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IMPACT OF CORPORATE TAXATION ON FIRM VALUE OF LISTED INDUSTRIAL GOODS IN NIGERIA

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Abstract

The Study examined the impact of corporate taxation on firm value of listed industrial goods in Nigeria. Findings indicated that; the regression result of the study shows that the there is significant positive relationship between industrial goods, firms value and corporate taxation. Similarly, the regression result indicated the existence of insignificant negative relationship between firm value and corporate taxation. Thus, the study concluded that, corporate taxation is dependent upon its industrial goods and firms value as high contribution to the revenue generation in Nigeria. Thus, firm value by industrial goods may be seen as a structure of supporting the interests of corporate taxation and that of the listed goods in Nigeria. The study recommends that; there is a need to extensively increase firm values by increasing the number of both managerial and industrial sectors of the listed firms in Nigeria. The industrial sectors should be allowed to deploy their expertise and wealth of experience to the firms in achieving corporate goals. The corporate tax managers should also be intervening in order to add value to the firms and to perform their tasks effectively.

Keywords: Corporate taxation, Firm value, Industrial goods, Effective Tax Rate

1. Introduction

Revenue generation in Nigeria is heavily relied on taxes from various sectors and entity. Taxation has been collected as far back as to the colonial era and even after that till date. It is not common often to hear peoples particularly managers and companies and financial analysts, especially the listed companies in the Nigerian stock exchange. Corporate taxes as a form of tax levied on earnings of corporation, it helps to develop new source of revenue for the government as well as promote transparency within businesses of any nation. Nigeria is part of those countries that are receiving corporate taxation from firm. Corporate taxation plays a vital role in funding government and providing accountability for businesses. The sets of corporate decision were presented by Grahm (2003) that influenced by taxes, as taxation represents a cost to a firm its necessary affect its performance. In modern day companies are categorized into those who are listing the industries of Nigerian firm and those who are not listed. Most of the times management of a company do not appropriate the all its profit to shareholders as a dividend but due to the government policies on corporate taxes their accounts most reach the requirement which will give an opportunities to all user of such accounts. The issue of corporate tax can be associated with value of security and shareholders threat and value added. However, many studies on taxation and financial performance reveal that taxes have significant effects on the performance of companies (negative or positive) and few revealed mix results that are inconclusive.

Banking sectors are in most cases the industries that pay taxes. Unlike other manufacturing companies that have limited consumers, the capital structure underlies a company valuation by its ability to pay taxes or certain amount paid as a tax in a particular period. One of the purposes of corporate taxation is to raise money for the government to build the economy of the nation. Meanwhile a firm performance is an essential key behind any success of the available instrument used to maximize countries revenue, it has become a source of concern for both companies and government many tools are used to enhance the level of firm values

The national tax policy (2012) views taxation as basically a process of collecting taxes within a particular location or a pecuniary burden laid upon individuals or property and organization to support government expenditure. Thus taxation of corporate profits is a topical matter and of great interest to many stakeholders local and global literature addresses various aspects of the impact of tax on corporate profits and also the result of Management decision, especially targeting the financing decision. This usually depends on the capital mix company chosen, according to Modigliani and Miller (1963); the firm is inversely proportional to the weighted average cost of capital. Therefore changes in tax law that lower tax rate should increase firm value

Companies in all sectors whose aim is to maximize profit will need to finance their business with both debt and equity. However any firm in Nigeria is faced with a problem of Administrative activities, and human capacity that will lead to noncompliance with the corporate taxes ethical canon. Corruption is also another problem that is mitigating in the value added of the firm.

The effect of corporate taxation on financial performance of listed industrial goods as related to their value cannot be overemphasized. This study is limited to all listed goods in Nigeria. Moreover, the study covered three variables as the independent variables that are firms and industrial goods while corporate taxation is the dependent variable.

Acquiring knowledge on the impact of corporate taxation on firm value of listed industrial goods in Nigeria will help the researchers to predict the potential problems associated with corporate taxation and firm value.

2. Literature Review

The engagement of government in providing social amenities in developmental projects is a compulsory phenomenon for the improvement of standard of living of the citizenry (Madugba, Ekwe & Kalu, 2015). This however necessitated the government to source for fund from various sources where corporate taxes are not left out. (Madugba, et al., 2015) defined tax as compulsory levies impose by the government of a nation on the income, profit and properties of both individuals and corporate bodies for the administration of the government which has no compensatory benefits. Taxation can either be direct or indirect paid by firm impact heavily on their performance (Nwaobia & Jayeoba, 2016). The direct taxes borne by companies can be company income tax, petroleum profit tax, capital gain tax, education tax, withholding tax etc. equally, the indirect taxes borne by the final consumer for the consumption of goods or services includes value-added tax, and custom and excise duties. However, corporate tax is charged on the profits generated by companies, public corporations and unincorporated associations such as industrial and provident societies, clubs and trade associations (Raza, Ali & Abassi, 2011).

In Nigeria, companies are mandated by law to pay company income tax on profit earned with 30%, education tax of 2%, withholding tax of 10% and value-added tax of 5% in the year/period preceding assessment. Relevant tax authorities includes Federal Inland Revenue Service, State Internal Revenue Service and Local Government Revenue Committee which collect taxes and other charges on behalf of Federal, State and Local government respectively (Madugba, et al., 2015). Corporations embark on corporate tax planning in other to mitigate tax liability legally. This is however expected to result in a positive impact on firm's cash flow and increase its after-tax returns (Nwaobia & Jayeoba, 2016). Heavy tax burdens exerted negative impact on firm's performance. And equally, Afuberoh and Okoye (2014) opined that revenue derived from taxation has been very low and no physical development has actually take place. Kiabel (2009) is of the view that the shocks from oil price contributes to the reduction of revenue generated by government in the recent years, this prompted the urgent need for government to generate revenue through taxation particularly corporate taxes. However, this study designed to examine the effects of corporate taxation on the profitability of some selected firms in Nigeria.

2.1 Conceptual Definitions

2.1.1 Concepts of Corporate Taxation

Corporate tax is a form of tax levied on the earnings of corporation, it helps to develop new source of revenue for the government as well as promote transparency within the business. Corporate taxation plays a vital role in funding the government and providing accountability for business. The concept of corporate tax has different dimensions from a conceptual standpoint (Graham, 2003). This research looks at two-dimensional approach. The first Dimension considers corporate taxpayers, which is about the evaluation of how this tax affects the income of firms whilst carrying out production activities; while the second dimension considers corporate tax based totally on its influence on the way firms are financed. The first and second dimensions of corporate tax go hand in hand in influencing the company's preference for a financing decision which is centered on the company's sustainable performance (Graham, 2003). Whatever choice of capital the firm decides, it is quintessential to note that the firm will incur a cost represented by dividends, in case of financing it business activities from its own resources, or interest, if they chose to finance the business through borrowed funds (Modigliani & Miller, 1963). In respect to this puzzle, the management's decision on the choice of capital will need to take into consideration tax issues (corporate tax planning) and the effect it has on sustainable financial performance of the firm. According to Albertazzi and Gambacorta (2006), corporate tax are taxes levied against the income earned by firms during the course of doing business in a given tax period. Corporate taxes are majorly applied to firms making earnings after expenses are deducted from sales. Myles, (2007) and Lederman (2002) are of the view that tax incentives and advantages such as limited liability to incorporation, which add value to firms' serve as a foundation for corporate tax as well. Firms are taxed because they in many instances, earn some pure economic profits, profits that are more than the return to capital employed. Many authors have defined corporate tax in quite a number of ways, however this study strive to look at the definition made by Myles, (2007); Onourah and Chigbu (2013); Abiahu and Amahalu (2017); Rohoya, Nor'Azam and Bardai (2010) and Musgrave and Musgrave (2004). While Onourah and Chigbu (2013); Rohoya, Nor'Azam and Bardai (2010); Musgrave and Musgrave (2004) and Abiahu and Amahalu (2017) defined corporate tax as the statutory transfer or payment made from non-public individuals, institutions or groups to the government, Myers (2007) asserted that corporate tax is a firm activity other than tax payment, which is about taking benefit of tax incentives for funding decisions.

Also, Deloitte (2017) posits that the National Tax Policy of Nigeria in 2012 regarded taxation as basically the process of collecting taxes within Nigeria and as a deliberate effort towards entrenching a strong and efficient tax system in Nigeria. This study will be tailored on the premise of these literature definitions and conceptualization of corporate tax discussed by matching the definition of corporate tax payment and tax incentives. Which give rise to tax netting.

Albertazzi and Gambaroura(2006) corporate taxation are taxes levied against profits earned by business during a given tax period. Also authors like RohoyaNorAzam and Bardai (2010) and Abiahu and Amahalu (2017) defined corporate taxation as a statutory transfer or payment made from private individuals industries or groups to the government.

According to these authors, corporate taxes are majorly applied to companies operating earnings after expenses are deducted from sales, these definitions by authors have given a lopsided view of the true nature of the business.

2.1.2 Effective Tax Rates

An effective tax rate is the average for individual or corporate taxpayers, As such it's the percentage of taxes owed from the taxpayer's annual income. The application of appropriate incentives provision for corporate tax payers based on implementation of tax laws like the company income tax Act (CITA) Personal income tax Act (PITA) Value Added Tax (VAT) and other enactments is basically what tax effective Rates entails. In Nigeria companies are required by the (CITA) to use current rates provided. There are currently three (3) CIT rates applicable to company's in Nigeria depending on the income or profits before tax.

2.1.3 Concepts of Firm value

There are several interpretation given to the meaning of value, Adegbie Akintoye and Isaka (2019) Stated that value can be explained from the concept of fair market value, fair value, investment value and intrinsic value. Adegbie Akintoye and Isiaka (2019) noted that the increase of the share price shows the confidence of the investors to the firm, so they are willing to pay more with aim for higher financial return.

Chukwudi, Okonko and Asika (2020) opined that firm value is the price paid by affluent investors once a company is sold and they further stated that it is the value from eyes of the public in terms of the corporate survival of business. Therefore the value of a firm is the total assets owned. It consists of the market value of share and liabilities.

Firm value is an indication of how prosperous a company is and how the managers of the firm have able to apply firm resources for the good of the owners.

2.1.4 Market value to Book Value

Market value: - is the price at which an asset would trade in a competitive auction setting. Market value is often used interchangeably with open market value, fair value or fair market value. Market Value is the highest price that willing buyer will pay for a good or service and the lowest price at which a willing seller will sell it.

Book Value: - Refers to the value of an asset recorded on a balance sheet that is, it is value after accounting for accumulated depreciation, every business own several assets. Therefore every business has a book Value representing the current value of its assets minus its liabilities or outstanding debts. In other words, the book Value of a business is the total amount of money a company would generate if it was liquidated without selling any assets at a loss. The relationship between market value and book Value of a firm is calculated by the use market to book ratio through the use of formula

M/B= market capitalization/ total book Value

However this ratio is an indicator that shows whether the stock is undervalued or overvalued.

2.2 Empirical Review

There are several studies conducted on the importance or impact of corporate taxation and the firm value, these includes Journal Junaidu Muhammad Kurawa PhD "corporate tax and financial performance of listed Nigerian consumers goods (2006-2016)". The paper exposed the effect of company income tax on the financial performance in Nigeria and it's relevant to the revenue generation. The study used descriptive statistics and correlation method through model of estimation.

Alfons (2005) his study examines the correlation between corporate taxation and its need as income of companies have considerably come down in the process of tax competition and further pressure are evident. The paper also discusses the possible benefits of corporate income taxation that may be at risk. In particular the paper surveys the empirical evidence for a backstop function of the corporate income tax that allows preserving individual taxes.

Abdullahi el at (2021) published a paper on "the impact of tax planning that offers companies in Nigeria" which represents the area of financial planning that offers to companies and tax managers an opportunity to reduce tax managers and opportunity to reduce tax reliability and enhance company financial performance. The study examines the impact of corporate tax planning on the financial performance of listed companies on the Nigeria Stock Exchange (NSE) using the secondary method to retrieved financial data from the Thompson Reuters Data stream and annual report of listed companies. The employed multiple regressions as a method of analysis on 84 companies listed on the board of NSE with 756 observations for the education of nine years 2010-2018.

Hypotheses

HO1= Corporate taxation has no impact on firm value of the listed industrial goods in Nigeria

HO2=Corporate taxation has impact on firm value of the listed industrial goods in Nigeria.

2.3 Theoretical Literature

Many theories explained about the impact of corporate taxation, but only one is relating to firm value and corporate taxation on the listed industrial goods in Nigeria is presented in the review of empirical literature.

Tatu (2006) and sauka and Radojka (2013) who have written on corporate taxes focus on their studies of on or other aspect of corporate taxes, ranging from corporate income taxes to deferred tax and tax incentives. This has streamlined the knowledge of most readers to think each aspect of corporate taxation is on its sense mutual of the other, which in most cases if tax burdens from corporate income tax become high, failure on corporate managers to explore other aspect of corporate taxation.

3. Methodology

3.1 Research Design

The research design is the basis that guides the data collection and analysis to arrive at any acceptable opinion. The research design adopted in this study is survey method. This is because it includes solution whereby data are collected from the whole population under study.

3.2 Population of the Study

Population of the research is defined by Popoola et al (2007) as all the items which come within the scope of an investigation, human or otherwise it consists of all the subjects a researcher want to study. The population of this research project consists of firms from some industries that produce goods in Nigeria.

The table below showed some of those firm and their taxation trends for the period of three years

Table 1: Firms and their taxations

Name	Industry	2020: ₦000	2021: ₦000	2022: ₦000
BUA CEMENT PLC	Chemical	6,529,162	12,794,314	19,143,424
NOTORE PLC	Chemical	7,525,938	8,872,222	10,162,622
CAP PLC	Chemical and Allied	582,614	6049,15	1,068,004

Source: Annual report and accounts

BUA CEMENT PLC: - Going through tax trends it shows that every year tax increases which means the revenue also increased as the company add value to the country's economy. In the 2020 the tax given by company as 30% of the profit generated, by those indications it shows that next year revenue will be higher than the previous years.

NOTORE PLC: - Tax trend for the past three years has some fall down and rose up due to global economic situation as in year 2020 the tax was ₦7,525,938,000 while in the year 2021tax rises to ₦10,162,622,000. Unfortunately in the year 2022 the tax falls to ₦8,872,222,000 which means the company revenue of such company also fall. Adding value to revenue generation of the country by that company will be fluctuating as the revenue is also fluctuating.

CAP PLC: - Every year's tax increases as the revenue also increased in the firm which means it is expected to increase in the next year for that it value will increase as well as revenue and firm value

3.3 Sample Size and Sampling Techniques

The sampling techniques that will be adopted by the researcher for the purpose of this study is simple random sampling techniques. The researcher will adopt this method because it is a method used to ensure that every item in the population have an equal and independent probability of being included in the sample. The sample size is used by the formula developed by Taro yamace for social sciences, because it uses the normal approximation with 95%confiand 5% error tolerance, thus, the analysis of the research will be conducted based on responses gathered from questionnaire.

3.4 Model Specification

This section highlighted the research methodology adopted for the study correlation research design was employed for the study because the study has to do with relationship between independent and dependent variables. Secondary data were collected for analysis from the listed companies out of which three were used for the population. They are firm whose data are available in the annual report for three years.

4. Results and Discussion

4.1 Descriptive Statistics Results

Table 2: mean summary of rated responses on the impact of corporate taxation on firm value of listed industrial goods in Nigeria

ITEMS	SA (5)	A(4)	SD(3)	SD(2)	U(1)	TOTAL	MEAN	REMARK
Corporate taxation of firm has value in Nigeria revenue generation	27 (135)	8 (32)	-	-	-	35 (167)	4.77	A
Corporate taxation is limited to listed firms in Nigeria	28 (140)	7 (28)	-	-	-	35 (168)	4.80	A
Corporate taxation has impact on value of listed industrial goods in Nigeria	17 (85)	10 (40)	4 (12)	4 (8)	-	35 (145)	4.14	A

Source: Computation from survey data (2024)

4.2 Discussion of the Result

From table 2 above, it revealed that corporate taxation has impact on firm value of the listed industrial goods in Nigeria with the mean score of 4.77. While the corporate taxation limits the level of impersonation in industrial goods sector operation in Nigeria. A mean score of 4.80 observed that, corporate taxation has impact on value of listed industrial goods in Nigeria. Also, mean score of 4.14. However, respondents 135 strongly agreed on corporate taxation of firm have value in Nigeria revenue generation. Whereas 140 respondents also strongly agreed on corporate taxation is limited to listed firms in Nigeria, with only 28 who are not responded to the question. The Corporate taxation has impact on value of listed industrial goods in Nigeria is responded by 85 responses who are strongly agreed. While only 8 respondents that are strongly disagreed

5. Conclusion and Recommendations

The study concluded that corporate taxation has impact on firm value of listed industrial goods in Nigeria., which means that having more industrial goods in Nigeria, will make better the financial performance of the firms and revenue generation. A corporate firm has positive significant impact on value of firms in the listed industrial goods, which shows that the higher the number of corporate firms in the industrial goods sector, the better the financial performance of the corporate taxation.

It is concluded that, corporate taxation is dependent upon its industrial goods and firms value as high contribution to the revenue generation in Nigeria. Thus, firm value by industrial goods may be seen as a structure of supporting the interests of corporate taxation and that of the listed goods in Nigeria. However, this kind of industrial goods of the listed Nigerian firms can also result to establishment of a system, which is expensive especially when the tax managers chose to pursue their self-interests against the interest of the firm. Moreover, corporate taxation does not impact on firm's value of the listed industrial goods which contradicts the reality showing that the presence of corporate taxation firms enhances the financial performance in Nigeria.

Based on the findings, the study recommends: There is need to extensively increase firm values by increasing the number of both managerial and industrial sectors of the listed firms in Nigeria.

i. The industrial sectors should be allowed to deploy their expertise and wealth of experience to the firms in achieving corporate goals. The corporate tax managers should also be intervening in order to add value to the firms and to perform their tasks effectively.

ii. SEC as a regulatory body should encourage potential managers to invest more in any company in industrial goods to enable them manage the firm well as their funds are invested in the firm.

iii. To ensure that impact of corporate taxation firm financial performance of listed industrial goods in Nigeria, SEC should ensure that potential institutional investors are encouraged to invest more as in industrial firms in Nigeria.

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