010) continued that "in alluding to how necessary investment is, indicated that investment drives development".

Investment Decisions

Investment decision is a determination made by directors and/or management as to how, when, where and how much capital will be spent on investment opportunities. The decisions often follow research to determine costs and return for each option. Investment decision making is an important part of strategic decision making in every enterprise because new investment projects especially, affect future economic results and the enterprises prosperity. According to Pandey (2003:6), Investment decision on capital budgeting, involves the decision of allocation of capital or commitment of fund to long term assets that would yield benefit in the future.

Tax and Investment Decisions

The cost of capital is the required rate of return that an investment project must earn, at least, for the project to break even and to be accepted by the firm. The cost of capital depends upon two compounds; the cost of finance for the project or economic depreciation (Chennels, 1996). The tax system may affect the cost of capital in several ways; it may lower the rate of return of the project, change the cost of different forms of finance

and change the cost of different forms of investment. In most countries, capital allowance, a type of tax incentive, is used in lieu of depreciation. The company is applied on taxable returns in investment; capital allowance is an allowable tax deduction for each return on investment. The significance of tax as determining factor in investment decision may depend on government financial economic policy. Government may want to use the CIT as a policy to be in order to encourage some firms and discourage others.

EMPIRICAL REVIEW

Jens and Schwellnus (2008) examined the effects of corporate income taxes on two of the main drivers of growth, profitability and investment of firms in European OECD member countries over the time period of 1996-2004, through stratified sampling this is found to be true across firms of different size and age classes, except for young and small firms. The results suggest that corporate income taxes reduce investment through an increase in the user cost of capital. This may be partly explained by the negative Profitability effects of corporate income taxes if there is an increase in the corporate tax rate.

Rohaya, Nor'Azem and Bardai, (2010) conducted a study on corporate income taxes and revealed an association between income tax and profitability of corporate institutions. The study related to the impact of corporate income tax liabilities on different variables of a firm as gross profit, cost of sales, expenses etc. A sample of 7,306 companies was taken from the hotels and restaurants sector, includes 6,594 in business services and 1,484 in transport manufacturing sectors, for the accounting periods 1995 to 2000. The conclusion was that corporate income tax adversely affects the profitability of corporate institutions but has a positive relationship with the firm size and age of companies.

John, Samuel and Holy (2013) studied the effect of corporate income tax on financial performance of listed manufacturing firms in Ghana. Their study concluded that there is a significant negative relation exist between corporate income tax and financial performance on the other hand firms' size, age of the firm, growth of the firm shows a significant positive relationship with financial performance. From this backdrop it is recommended that manufacturing companies should employ the services of tax experts to aid them in tax planning in other to reduce the net tax payment so as to increase their financial performance. Again they should increase their asset size and ensure efficient use of those assets to reflect in the production turnover of the companies.

As reviewed in Graham (2003), the extensive literature on how taxes influence firm financial decision-making has considered the effect of taxes on financing choices, organizational form and restructuring decisions, payout policy, compensation policy and risk management decisions. In this literature, taxes are viewed as one of many factors that shape these decisions. In contrast, firms also appear to engage in a variety of transactions that, in the words of Michael Graetz, are deals "done by very smart people that, absent tax considerations, would be very stupid." These activities, broadly labeled corporate tax shelters, are believed to have proliferated so greatly that, according to some observers, they now constitute "the most serious compliance issue threatening the tax system today."

Abiola (2010) conducted a research work on the recent developments in company's income taxation in Nigeria and analyzed the variables with the use of quantitative survey method and finds out that the Nigeria tax system is unduly complex, skewed low revenue yielding poorly administered anti-federalism largely inequitable and loaded with unduly large number of overlapping taxes which have more nuisance value than revenue value. The study recommended that the tax administration amending Act altered some of the penalties under CITA to reflect current realities and make them more administrable.

Jane (2011) carried out research on the impact of tax reform on the general economy of the nation and tested the research variable with the use of ordinary least square regression method and find out that tax reforms in Nigeria have not had significant impact on the macroeconomic stability. It was observe that increase in the tax rate ultimately result in greater burden for the masses through a shift of the tax liability. As a result, tax reforms in Nigeria have created inequalities rather than bridging such. The study further recommended that citizens should wake up to their civic responsibilities in terms of tax compliance.

Åsa (2009), in their study on tax and firms performance conclude that corporate income taxes can be expected to be the most harmful for growth as they discourage the activities of firms that are most important for growth: investment in capital and in productivity improvements. Also, in practice, complex corporate tax codes cause high tax compliance costs for firms and reduce FDI.

In addition, most corporate tax system have a large number of provisions that provide tax advantages to specific activities, typically drawing resources away from the sectors in which they can make the greatest contribution to growth. De Mooij (2001), indicated the impact of company taxes on the allocation of foreign direct investment. Outcomes of 25 empirical studies comparable by computing the tax rate elasticity under a uniform definition. The paper aims to explain this variation by the differences in characteristics of the underlying studies. Systematic differences between studies are found with respect to the type of foreign capital data used, and the type of tax rates adopted. For this purpose sample of 351 cases are used aggregated basis, ANOVA is used as a statistical technique. They found no systematic differences in the responsiveness of investors from tax credit countries and tax exemption countries.

An excessive tax rate implication in the U.S, according to Kotlikoff (2011), encourages its companies to invest overseas and discourages foreigners from investing on the United States. In his conclusion, Kotlifkoff summarized that the tax system is regressive and that if the United States cut its corporate income tax, rate dramatically the country would experience a huge rise in net domestic investment. The study recommended the elimination of the corporate income tax in the country. Tax system/policy has been underscored as a factor to be reckoned with an investment decisions in the studies of Chennels (1996) and Kotlikoff (2011). The significance of corporation tax has equally been empirically validated by the findings of Ahiabor and Amoach (2013) concluding that "The policy implication is revealed in the evidence that corporation tax exert significant and negative long term influence on gross fixed capital function. This shows that measures that seek to stimulate investment would have to be accompanied by measure aimed of reducing corporation tax to the degree that will triggers more private investments".

THEORETICAL FRAMEWORK

Ex- Post Appropriation Theory

Ex-Post Appropriation Theory assumes that government targets new firms for exploitation especially where their resources are immobile. Hence, these firms try to demand for compensation in advance. In most cases, tax breaks or holidays are requested as compensation by these firms (Glaeser 2001). Firms with immobile resources will tend to demand for attractive tax breaks in order to enable them recover their entry cost. However, the tax incentive cannot be higher than the total NPV of future tax payment of providing the firm with essential services it requires to remain operation (Glaeser 2001).

Benefit Theory

The theory assumes that there is basically an exchange relationship between tax payers and the state. The state provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received (Bhartia, 2009). Anyanfo (2006) argues that taxes should be on the basis of benefits received from government expenditure. The state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government.

The Cost of Service Theory

Some economists were of the opinion that if the state charges actual cost of the service rendered from the people, it will satisfy the idea of equity or justice in taxation. This theory is similar to the benefits received theory. It emphasizes the semi-commercial relationship between the state and the citizens to a greater extent. The state is being asked to give up basic protective and welfare functions. It is to carefully recover the cost of the services and therefore this theory implies a balanced budget policy. Of the three theories discussed, ex- Post Appropriation theory better explained the rationale behind multiple and excessive taxes levy by government tax agent; hence the study encapsulate this study.

METHODOLOGY

For the purpose of this study, ex-post facto or quantitative research design was adopted since secondary data obtained from fact books and annual reports of fifteen selected quoted companies from the Nigerian Stock Exchange covering 2010-2015; 6years were used. Data obtained were analyzed using E-View. 9. We tested the hypotheses formulated using Correlation and Regression analysis. Based on the purposive sampling technique, the companies used are: Berger paints Nig. Plc., CAP plc, First Aluminum plc, May & Baker Nig plc, Nigerian Rope plc, Okomu oil palm company plc, Vono Product plc, Int'l Breweries plc, Livestock Nig plc, Wapco Nig plc, Chellarams plc, Guinness Nig plc, Nig Breweries plc, A.G. Leventis Nig plc, Dangote Flour Mill plc. The variables covered the trend 2010-2015 which is a period of six (6) years and conceivable element/variables that relate to the effect of corporate tax on profitability of business organizations.

Model Specification

Profitability is the dependent variables and were proxied as Return on assets Earning per Share and Earnings Before Interest and Tax (ROA, EPS and EBIT (PBT) while the independent variable was Company Income Tax(CIT). The following theoretical frameworks were established to ascertain the impact of corporate tax on performance of quoted manufacturing companies in Nigeria;

Pr = f (CIT)

From above function, we derived the following structure:

EBITt= 0+ 1CITt + t....................Equation (i)

ROAt= 0+ 2CITt + t....................Equation(ii)

EPSt = 0+ 3CITt + t....................Equation (iii)

Where;

Pr = Profit

0= Constant Term

EBITt = Earnings Before Interest and Tax for Period of 5years

ROAt= Return on(5years)

EPSt = Earning Per Share(5years)

1 ; coefficient of the parameter estimate

t = Error Term.

The a priori expectation is 1, 2, 3>0.

We therefore regressed dependent variable against independent variables to examine the relationship inherent between the variables.

RESULT AND DISCUSSION OF FINDINGS

Table 1 Regression Result (Objective one)

Dependent Variable: PBT

Included observations: 6

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	681318.9	432061.4	1.576903	0.1899
TAX_EXP	0.001545	0.001094	1.411292	0.2310

R-squared	0.632415	Mean dependent var	1250902.
Adjusted R-squared	0.565519	S.D. dependent var	413605.3
S.E. of regression	377828.3	Akaike info criterion	28.78347
Sum squared resid	5.71E+11	Schwarz criterion	28.71406
Log likelihood	-84.35041	Hannan-Quinn criter.	28.50560
F-statistic	1.991745	Durbin-Watson stat	2.415528
Prob(F-statistic)	0.023096		

Source: E – View 9.0

The table above represents the regression result for the first specific objective which seeks to find out the impact of tax expenditure on profit before tax, from the table, the model summary reveals that the R-squared statistics is 0.632415 and the Adjusted R-squared of the estimated model is 0.565519 showing that the independent variables explains the variation in the dependent variable, that is, the estimated model shows about 56.6percent of the variation in profit before tax is explained by the effect of the determinant (the independent variable), the remaining 43.4percent is attributed to unexplained variation that is the variables not captured in this model.

The F-statistic of 1.991745 is significant at 1 percent level as the probability value estimate of 0.023096 has indicated. The F-statistics shows that the explanatory variable is significant in explaining profit before tax (dependent variable). It shows that there is a linear relationship between the dependent variable and the independent variable. Thus, it will rightly act to correct any deviations from long-run equilibrium.

Moreover, the regression result reveals the coefficient of the independent variable, from the result, the coefficient of tax expenditure is 0.001545, the implication of this result is that a unit increase in Tax Expenditure will not have any negative implication on

Profit before tax; this is because profit before tax represents gross revenue (income) from which taxable deductions has not been made.

Table 2. Regression Result (Objective two)

Dependent Variable: EPS

Included observations: 6

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.184088	0.174708	1.053688	0.3515
TAX_EXP	-0.383210	4.43E-10	0.751121	0.0444
R-squared	0.523611	Mean dependent var		0.306667
Adjusted R-squared	0.495487	S.D. dependent var		0.145968
S.E. of regression	0.152778	Akaike info criterion		-0.658458
Sum squared resid	0.093365	Schwarz criterion		-0.727872
Log likelihood	3.975374	Hannan-Quinn criter.		-0.936326
F-statistic	0.564182	Durbin-Watson stat		2.402755
Prob(F-statistic)	0.049435			

Source: E – View 9.0

The table above represents the regression result for the second specific objective which seeks to find out the impact of tax expenditure on earnings per share, from the table, the model summary reveals that the R-squared statistics is 0.523611 and the Adjusted R-squared of the estimated model is 0.495487 showing that the independent variables explains the variation in the dependent variable, that is, the estimated model shows about 49.5percent of the variation in Earnings per share is explained by the combined effects of the determinant (the independent variable), the remaining 50.5percent is attributed to unexplained variation that is the variables not captured in this model.

The F-statistic of 0.564182 is significant at 1 percent level as the prob.-value estimate of 0.049435has indicated. The F-statistics shows that the explanatory variable is significant in explaining earnings per share (dependent variable). It shows that there is a linear relationship between the dependent variable and the independent variable. Thus, it will rightly act to correct any deviations from long-run equilibrium.

Moreover, the regression result reveals the coefficient of the independent variable, from the result, the coefficient of tax expenditure is-0.383210, the implication of this result is that a unit increase in tax expenditure reduces earnings per share by approximately 38.3percent, during the period under review.

Table 3 Regression Result (Objective three)

Dependent Variable: ROA
Included observations: 6

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.056687	0.033510	1.691666	0.1660
TAX_EXP	-0.247311	8.49E-11	0.557163	0.0071

R-squared	0.672018	Mean dependent var	0.074127
Adjusted R-squared	0.559977	S.D. dependent var	0.027208
S.E. of regression	0.029303	Akaike info criterion	-3.961026
Sum squared resid	0.003435	Schwarz criterion	-4.030440
Log likelihood	13.88308	Hannan-Quinn criter.	-4.238894
F-statistic	0.310431	Durbin-Watson stat	2.011738
Prob(F-statistic)	0.007120		

Source: E – View 9.0

Table 3 above represents the regression result of third specific objective which seeks to find out the impact of tax expenditure on returns on assets, from the table, the model summary reveals that the R-squared statistics is 0.672018 and an Adjusted R-squared of the estimated model is 0.559977 showing that the independent variables of study explains the variation in the dependent variable, that is, the estimated model shows about 56.0 percent of the variation in returns on asset is explained by the effect of the determinant (the independent variable), the remaining 44.0 percent is attributed to unexplained variation that is the variables not captured in this model.

The F-statistic of 0.310431 is equally significant at 1 percent level as the probability value estimate of 0.007120 has indicated. The F-statistics shows that the explanatory variable is significant in explaining returns on assets (dependent variable). Moreover, the regression result reveals the coefficient of the independent variable (tax expenditure as -0.247311, meaning that a unit increase in tax expenditure reduces returns on assets by approximately 24.7percent during the period under review.

DISCUSSION OF FINDINGS

This study empirically examined the impact of Corporate Tax on operational performance of manufacturing firms in Nigeria. There exist negative relationship between the independent and dependent variables (EPS, ROA and CIT), and positive but non-significant relationship between PBT and CIT, corporate tax was proxied as Company Income Tax which is independent variable. The regression results obtained from the model of this study showed a negative relationship between CIT and EPS, indicating is that a unit increase in tax expenditure reduces earnings per share by approximately 38.3percent, during the period under review.

The regression results obtained for this study however, revealed that CIT has a positive nexus with PBT meaning that a unit increase in Tax Expenditure will not have any negative implication on Profit before tax; this is because profit before tax represents gross revenue (income) from which taxable deductions has not been made. In conclusion, the finding further indicates that there is a negative relationship between CIT and ROA which implies that a unit increase in tax expenditure reduces returns on assets by approximately 24.7percent during the period under review. The results suggest that corporate income taxes reduce investment through an increase in the user cost of capital. This may be partly explained by the negative Profitability effects of corporate income taxes if there is an increase in the corporate tax rate.

CONCLUSION AND RECOMMENDATION

Conclusion

Taxes generally are compulsory payments levied on all income, goods, services and properties of individuals, partnerships trustees, executorships and companies by the government. There is certainly no doubt that tax contributes immensely to socio-economic growth and development. It is however imperative to take cognizance of its effect on the effectiveness and efficiency of corporate organization operations. As

such, the study basically assessed the effect of corporate tax on profitability and investment decision. The findings revealed that the CIT has a positive nexus with profit before tax (PBT), the implication of this result is that a unit increase in Tax Expenditure will not have any negative implication on Profit before tax; this is because profit before tax represents gross revenue (income) from which taxable deductions has not been made. We conclude that tax affect operational performance of businesses in Nigeria as depicted by a negative relationship between CIT and EPS; negative relationship between CIT and ROA which implies from the result that a unit increase in tax expenditure reduces returns on assets by approximately 24.7percent during the period under review. The study revealed that corporate tax does have significant effects on the profitability of business organizations. A high corporate tax rate could lead to low profits thus affecting the investment decisions that could subsequently result in disinvestment decisions. Thus, effort should be geared at ensuring optimum balance between the goals of revenue generation and maximum resource development.

Recommendations

It is recommended that;

1. Corporate tax though contribute to tax revenue should not be used to discourage emerging firms but be made to encourage growth and expansion in anticipation of paying higher taxes in the long run when they are stable.
2. Multiple corporate taxes paid by organizations have been found to affect profitability and investment decision of business organizations. Government therefore should endeavour to strike the balance between aggressive revenue and sustainability of manufacturing firms.
3. Reduction of tax rate and more incentives should be provided to provide succor to intending industries.
4. Judicious use of tax revenue to provide need infrastructure is also recommended to encourage voluntary compliance.

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