Corporate Income Tax and Financial Performance of Deposit Money Banks in Nigeria

Onwughai, Emelenjor Austin, Prof. Musa J. Success, Prof. Mathias Ofili

Department of Accountingfaculty of Management Sciences veritas University, Abuja Nigeria

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ABSTRACT

This study examines the effect of Company Income Tax (CIT) on the financial performance (ROA) of listed deposit money banks in Nigeria, with a particular focus on the moderating role of Firm Size in the CIT-ROA relationship. The study population comprises all 43 deposit money banks as published on the Central Bank of Nigeria's website as at April 26, 2024. A sample of twelve banks was selected using a purposive sampling technique. The study covers a fifteen-year period from 2009 to 2023, utilizing secondary data extracted from the audited financial statements of the selected banks. Employing ex-post facto research design, pooled regression was used for the analysis. The findings reveal a statistically positive but insignificant relationship between CIT and ROA. However, with moderation, the CIT-ROA relationship was found to be negative and significant. The study recommends banks should adopt effective tax planning by leveraging incentives and deductions while ensuring compliance. This will help enhance profitability and improve ROA without risking regulatory penalties. Policymakers should review tax policies for larger banks, as CIT negatively impacts their financial performance. Introducing tiered tax rates or industry-specific incentives can promote growth and stability.

Keywords: Company Income Tax, Return on Assets, Firm Size, Financial Performance, Deposit Money Banks, Corporate Taxation.

INTRODUCTION

Taxes are the biggest source of revenues for financing expenditures and state development activities by governments (Nawangsari et al., 2022), this is especially the case for non-oil producing nations. Company Income Tax (CIT) reforms and innovations have played a crucial role in enhancing economic growth, improving tax compliance, and boosting corporate profitability across various countries. In the United States, the Tax Cuts and Jobs Act (TCJA) of 2017 reduced the corporate tax rate from 35% to 21%, leading to increased capital investment, job creation, and repatriation of corporate earnings by multinational companies (Zidar, 2019). Similarly, Ireland's low corporate tax rate of 12.5% has attracted major multinational corporations, significantly increasing foreign direct investment (FDI) and boosting economic expansion (KPMG, 2021). Estonia adopted a unique approach by taxing corporate profits only when distributed as dividends, encouraging reinvestment and fostering sustained economic growth (OECD, 2022). In China, a reduced CIT rate of 15% for high-tech enterprises has stimulated research and development (R&D), positioning the country as a global leader in innovation (World Bank, 2023). Meanwhile, Germany has focused on CIT stability, implementing anti-tax avoidance measures to prevent profit shifting and maintain a strong tax base, contributing to its economic resilience (IMF, 2022).

The British colonial administration introduced formal taxation in Nigeria in the early 20th century, with the first tax ordinances primarily targeting individuals (Okonjo, 1998). Corporate taxation was not a significant focus during this period. The first comprehensive tax legislation in Nigeria was the Income Tax Ordinance of 1940, which applied to both individuals and companies (Okauru, 2012). This ordinance laid the foundation for modern tax administration in Nigeria. It was primarily designed to generate revenue for the colonial administration and was later modified to suit the needs of an independent Nigeria (Asada, 2005).

Corporate taxes in Nigeria are administered on behalf of the government by the Federal Inland Revenue Service (FIRS) (Uadiale, 2010). These taxes are essential fiscal tools for regulating economic activities, redistributing wealth, and funding public services (OECD, 2021). According to Adebisi and Gbegi (2013), corporate taxation policies can influence firms' decisions regarding investment, financing, and operations, thereby impacting their financial performance. The level of corporate taxation may also affect foreign direct investment (FDI) inflows, as high tax rates can discourage multinational corporations from investing in a country (Desai et al., 2004).

Company Income Tax (CIT) is a key component of corporate taxation, imposed on the profits of companies operating within Nigeria under the Companies Income Tax Act (CITA). The formalization of corporate taxation in Nigeria began with the enactment of CITA in 1961, following the country's independence in 1960. This Act established the framework for defining taxable income, setting tax rates, and outlining corporate tax obligations, such as filing returns and making payments (Okauru, 2012). Since its inception, CITA has undergone multiple amendments to align with economic changes, address tax evasion, and improve compliance mechanisms (Taiwo & Oyedokun, 2022).

In 2007, CITA was significantly revised to incorporate international best practices, including provisions for group tax relief, transfer pricing regulations, and mechanisms to enhance revenue collection (Odusola, 2016). More recently, Nigeria's Finance Acts, beginning in 2019, introduced substantial modifications to corporate taxation, reflecting global economic trends and addressing contemporary challenges such as digital taxation and tax avoidance (Eneisik et al., 2023). The Finance Act of 2020, for instance, reduced the CIT rate for small businesses with an annual turnover of less than ₦25 million to 0%, while maintaining a 30% CIT rate for large companies (annual turnover exceeding ₦100 million) and a 20% rate for medium-sized companies (annual turnover between ₦25 million and ₦100 million) (Federal Inland Revenue Service [FIRS], 2021).

Previous studies on corporate taxation and financial performance have yielded mixed results, with some (Adefunke & Usiomon 2022; Cyril et al., 2022; Timah & Chukwu 2021) suggesting that high tax rates deter investment and reduce profitability, while others (Onwuka & Akoma 2022; Mikailu & Aminu 2020) argue that taxes can be a tool for equitable wealth distribution and economic stability. These studies have largely examined the direct relationship between corporate taxation and firm performance but have overlooked the role of firm-specific characteristics. A major empirical gap exists in how firm size influence this relationship in developing economies like Nigeria. For instance, while large firms may have better tax planning strategies to mitigate tax burdens, small and medium-sized enterprises (SMEs) may be disproportionately affected, influencing their financial performance differently.

Additionally, the existing literature primarily focuses on the impact of taxation on non-financial sectors, such as manufacturing and consumer goods, with limited attention given to the banking sector. This gap in research is concerning, given the unique position of banks in the economy and their sensitivity to fiscal policies.

Given these considerations, this study aims to bridge the gap in the literature by examining the relationship between corporate taxation and the financial performance of Deposit Money Banks listed on the Nigerian Exchange Group. By focusing on this sector, the study seeks to provide a more comprehensive understanding of how taxation affects financial performance in a critical segment of the Nigerian economy. The findings are expected to offer valuable insights for policymakers, corporate managers, and investors, contributing to more informed decision-making in the context of Nigeria's evolving fiscal landscape.

Statement of the Problem

Corporate taxation plays a crucial role in government revenue generation, but its impact on business performance remains a topic of debate. Some studies Jolaiya (2024); Adu et al. (2024); Salem & Qutait (2023); Eyide & Nzewi (2021) suggest that high corporate tax rates reduce profitability, investment, and competitiveness, while others Adefunke & Usiomon (2022); Ologbenla (2022); Abiola et al. (2022) argue that taxation can positively influence financial performance. Additionally, Fakile et al. (2022) and Ben-Ali & Zouaghi (2022) propose that firms can mitigate tax burdens through effective tax management strategies. In

Nigeria, where corporate tax rates are relatively high, deposit money banks (DMBs) face significant financial and operational challenges. The complex tax environment, coupled with fluctuating economic conditions and regulatory changes, may affect the banks' ability to lend, invest, and remain competitive both locally and internationally.

Existing studies (Oyinkansola and Omodero, (2023); Nwaeke et al. (2022) and some others) have focused on broad industry-level impacts of taxation, often neglecting the sector-specific complexities of the financial industry, particularly the banking sector, where tax obligations interact with regulatory capital requirements and credit risk management strategies. Moreover, limited attention has been given to the role of firm size in shaping the tax-performance relationship.

This gap in research presents a challenge for policymakers striving to balance revenue generation with economic stability. Without empirical clarity, tax policies risk either overburdening banks, leading to reduced lending and economic contraction or failing to optimize government revenue. Therefore, an in-depth investigation into the effects of corporate taxation on the financial performance of Nigerian DMBs is essential to provide insights that can guide the formulation of more effective and balanced tax policies while ensuring the sustainability, stability, and competitiveness of the banking sector.

Research Questions:

1. What is the effect of Company Income Tax on the Return on Assets (ROA) of listed deposit money banks in Nigeria?

2. How does Firm Size (FS) influence the relationship between Company Income Tax and the Return on Assets (ROA) of listed deposit money banks in Nigeria?

Objective of the Study

The main objective of this study is to examine the impact of company income tax on the performance of Listed deposit money banks in Nigeria.

The following are the specific objectives:

1. To examine the effect of Company Income Tax on the Return on Assets (ROA) of listed deposit money banks in Nigeria.

2. To investigate the influence of Firm Size (FS) on the relationship between Company Income Tax and the Return on Assets (ROA) of listed deposit money banks in Nigeria.

Statement of Hypotheses

1. H_{01}: Company Income Tax has no significant effect on the Return on Assets (ROA) of listed deposit money banks in Nigeria.

2. H_{02}: Firm Size (FS) has no significant influence on the relationship between Company Income Tax and the Return on Assets (ROA) of listed deposit money banks in Nigeria.

Conceptual Framework

The various related concepts as used in this study are defined below. They include the concepts of Company Income Tax, financial performance proxied by Return on Asset and Firm Size.

Company Income Tax (CIT)

Corporate income tax in Nigeria is computed based on a company's taxable income, which is derived from gross income after deducting allowable expenses, such as operational costs, depreciation, and interest

payments (Augustine et al., 2023). Augustine et al. (2023) further define CIT as a tax chargeable on net profit after recognizing and accounting for all expenses. Additionally, Eneisik et al. (2023) describe CIT as a direct tax levied on corporate entities engaged in commercial activities, with varying rates depending on the firm's size and sector.

Corporate taxes are the expected minimum financial contributions to governments by entities from profits or incomes made within its legal jurisdiction (Eneisik et al., 2023). According to Musgrave and Musgrave (1989), corporate taxation serves as an instrument for wealth redistribution and economic regulation. Eneisik et al., (2023) states that corporate taxes transfer wealth from businesses to government. These taxes are levied on the net profits of companies and constitute a significant source of revenue for governments worldwide (James & Nobes, 2020). Taiwo and Oyedokun (2022) define corporate taxes as taxes directly paid by companies periodically to the government of a particular country or nation where it operates. Eneisik et al. (2023) view corporate taxes as compulsory levies imposed by the government through its agents on the profit and income of corporations or organizations.

Firm Size

Firm size refers to the scale or magnitude of a company's operations and is commonly measured using indicators such as total assets, total sales, market capitalization, or the number of employees (Dang et al., 2018). Researchers have proposed various definitions of firm size depending on the context of the study. According to Hall and Weiss (1967), firm size represents the total resources controlled by a business, which can influence its profitability and market power. Penrose (1959) conceptualized firm size as the extent of a firm's productive capacity, arguing that growth and expansion strategies determine the overall size of an organization.

In empirical studies, firm size is often categorized into small, medium, and large enterprises based on financial and operational metrics. Larger firms tend to have economies of scale, better access to financial markets, and enhanced bargaining power, which can impact their financial performance and tax obligations (Beck et al., 2005). Conversely, smaller firms may face constraints in capital acquisition and operational efficiency, leading to higher financial risk. Additionally, some studies have linked firm size to corporate tax behavior, suggesting that larger firms can leverage tax planning strategies to minimize their effective tax rates (Richardson & Lanis, 2007). Thus, firm size remains a crucial variable in corporate finance, taxation, and performance evaluation.

In this study, firm size is measured as the natural logarithm of total assets, it serves as a moderating variable influencing the relationship between corporate taxation and financial performance.

Financial Performance

Financial performance refers to a company's ability to achieve its primary objective of maximizing shareholder wealth while maintaining operational efficiency and profitability. It serves as a key indicator of a firm's overall success and sustainability. Financial performance is typically assessed using various financial metrics, including return on assets (ROA), return on equity (ROE), net profit margin, and earnings per share (EPS) (Feng et al., 2017).

Ahmad et al. (2023) describe firm performance as a tool to measure a company's growth and profitability over time. In the context of this study, financial performance is specifically measured using Return on Assets (ROA), which evaluates how efficiently a company utilizes its assets to generate profits (Ahmad et al., 2023).

ROA is a widely used tool by investors, analysts, and management to determine a company's overall financial health and asset productivity (Gitman & Zutter, 2015). A higher ROA indicates that a company is efficiently leveraging its assets to generate revenue, whereas a lower ROA may suggest inefficiencies in asset utilization, excessive operational costs, or poor financial management (Brigham & Ehrhardt, 2019).

Theoretical Framework

Agency Theory, originally developed by Jensen and Meckling (1976), serves as the theoretical foundation for

this study, as it provides a crucial framework for understanding how corporate taxation influences managerial decision-making and financial performance outcomes, particularly in Nigerian deposit money banks. The theory explores the conflicts of interest that arise between principals (shareholders) and agents (managers), emphasizing that managers, who are entrusted with running the firm, may not always act in the best interests of shareholders. Instead, they may pursue self-serving objectives, which can impact corporate profitability and financial efficiency (Fama & Jensen, 1983).

In the context of corporate taxation, Agency Theory suggests that tax policies can either exacerbate or mitigate agency problems within firms. For instance, high corporate taxes reduce the free cash flow available to managers, potentially curbing excessive spending on unprofitable projects (Jensen, 1986). Conversely, the complexity of tax regulations provides opportunities for managers to engage in tax avoidance strategies, which might serve their interests rather than those of shareholders (Desai & Dharmapala, 2009). In Nigeria, where corporate governance mechanisms are still evolving, these dynamics are particularly relevant, as tax planning strategies employed by bank managers can significantly impact financial performance. Although not all managers engage in self-serving tax avoidance strategies as assumed by this theory; some prioritize regulatory compliance and financial stability over short-term gains.

The banking sector operates within a highly regulated environment, making the principal-agent relationship even more critical. Managers' tax-related decisions, including compliance and avoidance strategies, can have long-term implications for shareholder value and overall financial sustainability (Shleifer & Vishny, 1997). Agency Theory underscores the need for robust monitoring and governance mechanisms to ensure that managerial decisions align with shareholder interests, especially concerning tax planning and corporate financial policies (Armstrong et al., 2012). This is particularly vital for Nigerian deposit money banks, where regulatory oversight is stringent, and financial performance is closely scrutinized.

By applying Agency Theory, this study seeks to analyse how corporate taxation affects financial performance in Nigerian banks while considering the inherent conflicts of interest between managers and shareholders. The theory provides valuable insights into the role of governance structures in mitigating agency conflicts and ensuring that tax-related decisions contribute positively to corporate profitability. Additionally, it highlights the importance of aligning managerial incentives with shareholder objectives through effective monitoring and regulatory frameworks. Ultimately, Agency Theory supports a deeper understanding of the intersection between corporate taxation, financial performance, and managerial behaviour in Nigeria’s banking sector (Graham at al., 2017).

Empirical Review

Ahmad et al. (2023) investigated the impact of corporate income tax and asset turnover on firm financial performance in Pakistan, utilizing panel data from sixteen non-financial firms listed on the Pakistan Stock Exchange from 2006 to 2021. The research employed Tobin’s q as a proxy for firm financial performance, with corporate income tax and asset turnover serving as independent variables, while liquidity ratio and log of capital volume were included as control variables. A fixed effect model was determined to be the most appropriate estimation technique based on the Hausman test. The findings revealed that corporate income tax had no significant impact on firm performance, whereas asset turnover, liquidity ratio, and capital volume exhibited negative relationships with Tobin’s q. These results suggested that Pakistan’s corporate tax structure, competitive weaknesses in product quality, and industrial inefficiencies potentially hindered firm performance.

Consequently, the study recommended the implementation of an optimal and efficient corporate tax structure, the development of corporate strategies to enhance revenue and value, and government initiatives to support exports. The authors acknowledged the complexity of corporate sector dynamics and called for further research incorporating additional variables and methodological approaches to better understand firm performance in Pakistan.

Adefunke and Usiomon (2022) studied the impact of company income tax (CIT) on corporate profitability in Nigeria. From a total population of 161 companies as of April 2021, the authors analyzed secondary data from 15 selected firms listed on the Nigerian Stock Exchange over a ten-year period (2011-2020). The purposive

selection was based on criteria including incorporation date and availability of audited financial statements from 2011 to 2020. The primary objective was to assess the effect of CIT on profit after tax (PAT) and return on equity (ROE) and to examine the influence of changes in shareholders' funds (CSHF) on ROE.

The study employed regression analysis, using data extracted from audited financial statements, to establish that CIT had a positive and significant effect on both PAT and ROE, while CSHF negatively impacted ROE. The findings underscored the importance of CIT in enhancing corporate profitability and shareholder earnings. These results provided valuable insights for fiscal policy recommendations aimed at improving tax policies and supporting business growth in Nigeria. However, the study's sample size (15 companies) and the focus on only listed firms may affect the generalizability of the results.

Adedayo et al. (2020) investigated the impact of company income tax on the performance of firms within Nigeria's consumer goods sector from 2010 to 2018. The study utilized ex-post facto research design, analyzing secondary data from the annual financial statements of Cadbury Nigeria Plc, Nestlé Nigeria Plc, and Unilever Nigeria Plc. The authors aimed to address the gap in the literature concerning the relationship between taxation and firm performance, focusing specifically on return on assets (ROA) as a measure of performance. They employed descriptive statistics, a correlation matrix, the Hausman test, and Random Panel Regression to analyze the data.

The findings revealed that company income tax and value-added tax had a significant positive effect on ROA, while tertiary education tax had an insignificant negative effect. The results were deemed useful for policymakers and firms, highlighting the importance of tax policies on financial performance and suggesting that incentives for tax compliance could benefit both firms and the government. However, the study's limitations included its focus on a small sample of firms and the exclusion of other potential impacts of taxation on performance.

Kurawa and Saidu (2018) examined the effect of company income tax on the financial performance of listed consumer goods companies in Nigeria from 2006 to 2016. Employing an ex-post facto research design, they utilized secondary data from annual reports and accounts of 16 selected companies purposively selected from the population of 27. The data was analysed applying multiple regression analysis using panel data methodology. Their findings indicated an insignificant negative relationship between corporate tax and financial performance, measured by return on assets (ROA). While firm age and risk showed a positive but not significant relationship with ROA, firm size exhibited a positive and significant correlation with performance.

The study concluded that to enhance financial performance, companies should engage in legal tax planning strategies, such as transfer pricing and structuring intra-company debt, to reduce net tax payments. Despite the comprehensive analysis, the study faced limitations, including the study period, which encompassed significant economic events like the global financial crisis and Nigeria's recession, potentially impacting the results.

Omodero and Ogbonnaya (2018) researched the impact of corporate tax on the profitability of Deposit Money Banks in Nigeria, aiming to understand how company income tax (CIT) influences profit after tax (PAT). Utilizing ex-post facto research design, the study analyzed secondary data from the published financial statements of 12 banks over a decade, from 2006 to 2016. The authors employed multiple regression analysis and t-tests to examine the relationship between CIT and PAT.

The findings revealed a significant positive impact of CIT on PAT for some banks, while others showed a negative or negligible effect. This indicated variability in how CIT affects profitability across different banks. The study underscored the need for fiscal policy reforms to address liquidity challenges and improve tax incentives for banks.

Stefanescu et al. (2018) investigated how income tax influences the financial performance of companies in their study titled "The impact of income tax over financial performance of companies listed on the Bucharest Stock Exchange." Conducted in Romania, this research utilized a sample of 20 manufacturing companies listed on the Bucharest Stock Exchange from 2013 to 2015, whose financial statements were available and showed

profit for the analyzed period. The researchers employed an empirical research design with multiple regression analysis, using secondary data sourced from annual financial statements. The main variables included return on equity (ROE) and net profit margin rate (NPM) as endogenous variables, while the effective tax rate (RIE), company size (DIM), asset structure (STRA), long-term debt rate (RDatTL), and financial leverage (LEV) served as exogenous variables.

Findings indicated a negative impact of the effective tax rate on financial performance indicators, demonstrating the significance of tax rates on corporate profitability and performance. The study's methodological limitations were noted, particularly the small sample size, which could affect the generalizability of the results. This research provides crucial insights for policymakers and corporate managers in understanding the implications of tax policies on financial outcomes, despite its constraints.

Nekesa et al. (2017) focused on the impact of corporate income tax on the financial performance of companies listed on the Nairobi Securities Exchange (NSE) in Kenya. The main objective of the research was to determine the effect of corporate income tax on these companies' financial outcomes. Fifty-nine companies were selected from the target population of sixty-nine companies publicly listed on the NSE as of January 2015. Utilizing a mixed-methods research design, the authors gathered secondary data from various databases and publications and primary data through questionnaires and interviews with key financial officers of the companies.

The findings indicated a positive relationship between corporate income tax and financial performance, suggesting that companies that efficiently manage their tax obligations tend to perform better financially. The study recommended for policymakers to formulate strategies that ensure prompt tax payments to avert poor performance and potential bankruptcy. This research provided valuable insights for investors and policymakers aiming to improve the financial health and growth of listed companies in Kenya.

METHODOLOGY

The study adopts ex post facto research design to examine the impact of corporate taxation on the financial performance of deposit money banks listed on the Nigeria Exchange Group (NGX). This design is appropriate as it allows for the analysis of the cause-and-effect relationship between the independent variable (company income tax) and the dependent variable (financial performance). The study spans a period of 15 years, from 2009 to 2023, which provides a comprehensive timeframe for observing the effects of tax policies on the banks' performance. The population for this study consists of 43 deposit money banks (DMBs) as published on the Central Bank of Nigeria's website as at April 26, 2024. 12 banks were drawn from the population employing a purposive sampling technique to select the sample. The criterion for selection includes the banks that have been consistently or substantially listed throughout the study period (2009-2023) and have complete and accessible financial data. This approach ensures that the sample accurately represents the target population and provides reliable data for analysis. The study relies on secondary data sourced from the audited financial statements of the selected deposit money banks. These financial statements are obtained from the NGX, the banks' official websites, and other credible financial data repositories including African Financials. The data covers key financial indicators relevant to the study, including information required to derive the respective Return on Asset (ROA) of the various sample banks, as well as Company Income Tax (CIT). The use of secondary data ensures that the analysis is grounded in real-world financial outcomes, enhancing the study's applicability and relevance. The study employs a multiple regression model to analyse the relationship between corporate taxation and financial performance. The model is specified as follows:

Table 1: Measurement of Research Proxies

Variable	Meaning	Measurement	Source
CIT	Company Income Tax	30% x Profit Before Taxation (Natural log used)	Eneisik et al. (2023); Sweetwilliams et al. (2023)
ROA	Return on Asset	Profit Before Tax/Total Asset) x	Salem & Qutait (2023); Odusina

		100	(2023)
FS	Firm Size	Natural Log of Total Asset ln(total asset)	Salem & Qutait (2023); Odusina (2023)

Source: adapted from Wirianata et al. (2024)

The model for this study is adapted from Eneisik et al. (2023). Corporate taxes and financial performance of quoted manufacturing companies in Nigeria.

Base Model:

$ROE_{it} = \beta 0 + \beta 1CIT_{it} + \beta 2CGT_{it} + \beta 3TET_{it} + \epsilon_{it}$

Where:

CIT = Company Income Tax

CGT = Capital Gain Tax

TET = Tertiary Education Tax

ROE = Return on Equity

$_{it}$ = Slope

Adapted Model:

$ROA_{it} = \beta_0 + \beta_1 CIT_{it} + \beta_2 FIRMSIZE_{it} + \epsilon_{it}$

Moderated Model:

$ROA_{it} = \beta_0 + \beta_1 CIT_{it} + \beta_2 FS_{it} + \beta_3 (CIT \times FIRMSIZE)_{it} + \epsilon_{it}$

$ROA_{it} = \beta_0 + \beta_1 CIT_{it} + \beta_2 FS_{it} + \beta_3 CIT\_FIRMSIZE_{it} + \epsilon_{it}$

Where:

ROA_{it} = Return on Asset for bank $_i$ at time $_t$

CIT_{it} = Company Income Tax for bank $_i$ at time $_t$

$FIRMSIZE_{it}$ = Size of bank $_i$ at time $_t$

CIT x FIRMSIZE = Company Income Tax moderated by Firm Size

$_{it}$ = Bank and year

ϵ_{it} = Error term

This model allows for the estimation of the effect of company income tax on financial performance while moderating with firm size. The data collected is analysed using pooled regression model. Additionally, descriptive statistics and correlation analysis was used to provide an overview of the data that examined the relationships between the variables.

DATA ANALYSIS AND DISCUSSION OF FINDINGS

Descriptive Statistics

Table 2 displays the descriptive statistics of the variables used for the study showing the mean, standard deviation, minimum and maximum values of the variables.

Table 2: Statistics of the Data used in the Study

Variables	Mean	Std Dev	Min	Max	Observation
ROA Overall	1.466982	3.109076	-24.10	6.5580	N=180
Between		1.81517	-1.55	4.94305	n=12
Within		2.574726	-21.09	7.250626	T=15
CIT Overall	2.1900	3.65000	-1.0100	2.3900	N=180
Between		2.1300	-28567	6.1100	n=12
Within		3.0300	-2.8700	2.1100	T=15
FIRMSIZE Overall	18.28228	1.073437	15.87672	21.24715	N=180
Between		.7983334	17.08321	19.40289	n=12
Within		.751518	15.17328	20.54371	T=15
CIT_FIRMSIZE Overall	4.29000	7.5300	-1.7200	4.9900	N=180
Between		4.2500	-567748	1.2200	n=12
Within		6.3300	-5.9300	4.4600	T=15

Source: Author's Computation using Stata 17

Correlation Matrix

Table 3: Correlation Matrix of the Variables used for the Study

	ROA	CIT	FIRMSIZE	CIT_FIRMSIZE
ROA	1.0000			
CIT	0.3200	1.0000		
FIRMSIZE	0.4087	0.7142	1.0000	
CIT_FIRMSIZE	0.3088	0.9993	0.7031	1.0000

Source: Author's Computation using Stata 17

From table 3, there is a positive correlation (0.3200) between Return on Assets (ROA) and Company Income Tax (CIT), meaning that as CIT increases, ROA tends to increase. However, the correlation is moderate, suggesting that while CIT and ROA move together to some extent, other factors may also influence ROA.

The correlation between ROA and Firm Size is moderate (0.4087) and positive. This indicates that larger firms tend to have higher ROA, which aligns with the idea that larger firms may have better operational efficiency, economies of scale, or better financial management.

The highest correlation in this matrix is between Firm Size and CIT (0.7142), indicating a strong positive relationship. This suggests that larger firms tend to pay higher company income tax, which is expected because larger firms usually generate more taxable income.

Since firm size strongly correlates with both ROA and CIT, it suggests that firm size could play a significant moderating role in the relationship between CIT and ROA. If firm size influences how CIT affects ROA, the study should investigate whether larger firms experience a different impact of taxation on profitability compared to smaller firms.

Unit Root Test

The Im Persaran-Shin (2003) unit root tests were employed to test for panel unit root for all the variables used for the study. The results are presented in table 4 below:

Table 4: Panel Unit Root Test Result using IM Persaran-Shin (IPS)

Variable	t-statistic @ level	P-value @level	Critical value	Order of Integration
LROA	t-bar = -3.3203 t-tlde-bar= -2.2923 z-t-tidle-bar= -4.4685	0.0000	1% = -2.740 5% = -2.570 10%= -2.470	I(0)
LFIRMSIZE	t-bar = -3.5193 t-tlde-bar= -2.3059 z-t-tidle-bar= -4.4101	0.0000	1% = -2.740 5% = -2.570 10%= -2.470	I(0)
LCIT	t-bar = -3.4847 t-tlde-bar= -2.2043 z-t-tidle-bar= -3.9916	0.0000	1% = -2.740 5% = -2.570 10%= -2.470	I(0)
LCIT_FIRMSIZE	t-bar = -3.4677 t-tlde-bar= -2.1966 z-t-tidle-bar= -3.9564	0.0000	1% = -2.740 5% = -2.570 10%= -2.470	I(0)

Source: Author's Computation using Stata 17

In table 4, Return on Assets (ROA), Firm Size (FIRMSIZE), Company Income Tax (CIT), and the interaction term (CIT_FIRMSIZE) are all stationary at level, there is no unit root problem in the dataset. The p-values for all variables are 0.0000, which means they are statistically significant at the 1%, 5%, and 10% levels. Since all variables are stationary at level (I(0)), they do not require differencing to remove trends or non-stationarity. This means the variables can be used directly in regression models without transformation.

Data Estimation

Table 5: Results of Pooled Regression Without Moderation

Variable	Coefficient	Z-value	Prob Value
CIT	2.4000	0.03	0.976
FIRMSIZE	0.9289	3.10	0.002

Source: Author's Computation using Stata 17 Version Prob>F = 0.0000

Table 6: Results of Pooled Regression with Moderation

Variable	Coefficient	Z-value	Prob Value
CIT	3.6800	2.01	0.045
FIRMSIZE	0.7540	2.41	0.016
CIT_FIRMSIZE	-1.7500	-2.00	0.045

Source: Author's Computation using Stata 17 Version Prob>F = 0.0000

Post Estimation Diagnostic Tests

Test for Cross Sectional Dependence/Contemporaneous Correlation

The test for cross sectional dependence or contemporaneous correlation is more of an issue in macro panels with long time series over 20-30 years. However, the test was carried out using the Pesaran Test and the Pesaran's test of cross-sectional independence is 4.104 with Pr of 0.0000. The Average absolute value of the off-diagonal elements is 0.372. These results indicated the independence of the companies in terms of data behavior.

Test for Autocorrelation

The Wooldridge test for autocorrelation was carried out and the result indicated the existence of no first order serial correlation with the prob>F of 0.4541.

Test for Heteroscedasticity

The Breusch and Pagan Lagrangian multiplier test for Heteroscedasticity was carried out and the result show that the prob>chibar2 of 0.1210 greater than 5% significant value indicate absence of Heteroscedasticity.

Interpretation of Results

From table 5, CIT has a positive coefficient, suggesting a positive relationship with ROA, but the effect is statistically insignificant (p-value = 0.976). This means that, without moderation, CIT does not have a statistically significant impact on ROA.

Firm size has a positive and significant impact on ROA, meaning that larger banks tend to have higher returns on assets. Prob>F = **0.0000**, meaning the overall model is statistically significant.

From table 6, after including the interaction term, CIT now has a statistically significant negative impact on ROA. This suggests that, when considering firm size, company income tax influences ROA more significantly.

Firm size still positively impacts ROA and remains significant, though its effect is slightly reduced compared to the non-moderated model.

The negative and significant interaction term suggests that firm size moderates the relationship between CIT and ROA. Specifically, as firm size increases, the positive effect of CIT on ROA weakens. This means that larger banks experience a lower impact of CIT on their profitability compared to smaller banks. The overall model is statistically significant.

DISCUSSION OF FINDINGS/POLICY IMPLICATIONS

The significant and negative interaction effect of firm size on the CIT-ROA relationship indicates that smaller banks experience a stronger negative impact of taxation on profitability compared to larger banks. This suggests that uniform tax policies may disproportionately affect smaller financial institutions, reducing their competitiveness.

Since larger banks show a weaker link between CIT and ROA, they may have better mechanisms to absorb tax-related expenses. This could be due to economies of scale, diversified revenue streams, and better financial management practices that cushion them against tax burdens. A one-size-fits-all tax policy may not be optimal for the banking sector. Smaller banks require more tax relief or incentives to ensure they remain competitive in the industry. High corporate taxation may discourage bank profitability and investment, affecting economic growth. A well-structured tax system is crucial for maintaining financial sector stability.

CONCLUSION

This study examined the impact of Company Income Tax (CIT) on the financial performance of deposit money banks in Nigeria, with a focus on the moderating role of firm size. The results indicate that, while CIT alone does not significantly impact profitability (ROA), its interaction with firm size leads to a negative and significant effect. This suggests that smaller banks are more vulnerable to taxation, while larger banks can better absorb tax-related costs. Therefore, a uniform tax policy may not be ideal for the banking sector, as it disproportionately affects smaller institutions and their competitiveness. The study's findings highlight that firm size plays a crucial role in determining the impact of Company Income Tax on Nigerian banks' profitability. Smaller banks are more negatively affected by taxation than larger banks, which calls for progressive tax policies, strategic financial planning, and regulatory reforms.

RECOMMENDATIONS

Deposit money banks in Nigeria should implement more effective tax planning strategies to minimize the adverse impact of Company Income Tax (CIT) on their financial performance, especially for larger banks. This could include leveraging tax incentives, deductions, and government relief programs while ensuring full compliance with tax regulations. By doing so, banks can improve profitability and enhance their return on assets (ROA) without resorting to aggressive tax avoidance strategies that may attract regulatory scrutiny and penalty.

Policymakers and regulatory authorities should consider reviewing corporate tax policies for larger banks, as the study indicates that Firm Size moderates the CIT-ROA relationship negatively. A differentiated tax structure or targeted incentives for large deposit money banks may help sustain their financial health, encourage further investment, and promote economic stability within the banking sector. This could involve introducing tiered tax rates or industry-specific tax relief measures to balance revenue generation with financial sector growth. Tax incentives, such as tax credits or deductions for reinvestment, should be introduced to help smaller banks build their capital base. In addition, reducing the effective tax rate on smaller banks will enhance their profitability and allow them to compete effectively with larger banks.

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