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Compay Income and Performance of Deposit Money Banks: Evidence from Selected Banks in Nigeria

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Abstract
This study examined the impact of corporate taxation on the financial performance of deposit money banks in Nigeria from 2011 to 2020. The specific objectives of the study were to determine the impact of company income tax (CIT) and national information technology levy (NITDL) on the profit of deposit money banks in Nigeria. A sample consisting of 7 deposit money banks and cross sectional data were obtained from their annual reports and financial statements were used for the analysis. The econometric of analysis was Autoregressive Lag Modelling (ARDL) approach, informed by a mixed order of integration of the variables. The findings indicate that- in the short run, CIT was not only significant, but exerted a positive impact on profit for the year of deposit money banks; while in the long run, it exerted insignificant and positive impact. It also revealed that NITDL had positive and significant impact on profit for the year of deposit money banks both in short and long run. In view of these findings, the study recommends that the monetary authorities should review the countries' fiscal policy to grant tax incentives to deposit money banks. This will surely increase the impact *on profit for the year of deposit money banks in the long run. Again, the banks should pay their national information technology levy as at and when due, being the highest beneficiaries from information technology. This will enhance the impact of developments in information technology on the profit for the year of deposit money banks in Nigeria.*

Key words: corporate taxation, financial performance of deposit money banks, ARDL, Nigeria

Introduction

The importance of the banking sector in the economic growth and development of any nation cannot be overemphasized. Banks facilitate the exchange of goods and services, creating a network of payment services, mobilizing and pooling savings of some investors. They provide specialized financial services, which reduce the cost of obtaining information about both savings and borrowing opportunities. These financial services help to make the overall economy more efficient. Taxation of corporate profits is an important component of a country's fiscal policy. By imposing taxes, the state seeks to collect financial resources to the budget. Thus, the taxes represent a transfer of financial resources from the entities paying the tax to the disposal of the state (Otwani, Namusonge & Nambuswa, 2017). How these corporate taxes affect the financial performance. The banking sector especially the deposit money banks are among the institutions that are heavily taxed. Presently, the corporate taxes that are levied on deposit money banks in Nigeria include, company income tax, tertiary education tax, information technology levy, Nigerian police trust fund levy among others. These corporate taxes are, in addition to capital gain tax, stamp duty, small and medium enterprise development levies and other forms of national taxes are paid by deposit money banks. At the state level, banks are required to pay environmental sanitation levies, business premises registration levies among others forms of levies.

First, a prori, one should expect a negative and significant impact of taxation (whether corporate or otherwise) on the performance of enterprises (whether corporate or not). In literature, empirical studies show a lack of consensus on the impact of corporate taxes on the firms. Studies such as Adefunke Usiomon (2020), Tima and Chukwu (2021), Omodero and Ogbonnaya (2018), Olatunji and Oluwaantoyin (2019), etc, contend that corporate taxes have a positive and significant impact on corporate performance while Onwuzuruike and Ugwu (2020), Putilice, Nesue, Minzu, Popa and Niculescu (2016) argued that corporate taxes exert negative and significant impact on corporate performance. In other words, while the first group view corporate taxes as having an incentive effect, the other group view it as being disincentive.

It is against this background that this study wishes to investigate the impact of corporate taxation on the financial performance of deposit money banks in Nigeria

Underpinning theory

Theories abound in this field, but the study focused on thematic areas that are closely related to this narrow area of corporate tax which is the tax planning theory:

Hoffman Tax Planning Theory

Hoffman (1961) argues that the role of tax planning is in reducing tax payment without negatively influencing accounting income. This theory supports the reduction of tax payment to government thereby increasing the financial position and growth of an organization (Nwaobia & Jayeoba, 2016). The theory also argue that tax planning activities are advantageous and help to minimize tax income without adjusting tax income (Akintoye, Adegbie, & Iheme-Onyeka, 2020).

This theory asserts that taxes are based on business concepts, thus, an organization can adjust business activities to reduce tax burden. Therefore, the theory proposes direct or positive linkage between tax planning activities and financial performance of a firm. Thus, firms should capitalize on some loopholes in existing tax within legal frameworks to generate tax saving opportunities for a firm thereby enhancing performance.

Empirical Review

Company Income Tax and Financial Performance

Adefunke and Usiomon (2020) used *multiple regression analysis* to study *the impact of company income tax on corporate performance of firms listed in Nigeria. The sample comprised of 12 listed firms listed on the Nigerian Stock Exchange from 2011 to 2020. Result from the study disclosed that Company income tax has a positive and significant effect on corporate performance surrogated with profit after tax and returns on equity.*

Timah and Chukwu (2021) investigated the relationship between corporate taxation and the welfare of stakeholders such as employees, investors and host communities. Specifically, the study investigated the relationship between corporate tax and employees' wages, dividend, and corporate social responsibility. Descriptive research design was adopted, and data on selected manufacturing firms were obtained from the published annual financial statements of the firms. Data analysis was conducted using Ordinary Least Square. Results indicate that there was a significant relationship between corporate tax and employee wages, and also between corporate tax and dividend payment. Further, there was a significant, positive relationship between corporate tax and the corporate social responsibility engagements of the selected companies.

Ajayi, Ajay, Enimola and Orugun (2019) studied the effect of companies' income tax on profitability of deposit money banks with international banking license in Nigeria. Specifically, the study investigated the effect of corporate income tax and education tax on return on assets of the deposit money banks with international banking license in Nigeria. The entire 8 deposit money banks with international banking license, namely, Zenith Bank, Access Bank, United Bank for Africa, First Bank, Union Bank, Fidelity Bank, First City Monument Bank, and Guaranty Trust Bank were targeted for the study. The tax and profit data extracted from the annual reports and financial statements of the selected banks were analysed using ordinary least square regression analysis. Findings from the study shows that there exist a strong positive relationship between corporate income tax, education tax and corporate profitability of deposit money banks in Nigeria

Omodero and Ogbonnaya (2018) examined the impact of corporate tax on profitability of deposit taking Banks in Nigeria. Specific this study seeks to ascertain the extent to which company income tax affects profit for the year of deposit taking Banks in Nigeria. The 21 deposit taking banks listed on Nigeria Stock Exchange during the period from 2006 to 2016 were targeted, out of which a sample of 12 banks was selected for the study using judgment sampling technique and data availability. Cross sectional data were collected from the annual reports and financial statements of the selected banks and analysed using Panel data regression analysis and t-statistics were used to analyse the data obtained from the sampled banks. The result on the data for Access Bank Plc., Diamond Bank Plc and GTB Plc revealed a positive significant impact of corporate tax on profit after tax and existence of a positive relationship between profit after tax and corporate income tax. While the rest of the other 9 banks showed both negative and lack of impact of corporate tax on profit after tax.

Pitulice, Nescu, Minzu, Popa and Niculescu (2016) studied the impact of corparte tax on financial performance of firms; the study was on 20 firms listed on the Bucharest stock exchange using secondary data and multi-regression analysis, found that corporate tax had negative and significant impact on financial performance of firms.

Gallemore, Mayberry and Wilde (2017) investigated the relationship between corporate traxes and bank outcomes in USA for the period of 1996-3013. Multi-regression analysis as a technique was used in the analysis. The results showed that corporate taxes had significant positive effect on banks performance

Nekasa, Namusonge and Makokha (2017) evaluated the impact of corporate income tax on financial performance of companies in Nairobi. The regression results revealed that corporate income tax had significant positive impact on financial performance of companies. The study supported poles that could ensure that firms promptly paid their corporate taxes to government.

National Information Technology Development Levy and Financial Performance

Gangodawilage, Madurapperuma and Aluthge (2021) studied the use of technology to manage tax compliance behavior of entrepreneurs in the digital economy using survey research method .The semi-structured in-depth interview was conducted with 8 micro multinationals selected based on a convenient sampling technique. Data collected from interviews after the participants' prior permission was transcribed using the Trint software system and analysed using multiple regression analysis. Findings from the study indicate that trust in the technology used by the tax authority and the power of tax authority in implementing the technology-driven tax system influence tax compliance, and, thus, breads confirmatory compliance as a new compliance strategy in the digital economy

Methodology

This study adopted ex post facto research design since data exist for the analysis. The study explored the interaction of the variables of commercial bank profits, company income tax and National Information Technology Development Levy using standard econometrics methods to estimate and test their impacts and validity of the results obtained.

Model Specification

This study adopted company income tax and national information technology levy to examine their effect on the financial performance of deposit money banks in Nigeria. These corporate taxes are adopted for the study because they are peculiar to deposit money banks and besides most deposit money banks disclosed the taxes in their annual financial statements.

$PFY = \beta_0 + \beta_1 CIT + \beta_2 TEDT + \beta_3 NITDL + U_t$

Where: PFY = Profit for the Year; CIT = Corporate Tax; TEDT = Tertiary Education Tax

NITDL = National Information Technology Development Levy; β^s = Parameters to be estimated; U_t = Stochastic error term

Method of Data Analysis

Multiple regression modelling involving the use of unit root test and autoregressive distributed lag model were used in the analysis.

Sources of Data

The data used in the analysis consists of secondary data sourced from the annual reports and financial statements of deposit money banks listed on the Nigerian stock exchange from 2011 to 2020.

Interpretation and Discussion Result

Unit Root Test

In order to test for the presence or absence of unit root in the data used for the empirical analysis, Augmented Dickey-Fuller (ADF) test was employed and the test result is as presented below:

Table 1: Augmented Dickey-Fuller(ADF) Unit Root Test (at First Differencing)

Series	ADF Statistic	5 % Critical Value	P-Values	Order of Integration	Remarks
PFY	-3.089938	-2.904848	0.0320	I(0)	Stationary
CIT	-3.090408	-2.904198	0.0319	1(0)	Stationary
NITDL	-7.475783	-2.913549	0.0000	1(1)	Stationary

Source: Researcher's Compilation from Eview 9

The Augmented Dickey-Fuller (ADF) unit root test presented in table 1 revealed that there exists a mixed order of integration among the variables of the study.

Table 2: ARDL Bounds test result.

Test Statistic	Value	K
F-statistic	6.494585	2
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	3.17	4.14
5%	3.79	4.85
2.5%	4.41	5.52
1%	5.15	6.36

Source: Researcher's Compilation from E-views 9

. The result disclosed that the computed *F*-statistic value of 6.45 exceeds the upper Bound critical value of 4.85 at 5% level of significance, which implies that corporate taxation and financial performance of deposit money banks in Nigeria are co integrated and have evidence of long run relationship.

Table 3: Long Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CIT	0.116278	0.143875	0.808186	0.4223
NITDL	0.789412	0.163979	4.814109	0.0000
C	2.125607	0.317750	6.689565	0.0000

Source: Researcher's Estimate from Eview 9

The long-run coefficients of the variables used in this study as presented in table 3, generally revealed that the coefficient of company income tax was not statistically significant. However, national information technology development levy was statistically significant and has a positive relationship with profit for the year. Consequently, the long-run impacts of corporate taxation on financial performance of deposit money banks are stated as follows:

One percentage increase in national information technology development levy will bring about a 0.789412% increase in profit for the year. This result implies that national information technology development levy and profit for the year are positively correlated.

Post-Estimation Tests

The result of the Autoregressive Distributed Lagged (ARDL) model were subjected to post estimation test using Breusch-Godfrey serial correlation test, The Breusch-Pagan-Godfrey test of Heteroskedasticity and Ramsey RESET Test. The result is accepted of no serial correlation, homosckedastic and normal distributed if the p-value of the post estimation test is less than 0.05 and rejected if greater than 0.05. The results are presented in Table 6 as follows:

Table 4: Post Estimation Test Results

Test	F-statistic	DF	p-value
Breusch-Godfrey Serial Correlation LM Test	1.576091	2,55	0.2160
Heteroskedasticity Test	3.636306	1,56	0.0617
Ramsey RESET Test	0.995984	1,56	0.3226

Note: * denotes significant at 5% levels

The results of post estimation test in table 4 revealed that there was no presence of serial correlation, because both the probability value of F-statistic is higher than 5 percent level of significant. The Breusch-Pagan-Godfrey test of Heteroskedasticity also revealed that the residual is homoskedastic, because the probability of F statistic is higher than 5 percent level of significant. Similarly, the probability of Ramsey RESET Test is greater than 0.05 suggesting that the residual is normally distributed at 5 percent level of significant.

The empirical result obtained, there exist a clear-cut inconsistency and alignment with tax planning theory developed by Hoffman in 1961 as well as the findings of Adefunke and Usiomon (2020) who *found positive and but no significant effect of corporate tax on performance of banks in Nigeria. Furthermore,* the result is also in agreement with

Gangodawilage; Madurapperuma and Aluthge (2021) who affirmed that NITDL have significant and positive impact on profit of DMBs

Recommendation and Conclusion

Recommendations

Based on the findings, the following recommendations are made:

i). The deposit money banks in the country should promptly settle their company income tax obligations. However, the relevant authorities in Nigeria should review the countries' fiscal policy to grant tax incentives to deposit money banks. This will surely increase significantly its impact on profit for the year in the long run.

ii). The banks should also pay their national information technology levy as at and when due. This will assist in improving the country's information technology of which the deposit money banks are one of the biggest beneficiaries from information technology. This will enhance the significance of NITDL on the profit for the year of deposit money banks.

Conclusion

The study examined the effect of corporate taxation on financial performance of deposit money banks in Nigeria from 2011 to 2020. Purposive sampling technique was used to select 7deposit money banks listed on Nigeria Stock Exchange during the period. Unit root test and ARDL test were used to analyse the time series data collected from the annual reports and accounts of the selected banks. In line with the findings of the study, we conclude that the CIT and NITDL positively and significantly affect PFY of the deposit money banks while TEDT positively but, insignificantly affect PFY during the period.

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