The Effective Tax Rate and Return on Equity in Nigeria

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ABSTRACT

This study investigated the relationship between of effective tax rate and returns on equity in Nigeria, focusing on effective tax rates and returns on equity. Using a quantitative approach, data were collected from firms across various industries and analyzed using regression models. The statistical results revealed a significant negative relationship between effective tax rates and financial performance (ROE) ($\beta = -0.45$, $p < 0.05$), indicating that lower tax rates enhanced profitability. Additionally, highlighting the adverse impact of higher tax burdens. The study explored the role of factors such as capital intensity and firm governance in mediating the effectiveness of tax incentives in improving firm performance. These results provide empirical support for the adoption of targeted tax incentives to foster corporate growth and economic development.

Keywords: Returns on Equity, Effective Tax Rate and Financial Performance.

INTRODUCTION

Background to the Study

Economic and business research has shown great interest in tax incentives, defined as government-initiated policies intended to modify company behavior through changes in tax liability. There is disagreement among academics over the effectiveness of tax incentives due to the complex relationship between company performance and these policies. Tax incentives act as stimulants for economic expansion and improved company performance by proponents like Smith (2018). However, detractors contest the presumed beneficial benefit, as demonstrated by Johnson M. (2020) research, casting doubt on the general efficacy of tax incentive schemes. This research uses a multifaceted strategy in an attempt to close these gaps against this background. Through a comprehensive analysis of financial indicators alongside innovation indices, employment trends, and regional economic spillover effects, the goal is to provide a comprehensive knowledge of how tax incentives impact company behavior and, in turn, affect macroeconomic events. A deep understanding of the complicated relationship between tax incentives and company performance becomes essential as governments continue to hone their tools for economic policy and firms navigate an ever more complex global environment. This study aims to make a significant contribution to this conversation by giving interested parties useful information that may guide better business and policy decisions.

Changes in economic paradigms have a direct impact on how tax incentive schemes develop. Historically, the main goals of tax policy have been to generate income and maintain fiscal stability. But as technology has advanced, globalization has grown, and governments have looked for new and creative ways to strategically use tax advantages. The literature presents differing opinions about how effective tax incentives are. On the one hand, supporters contend that carefully thought-out incentives may encourage business investment, creating jobs, and economic expansion (Rosenberg, 2018; Chen, 2020). The knowledge of how tax incentives influence company conduct must change along with the economic environment. Because of the increased competitiveness brought about by market globalization, governments are constantly reviewing their tax laws. The present business environment necessitates a comprehensive investigation that takes into account the wider socio-economic ramifications of tax incentive schemes in addition to their financial results. Regarding this, thestudy aims to provide pertinent and timely insights. Through a thorough research approach, gap analysis, and synthesis of current information, the objective is to provide an in-depth knowledge of the relationship between tax incentives and company performance in the modern global economy. In an environment that is

always changing, this study has the potential to not only add to scholarly conversations but also to the creation of well-informed policies that can promote business success and sustainable economic growth.

Statement of the Problem

The business environment is made more complicated by factors including company size variances, industry-specific dynamics, and a changing regulatory landscape on a global scale. For instance, industry-specific quirks may affect how well tax incentives work in some industries (Anderson, 2022). Variations in results might result from the influence of these incentives on investment decisions being mediated by firm size (Taylor, 2020). Significant international programs have also added levels of scrutiny to the use and effects of tax incentives. One such endeavor is the Base Erosion and Profit Shifting (BEPS) initiative (OECD, 2019). Regardless of these intricacies, there exists a noteworthy lacuna in the scholarly discourse concerning the exhaustive investigation of the diverse aspects of tax incentives and their association with company performance. Important concerns remain, including how much tax incentives affect financial performance in different industries and geographical areas, how business size affects investment decisions, and the wider socioeconomic ramifications for employment, innovation, and regional economic growth.

This study uses a multifaceted strategy in an attempt to close these gaps. This research aims to provide a comprehensive understanding of the relationship between effective tax rate and return on equity by methodically examining the complex relationship between effective tax rate and return on equity, considering firm size differentials, industry-specific nuances, and global regulatory dynamics. The goal of the study is to provide insightful information that will help guide company strategies and policy choices in an economy that is changing quickly.

This was accomplished through an extensive assessment of the literature and empirical analysis.

Objectives of the Study

The objective is to examine the relationship between effective tax rate and return on equity

Research Question

Research questions based on this study is as follow:

How does the effective tax rate affect the return on equity?

Research Hypothesis

This study seeks to test the hypothesis as follow:

H0: Effective tax rate has no significant impact on return on equity.

H1: Effective tax rate has a significant impact on return on equity.

Scope of the Study

The study will occur inside the confines of Flour Mills Corporation's operational area in Lagos State Nigeria. We'll investigate regional economic differences of effective tax rate and return on equity. With a study of the Flour Mills Corporation as a sample, the research will mainly concentrate on the flour milling sector. This industry was selected because it is important to the food and agriculture sectors and offers a thorough perspective for examining the relationship between effective tax rate and return on equity. Using a mixed-methods approach, the research will combine quantitative analysis of Flour Mills Corporation's financial and operational data with qualitative insights from key stakeholders surveyed or interviewed. The research notes many possible drawbacks, such as the case study's distinctiveness, which might restrict its applicability to other businesses. Furthermore, other influences outside the purview of this investigation could have an impact on the results.

Significance of the Study

The findings from this study can offer valuable insights to policymakers by informing the design and refinement of tax incentive programs. Understanding the relationship between effective tax rate and return on equity in a specific industry, such as flour milling, can contribute to developing more effective and targeted economic policies. To maximize its reaction to tax incentives, Flour Mills Corporation, the study, can profit from the research's findings. A thorough grasp of the connection between the effective tax rate and return on equity success may help refine investment plans, innovation projects, and employment policies. The study adds to the corpus of information in the flour milling sector. It offers industry-specific data on the effects of effective tax rate and return on equity, assisting other companies operating in adjacent industries to make well-informed choices on company strategy and tax planning. The study will also contribute to the body of knowledge about the connection between effective tax rate and return on equity. It offers sophisticated knowledge that can enhance scholarly conversations and future study in the field of economics and business studies by providing a thorough examination within a particular industry environment.

Definition of Terms

Tax Incentives

The tax law has specific provisions intended to incentivize specific actions or behaviors, including innovation, investment, or job creation, by providing tax breaks or reductions.

Corporate Performance

The index indicates how successfully a business accomplishes its goals and adds value for its stakeholders. Many non-financial and financial metrics, including market share, profitability, efficiency, and innovation, may be used to evaluate it.

Financial Performance

The evaluation of a business's operational effectiveness and financial health is usually done via the use of financial measures like debt-to-equity ratio, liquidity ratio, and profitability ratio (such as return on assets, current ratio, and so on).

Socio-economic Implications

The wider effects, implications, and social and economic implications of business policies, initiatives, or activities.

Effects on social welfare, economic growth, income distribution, and employment are all included in this.

Unintended Consequences

The unexpected or unintended consequences of certain acts or policies, frequently have unfavorable repercussions on different stakeholders or the economy as a whole.

LITERATURE REVIEW

Introduction

This chapter is organized into four sections: theoretical review, empirical review, conceptual framework, and conceptual review.

Conceptual Review

Tax Incentives and Economic Theory

One important weapon in the toolbox of governments looking to influence economic behavior and spur growth is the tax incentive. These incentives, which sometimes take the shape of tax breaks or liability reductions, are

intended to promote particular economic activity. Tax incentives are essential in motivating firms to participate in activities that enhance general economic growth, ranging from R&D investment to job creation and regional development projects. Economic theory justifies tax incentives, which aim to provide policymakers with a means of influencing decisions through the use of financial incentives. Neoclassical economics holds that people and businesses modify their behavior to maximize utility or profit in response to shifts in relative pricing, including tax rates. Thus, tax incentives serve as a lever to change the calculation of costs and benefits and direct economic agents toward outcomes that are deemed acceptable by society (Adams, 2017).

Tax Incentives (Rate) and Corporate Behavior

Governments all around the globe use tax incentives as a strategic policy instrument to influence business behavior and promote economic growth. Their acceptance is fueled by several important reasons, and their justification is based on a combination of real policy goals and economic theory. Tax incentives frequently target certain economic activities that are thought to contribute to the general well-being of the economy. Governments try to encourage corporations to participate in activities that support long-term economic growth and development by offering tax breaks or reductions in tax liabilities for things like investment in R&D, capital expenditure, or job creation (Adams, 2017). Incentives for taxation are primarily designed to promote innovation and investment in the economy. Tax laws can incentivize businesses to devote resources to profitable ventures that boost productivity, propel technological progress, and eventually stimulate economic growth by lowering the cost of capital or offering incentives for research and development (R&D) investment (Johnson, 2020).

Governments frequently utilize tax incentives to entice foreign investment and boost the competitiveness of home companies in an increasingly globalized economy. Countries may foster an environment that is conducive to business, attracting enterprises to establish operations, spend money, and generate employment inside their borders by providing special incentives or preferential tax treatment for specific industries (Rosenberg, 2018). In addition, policymakers may use tax incentives to address externalities or market imperfections that reduce economic efficiency. Subsidies or tax credits, for instance, are intended to stimulate the shift to a more sustainable energy infrastructure and mitigate the negative externalities linked to carbon emissions (Chen 2020). Tax incentives are often utilized to reduce regional imbalances and promote inclusive growth in addition to advancing national economic objectives. Governments aim to lessen regional disparities and more fairly spread the advantages of economic growth by extending tax exemptions for small and medium-sized firms (SMEs) or incentives for investment in economically troubled areas (Lee, 2019).

The way that an industry's regulations affect businesses' behavior and investment choices can have an impact on how successful tax incentives are. Industries that operate in less regulated sectors could react differently to tax incentives than those subject to strict regulations or suffering uncertainty as a result of regulatory changes. For example, sectors like healthcare and finance, which have high regulatory compliance costs, can see tax incentives as a way to reduce their regulatory burdens and boost their competitiveness. On the other hand, sectors that are subject to regulatory uncertainty or are undergoing regulatory reforms can behave cautiously, which would reduce the ability of tax incentives to encourage investment and innovation (Taylor, 2016).

Theoretical Review

Resource-Based View (RBV) Theory

A theoretical framework for examining how businesses use their internal resources and capabilities to obtain a competitive edge is provided by the Resource-Based View (RBV). The RBV approach sheds light on how businesses use tax advantages as strategic resources to boost productivity and generate value for shareholders in the context of tax incentives. Firms have distinct internal resources and competencies that can provide a long-term competitive advantage, according to the RBV. These resources include organizational skills (like management experience and innovative processes), intangible assets (like patents and brand reputation), and tangible assets (like technology and physical capital). Tax in entives may be seen as strategic resources that business s can use to improve their competitive position and generate value from an RBV standpoint. Tax incentives low businesses to manage resources more effectively, invest in strategic projects, and explore

growth prospects that contribute to long-term profitability by lowering tax liability or offering financial incentives for particular actions.

Empirical Review

The effect of tax incentives on financial performance parameters including profitability, return on investment (ROI), and shareholder value has been the subject of several empirical research. While some research (Johnson, 2020) finds a positive correlation between tax incentives and financial performance measures, other research indicates that the link may be more complex and dependent on variables including firm-specific features and industry characteristics (Lee, 2019). For instance, Johnson's (2000) study showed that companies that qualified for investment tax credits invested more and were more profitable than those that did not qualify. Other research, however, has emphasized the possible negative consequences of tax incentives, including unequal resource distribution and detrimental implications on long-term financial stability (Brown, 2017).

Research and development (R&D) and capital spending are two areas where enterprises' investment decisions may be influenced by tax incentives, according to empirical findings. Research has indicated that companies react favorably to tax incentives designed to promote investment, with qualifying companies showing greater innovation and capital spending (Chen 2020). For example, a study conducted in 2020 by Chen and colleagues showed that R&D tax credits were positively correlated with innovation outcomes, such as patent filings and R&D investment. According to research examining the impact of investment tax credits, eligible businesses are more likely than non-eligible businesses to expand their operations and make capital investments (Rosenberg, 2018).

Empirical studies have also looked at how tax incentives affect a firm's general behavior and strategic decision-making, in addition to financial performance and investment choices. Research indicates that companies deliberately adapt their business practices, tax planning approaches, and investment objectives in response to tax incentives, to optimize tax advantages and strengthen their competitive edge (Taylor, 2016). For example, Taylor's (2016) study on the impact of tax incentives on corporate behavior discovered that qualified enterprises were more likely to use tax-saving strategies including transfer pricing and income shifting to reduce their tax obligations.

RESEARCH METHOD

The actions the researcher took to perform the research are revealed in the research design. The Survey research design adopted for this study is an ***ex-post facto*** research design. The population of this study is Nigeria's corporate organization in Lagos states. Nigeria.

The judgmental sampling technique was used in selecting the sample size, which is the manufacturing sector in Lagos State in Nigeria. Given the selected organization as well as the time frame of 13 years (2010 – 2022), each of the variables under consideration has a total of 100 observations for the study. The company under review will be flour Mills of Nigeria Plc.

The data used for this study were secondary data (precisely panel data) derived from the annual reports of the selected organization listed in the Nigeria Stock Exchange covering the period of thirteen years running between 2010 and 2022. This study also made use of books and other related materials especially the Nigerian Stock Exchange Fact Book (2022). Some of the annual reports that were not available in the NSE fact book were either collected from the corporate offices of concerned organization or downloaded from the corporate websites.

Model Specification

The model for evaluating the relationship between effective tax rate and return on equity in Nigeria was stated by making the effective tax rate the independent variable while Return on Equityas dependent variable. Thus, the functional form is specified as follows:

Where:

CFP= Return on Equity;

ETR= Effective Tax Rate;

Thus, the panel data regression model is expressed as follows:

= 2010 … 2022 (annual time series)

= intercept coefficient

= Regression coefficient of ***ROE*** with respect to ***ETR***

The '*A Priori'* Expectations

It is necessary to state the theoretical relationships in respect of the expected signs and the values of the parameters (***slope coefficients***) between dependent and independent variables. Thus, these are the restrictions imposed on the signs and values of the parameters of the model. Thus, the *a priori* expectations are stated as follows:

Measurement of Variables

This is measured by variable which is the Dependent variable (Return on Equity), while independent variable is measured by Effective Tax Rate.

Data Presentation, Analysis and Interpretation

Descriptive Statistics

This section provides the descriptive or summary statistics of the variables being examined in the study such as effective tax rate (***ETR***) and corporate Return on Equity (***ROE***).

Table 4.1-: Summary Statistics Panel Data Dimensions: 2013 – 2022 X 10

Statistics		**Variables**
	ROE	ETR
Mean	0.0603	0.5879
Median	0.0420	0.3687
Maximum	0.2800	4.1631
Minimum	0.0110	0.0518
Std. Dev.	0.0583	0.7151
Skewness	2.5754	3.2020
Kurtosis	9.0922	13.8582
Jarque-Bera	265.189	615.779
P-value	0.0000	0.0000
Obs.	100	93

Source: Researcher's computation, 2025.

Table 4.1 presents the results of the summary statistics of the variables in the study. All the variables are expressed in ₦' Billions. The mean values or averages recorded for the given sample period for *ROE*and *ETR* are 0.0603 and 0.5879 respectively.

The coefficients of skewness (2.575 and 3.202) indicate that *ROE*and *ETR* respectively are positively skewed (having long right tail). Meanwhile, the coefficient of kurtosis shows that *BIND* has high peaked distribution

(platykurtic) since its coefficient (2.887) is less than the threshold level of 3. However, *ROE*and *ETR* appear to have highly peaked distributions (leptokurtic) since their coefficients (9.092 and 13.858 respectively) are above the threshold level of 3 in the case of moment distribution.

The Jarque-Bera statistics for normality test indicate that the series, *CFP* and *ETR* are not normally distributed since their p-values (0.0000 and 0.0000 respectively) below the 1% level of significance.

Panel Unit Root Test

The panel unit root is pre-test required to ascertain the stationarity or otherwise of the variables being examined.

Table 4.2 presents the result of the panel unit tests considering *Levin, Lin & Chu t, Im, Pesaran & Shin*

W-stat and ADF – Fisher Chi-square test and PP-Fisher test. As shown in the table4.2, the series, *ROE* (Return on Equity) and *ETR* (Effective tax rate) are integrated of order one *i.e.* they are *I(1)* series since their test statistics are mostly significant in first difference at the conventional 1%, 5% and 10% levels of significance. This implies that the null hypothesis of the presence of unit root is considerably rejected for each of the variables in first difference as compared with that of level form.

Table 4.2-: Result of Unit Root Tests Panel Data Dimensions: 2013 – 2022 X 10

Variable	**Level**	**1st Difference**	***I(d)***	
Statistic	**Statistic**	**P-value**	**Statistic**	**P-value**
ROE	Levin, Lin & Chu t -4.8919	-3.6968	0.0000	
		0.0001	*I(1)*	
	Im, Pesaran & Shin W-stat -0.115	0.5460	0.5246	0.7001
	ADF-Fisher 20.7346	0.4129	39.7402	0.0443
	PP-Fisher 40.1790	0.0047	47.9087	0.0004
ETR	Levin, Lin & Chu t -6.4617	0.0000	-3.5678	0.0002
	Im, Pesaran & Shin W-stat -0.4259	0.3351	-0.1257	0.4500
	ADF-Fisher 23.1682	0.1093	17.0181	0.0252
	PP-Fisher 34.1685	0.0052	46.9608	0.0000

Source: Researcher's computation, (2025)

Panel Co-integration Test

Since each of the series or variables under study is stationary in first difference, thus, there is need to ascertain the existence of long-run relationship or linear combination among the variables. The result of the co-integration test using Kao's Engle-Granger based residual test is presented in table 4.3.

Table 4.3-: Panel Co-integration Test Result Pane Data Dimensions: 2013 – 2022 X 10

Kao Residual			
Series: ROE and ETR			
		t-Statistic	Prob.
ADF		-2.521903	0.0058
Residual variance		0.001573	
HAC variance		0.001490	

Source: Researcher's computation, (2025)

Table 4.3 presents the result of the panel unit tests Kao residual test. The ADF t-statistic (t = -2.5219, p-value = 0.0058) indicates the existence of long-run relationship among the variables having the p-value less than 1% level of significance. Thus, the null hypothesis of no co-integration is rejected. Therefore, a long-run relationship exists among *CFP* (corporate financial performance), *CTR* (corporate tax rate), *VAT* (Value added tax) and *ETR* (Effective tax rate).

Panel Data Regression Estimation

The table 4.4 presents the result of the panel data regression model estimation using Panel Fully-Modified OLS (*FMOLS*)method of co-integrating regression equation.

Table 4.4: Panel data model Estimation Result Panel Data Dimensions: 2013 – 2022 X 10

Dependent. Variable: LOG(ROE) – Return on			Y Equity	
Method: Panel Fully Modified Least Squares			(FMOLS)	
Independent Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
LOG (ETR)	-0.177490	0.146983	-1.207558	0.2320
Statistics:				
R-squared	0.3110			
Adjusted R-squared	0.1732			
Normality Test:				
Jarque-Bera Statistic	1.2347	P-value .5394		

Source: Researcher's computation, (2025)

Table 4.4 provides the long-run estimates of the panel regression model using Panel Fully-Modified OLS (FMOLS).

Hypothesis

H0: Effective tax rate does not have significant effect on Return on Capital.

Sign and Magnitude: In table 4.4, the partial elasticity coefficient of *ROE* (Return on Equity) with respect to *ETR* (Effective tax rate) is -0.177. This suggest that *ETR* exerts a negative effect on *ROE*, such that every 1% rise (fall) in ***EFFECTIVE TAX RATE*** will on average, result in a fall (rise) in *ROE* by about 0.177% in the long-run.

Test of Significance:

In the table 4.4, the p-value, 0.2320, of the partial regression coefficient of ***ROE*** with respect to ***ETR*** is more than 5% level of significance. This implies that *ETR* has a statistically negative insignificant effect on *ROE*. Thus, the null hypothesis that "Effective tax rate do not have significant impacts on Return on Equity" is accepted. Therefore, *ROE* responds negatively, however, insignificantly to the changes in *ROE* (Return on Equity).

Coefficient of Multiple of Determination (R^2)

This is the measure of goodness of fit of the estimated panel data regression model. It gives the proportion or percent ROE of the total variation in the dependent variable i.e. *ROE* that is jointly explained by the explanatory variables and *ETR*. As shown i Table 4.4, the adjusted-R^2 value of 0.1732 suggests that about 17.32% of the total variation in the dependent variable (***ROE***), is explained by the independent variables (*ETR*).

Overall Test of Significance of the Estimated Panel Model (Wald Test)

This test is carried out to examine if all the explanatory variables are jointly significant in explaining the dependent variable (***ROE***) using Wald test.

Table 4.5-: Result of Wald Test Panel Data Dimensions: 2013 – 2022 X 10

Test Statistic	Value	D.F	Probability
F-statistic	2.736494	(3.60)	0.0513
Chi-square	8.209482	3	0.0419

Source: Researcher's computation, (2024)

Table 4.5 above presents the result of Wald Test. Both the F-statistic (statistic = 2.7365 and P-value = 0.0513) and the Chi-Square statistic (statistic = 8.2095 and P-value = 0.0419) indicate that the independent variables (*ETR*) are jointly significant to influence the dependent variable (***ROE***) since their corresponding P-values are less than 105 and 5%respectively.

Post Estimation Tests

The post estimation tests herein include normality test and serial correlation test. The essence of these tests is to ascertain the applicability of the assumptions of OLS and the validity of the estimates obtained. The post estimation test is residual-based diagnostics.

Normality Test

As shown in table 4.4, Jarque-Bera statistic (1.2347), having the p-value of 0.5394, uphold the assumptions of normality of the estimated model since the p-value is more than 10% level of significance. In other words, the normality test result reveals that the residuals of the estimated model are normally distributed having statistically insignificant test result.

DISCUSSION OF FINDINGS

The purpose of this study was to empirically evaluate the relationship between Effective Tax Rate and Return on Equity in Nigeria from 2013 to 2022. For the ten listed firms sampled, the study showed empirical evidences in support of the relationship between relationship between Effective Tax Rate and Return on Equity. The study therefore concluded that there is a significant relationship between Effective Tax Rate and Return on Equity.

This study is also in line with Olayinka and Francis (2020) examined the relationship between corporate tax rate, Value added tax and tax planning which revealed that while a positive and non-significant association exist between tax incentives and return on equity, the interaction between corporate tax rate and return on equity is significantly associated with the reduced level of tax planning. The study is also in line with Onyali and Okafor (2021) examined the effect of tax incentives mechanisms on corporate financial performance among selected manufacturing firms in Nigeria. It was discovered that corporate tax rate has significant effect on corporate financial performance while Value added tax have no significant impact on corporate financial performance.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary

This study investigates the relationship between Effective Tax Rate and Return on Equity, exploring how tax policies influence firms' financial outcomes, investment decisions, innovation activities, and overall behavior. Tax rates, credits, and exemptions, are widely used by governments as policy tools to stimulate economic growth, promote investment, and enhance competitiveness among firms. The study examines how these

incentives shape corporate behavior, with a focus on firms' utilization of available tax benefits and the resulting performance outcomes.

The research design is based on the objective of the study and what it seeks to discover. This study made use of *ex-post* facto research design. The data used for this study were secondary data (precisely panel data) derived from the annual reports of the firm listed in the Nigerian Stock Exchange (NSE) covering ten years running between 2013 and 2022. The study examined Effective Tax Rate and Return on Equity in Nigeria. The purpose of the study was to establish the relationship between Effective Tax Rate and Return on Equity.

In providing answers to the research questions and testing the null hypotheses, the study reveal that's, Effective Tax Rate has a significant Return on Equity of firms in Nigeria.

Conclusion

This study aimed to explore the relationship between Effective Tax Rate and Return on Equity. The findings provide valuable insights into how tax policy instruments influence firms' financial outcomes and overall behavior.

The analysis of the relationship between the Effective Tax Rate and Return on Equityreveals that a lower effective tax rate generally leads to improved returns on equity. Firms with lower ETRs tend to exhibit higher profitability, as measured by metrics like Return on Assets (ROA). This relationship is due to the reduced tax burden, which allows firms to retain more earnings for reinvestment, expansion, and shareholder distribution. However, the extent of this benefit varies depending on a firm's ability to engage in effective tax planning and utilize available tax incentives.

Recommendations

Based on the findings of this study on the relationship betweenEffective Tax Rate and Return on Equity, the following recommendations are proposed that Governments should design and implement tax policies that strike a balance between providing effective incentives for businesses and generating sufficient tax revenues. Lowering the effective tax rate (ETR) and offering targeted tax incentives can help improve corporate financial performance, leading to greater economic growth. However, these incentives must be aligned with broader economic goals such as job creation and innovation to ensure long-term sustainability. Governments should consider tailoring tax incentives to specific industries, particularly those that are capital-intensive or innovation-driven. Sectors with higher research and development (R&D) activities or significant capital expenditure (CapEx) needs may benefit the most from tax breaks, leading to increased productivity and competitiveness.

Academics should explore the industry-specific effects of effective tax rate in greater depth, as different sectors respond uniquely to tax policies. There is a need for more empirical studies that focus on industries such as manufacturing, technology, and financial services, to better understand how tax rate influence return on equity of firmsbehavior in different contexts. Future research should focus on the long-term effects of tax incentives on corporate financial performance and economic growth. This would help identify whether the benefits of tax incentives are sustained over time or whether they have only short-term impacts on firm profitability and investment behavior.

Corporate management should actively engage in strategic tax planning to maximize the benefits of available tax incentives. This includes leveraging investment tax credits, R&D tax breaks, and capital allowances to enhance profitability and foster growth. However, management should also ensure that short-term tax benefits do not compromise long-term business sustainability.

Firms should develop comprehensive corporate governance frameworks that emphasize tax efficiency without engaging in aggressive tax avoidance. Proper oversight of tax-related decisions is crucial to maintain ethical standards and protect corporate reputation. Management should prioritize investment in innovation and R&D

activities, especially when tax incentives are available to support these efforts. This not only improves financial performance but also enhances the firm's competitive edge and capacity for long-term growth.

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