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Effect of Companies Income Tax on Profitability of Deposit Money Banks (DMB's): A Study of DMB's with International Operating License in Nigeria

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Abstract
Banks in Nigeria have operating strata ranging from regional to international-the study examine the how Companies Income Tax (CIT) affects Corporate profitability of Deposit Money Banks (DMB's) as obtained from their annual report for 2017 using their Return on Assets (RoA) as Profitability parameter. OLS method was used via SPSS 20.0 to run the data used in the research with findings that; there exist a strong positive relationship between CIT and Corporate Profitability of Deposit Money Banks (DMB's) in Nigeria and recommends a reduction in CIT rate with attendant increase in Education Tax (EDT) since buoyancy of the education sector (ceteris paribus) is expected to transcend in enhancement of Marginal Productivity of Labour which have positive spill over effect on Corporate Profitability in the longrun.
Keywords: *Companies Income Tax (CIT), Corporate Profitability, Deposit Money Banks (DMB's)*
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1.0 Introduction

1.1 *Taxation and Profitability*

According to Nzotta (2007), four key issues must be understood for taxation to play its functions in the society. First, a tax is a compulsory contribution made by the citizens to the government and this contribution is for general common use. Secondly, a tax imposes a general obligation on the tax payer. Thirdly, there is a presumption that the contribution to the public revenue made by the tax payer may not be equivalent to the benefits received. Finally, a tax is not imposed on a citizen by the government because it has rendered specific services to him or his family. Thus, it is evident that a good tax structure plays a multiple role in the process of economic development of any nation which Nigeria is not an exception (Appah, 2010).

Anyanwu (1993), defined tax as a more or less compulsory, non-returnable contribution of money (or occasionally for goods and services) from private individuals, institutions or groups to the government. It may be levied upon wealth or income or inform of surcharge on prices.

Famoyin (1990), justified tax as a compulsory contribution imposed upon persons for the general purpose of the government. Once levied, every taxable person must pay tax. He also added that taxes are benefit, but for providing the government with funds necessary for the general administration of the country. A tax is not imposed on a citizen by the government because it has rendered specific services to him or his family. However good tax structure plays significant role in the process of economic development of any nation, of which Nigeria is not an exception (Appah, 2010).

Money left after expenses are paid is considered to be the company's profit. Because corporate profits represent a corporation's income, they are one of the most important things to look at when investing. Increasing profits means either increased corporate spending, growth in retained earnings or increased dividend payments to shareholders. Profitability measures are indicators that explains the capacity of a company to generate profit. They are measured in either margin ratios or returns ratios; while margin ratios explain the ability of a company to convert sales into profit, return ratio explains its ability to generate returns on every dime invested in it (Richard & Stewart, 1996).

Tiers of Banking Operations in Nigeria

Banks in Nigeria are given licence to specific mode of operation with each having operating to operate either with international operating licence, national operating licence, regional operating licence, operating licence to operate non interest banking and lastly operating licence to operate as merchant bank. Access Bank Plc, Fidelity Bank Plc, First City Monument Bank Plc, First Bank of Nigeria Limited, Guaranty Trust Bank Plc, Union Bank of Nigeria Plc, United Bank for Africa Plc, Zenith Bank Plc, Citibank Nigeria Limited, Ecobank Nigeria Plc, Heritage Banking Company Limited, Keystone Bank Limited, Polaris Bank Limited, Stanbic IBTC Bank Plc, Standard Chartered, Sterling Bank Plc, Unity Bank Plc, Wema Bank Plc, SunTrust Bank Nigeria Limited and Providus Bank Limited ,Coronation Merchant Bank, FBN Quest, Merchant Bank, FSDH Merchant Bank, Rand Merchant Bank and Nova Merchant Bank. only Jaiz Bank Plc is a non interest bank in Nigeria. https://nairametrics.com/2016/06/14/list-of-banks-in-nigeria/

1.2 Problem of The Study

Companies Income Tax surely have reducing effect on Profit Before Tax. Premised on governing laws guiding taxation in Nigeria, how theses DMB's manages their tax affairs is important as it affects what is filed and returned to tax authorities. Aside CIT, Education Tax (EDT) is being charged on profit of DMB's. All these among others are factors whose influence cannot be adequately measured before being engaged effectively for-profit planning and dividend policy decisions. Omoigui-Okauru (2009), identified some of the Challenges of Tax Administration in Nigeria to include: Non-registration by tax payers/ Inadequate national database on taxpayers; Non-compliance with tax laws by tax payers; Low level of literacy/ Inadequate knowledge of tax laws on the part of taxpayers; Poor information storage/Record keeping by taxpayers; Human capital challenges/ Shortage of skilled manpower; Poor Infrastructures; Inadequate collaboration between tax authorities; Corruption; and Inadequate Standard policy for tax administration in Nigeria. These challenges are imposed by taxpayers, tax administrators or national polity. Addressing the problem of Non-registration by tax payers/ inadequate national database on taxpayers necessitated the introduction of Tax Identification Number (TIN) – a nationwide electronic database for the registration and storage of data on tax payers in Nigeria.

1.3 Research Question

Is there strong and positive relationship between Companies Income Tax (CIT) and Corporate Profitability of Deposit Money Banks in Nigeria (DMB's)?

1.4 Objectives of The Study

With the general objective of examining the effect of Companies Income Tax on Corporate Profitability of Deposit Money Banks in Nigeria; the specific objective is to ascertain the nature and strength of relationship between CIT and Return on Assets (RoA) of Nigeria's DMB's.

1.5 Research Hypothesis

H_0: There is no strong and positive relationship between Companies Income Tax (CIT) and Corporate Profitability of Deposit Money Banks in Nigeria (DMB's).

1.6 Significance of the Study

This study would not just aid strong assertiveness in discussing the influence of Companies Income Tax (CIT) on Deposit Money Banks (DMB's) Corporate Profitability; but would also help in underscoring the import of tax as a factor in dividend policy decisions of DMB's in Nigeria.

1.7 Scope of The Study

Return on Assets (RoA) is considered as the parameter for measuring profitability-note also that amongst Deposit Money Banks in Nigeria, just a few the international operating license is considered. They include: Zenith Bank, Access Bank, UBA, First Bank, Union Bank, Fidelity Bank, First City Monument Bank (FCMB) and Guaranty Trust Bank. From the foray of DMB's in Nigeria, these selected eight (8) have better Availability, Visibility and Accessibility than others. On strata basis, findings based on operation of Banks in this tier will be robust enough to form a decision for DMB's operations in Nigeria.

2.0 Literature Review

2.1. Conceptual Framework

Companies Income Tax (CIT) is charged at 30% on Profit Before Tax of companies in Nigeria. The variables selected were based on the amount of CIT returned as prorated from Profit Before Tax at 30%. Return on Assets (RoA) is the parameter used for profitability. The CIT amount is the independent variable while the dependent variable is the various RoA's for 2017 for the banks with international operating licence in Nigeria.

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Companies Income Tax (CIT)

Companies Income Tax is imposed by the FIRS. By law, it is to regulates the taxation of all limited liability companies doing business in Nigeria (private and public limited liability companies alike), other than those involved in upstream petroleum operations. It was introduced in 1961. The governing law for Companies Income Tax is the Companies Income Tax Amendment Act 2011. Income chargeable under section 20 of CITA 2004 are: Profit or gains arising from acquisition and disposal of short term money instrument like government securities, treasury bills, savings certificate, and Treasury bond; Rent or any premium arising from a right to any person for any person for the use or occupation of property; Interest, Dividend, royalty, discount, charge or annuity, Fees, dues and allowances(wherever paid) for services rendered; and Any trade or business for whatever period of time such trade or business may have been carried on. Companies Income Tax charges 30% on total profit of companies; with this, lower rate of Tax of 20% for those in the preferred sector or small companies with an annual turnover of 1000,000 or less. Companies in the preferred sector are those in manufacturing, agricultural production and mining of solid minerals or wholly in export trade. They are to enjoy this tax incentive for the first five years of commencement of business. If the turnover of company is N500, 000 or below and the company has been in business for at least 4 calendar years, the minimum tax will be the highest of the following: 5% of Gross Profit; or 0.5% of Net Asset; or 0.25% of Paid-Up Capital; or 25% of Company's Annual Turn Over(Cordelia & Amah, 2018; Ibrahim, Chude & Chude, 2015; Ezugwu & Akubo, 2014).

Corporate Profitability

By profitability-we do not mean profit before or after tax of companies but there "profit-ability". This simply explains the plausibility in these companies to generate profit. This plausibility is assessed using profitability ratios. Profitability Ratio's are used to judge how efficiently a firm is using its assets (Richards & Stewart, 1996). Profitability ratios consist of a group of metrics that assess a company's ability to generate revenue relative to its revenue, operating costs, balance sheet assets, and shareholders' equity. Profitability ratios also show how well companies use their existing assets to generate profit and value for shareholders. They are categorized as margin ratios and returns ratios. Different profit margins are used to measure a company's profitability at various cost levels, including Gross Margin, Operating Margin, Pre-Tax Margin, and Net Profit Margin. The margins shrink as layers of additional costs are taken into consideration, such as the Cost of Goods Sold (COGS), operating and nonoperating expenses, and taxes paid. Gross Margin measures how much a company can mark up sales above COGS. Operating margin is the percentage of sales left after covering additional operating expenses. The Pre-Tax Margin shows a company's profitability after further accounting for non-operating expenses. Net Profit Margin concerns a company's ability to generate earnings after taxes. When Profitability is assessed relative to costs and expenses, and it is analyzed in comparison to assets to see how effective a company is in deploying assets to generate sales and eventually profits-it is called Return on Assets (RoA). Also, there is Return on Equity which is a ratio that concerns a company's equity holders the most since it measures their ability to earn a return on their equity investments. https://www.investopedia.com/terms/p/profitabilityratios.asp

2.2 Theoretical Framework

Ability-To-Pay Theory of Taxation

As propounded by Kendrick (1939), tax burden should be placed on companies and individuals with higher income. Proponents of this theory maintained that taxes should be levied on individuals and companies according to their ability to pay. Kendrick stated that money for public expenditure should come from "buoyancy to deficit" not the other way. This implies that more tax burden should be placed on companies and individuals with higher income.

2.3 Empirical Review

Omodero and Ogbonnaya (2013), examines the impact of corporate tax on profitability of Deposit Money Banks in Nigeria. Their specific objective is to investigate the extent to which Companies Income Tax (CIT) affects the profit after tax (PAT) of Deposit Money Banks in Nigeria. Using casual research 12 banks were selected out of the currently existing 21 banks based on Authors' judgment and data availability. The secondary data on PAT (dependent variable) CIT (independent variable) used were collected from the published financial statements of banks via their websites. The panel data used in this study covers a period from 2006 to 2016. Multiple regression analysis and t-test were engaged for analysis and the result shows there is a strong positive relationship between PAT and CIT. While the rest of the other 9 banks showed both negative and lack of impact of CIT on PAT. The findings showed improper application of ability-to-pay theory in Nigeria. The study therefore recommends a review of the Nigerian fiscal policy and introduction of tax reforms that allow adequate tax incentives for banks especially during financial crises and to cope with liquidity challenges.

Chigbu & Onuora (2013), studied the Impact Of Corporate Taxation On Company's Reserve and Dividend Policy In Nigeria by critically examining the different selected sectors of the Nigerian Stock Market transaction profile; thirty five (35) companies were drawn across seven (7) sectors for a period of 12 years (2000-2011) with dependent variable ACTDPT - Aggregate Cumulative Total Dividend Payment Policy and independent variables ACTCPT - Aggregate Cumulative Total Cooperate Tax, ACTRES - Aggregate Cumulative Total Earning Per Share and ACTEPS - Aggregate Cumulative Total Return Earning Per Share; the empirical results from the OLS revealed varying degree of directional and magnitude response from ACTCPT, ACTRES, and ACTEPS to the ACTDPT for the seven sectors. The measure of dispersion using coefficient of variability approach shows that by virtual of performance ranking of the sectors, banking has the highest performance of sectors in terms of dividend policy and its impact on corporate taxation on company's reserve in the last decade, followed by the banking, breweries petroleum and marketing, conglomerates, insurance, construction and allied, and food and beverages. The findings from the Granger Causality effect shows that there is no causality effect, no runs relationship, neither short run or long run and it is not significant at all. This implies that the implementation of corporate tax in Nigeria does not affect the payment policy among the various quoted companies under the stock exchange. Findings recommend implementation of ongoing restructuring policy on the sectors performance so as to increase the Aggregate Cumulative Total Cooperate Tax (ACTCPT), Aggregate Cumulative Total Earning Per Share (ACTEPS) and Aggregate Cumulative Total Return Earning Per Share (ACTRES) thereby improving the Aggregate Cumulative Total Dividend Payment Policy (ACTDPT) in Nigeria among the identified non performing sectors.

Chude & Chude (2015), examined the impact of taxation on the profitability of companies in Nigeria. The study used secondary sources of data and a time series econometric technique with an error correction model tested the variables most likely to impact on profitability of companies in Nigeria. Findings showed that Companies Income Tax (CIT) has significant effect on profitability and went on to posit that that the positive and significant relation between the profitability and the taxation explanatory variables indicates that policy measures to expand tax revenue through more effective tax administration will impact positively on growing the company's profitability. It is therefore recommended that Government should expand the tax yield through tax system administration enhancements. This is because of the positive danger of overreliance on crude oil export receipts to drive the economy. There should be more improvement in the effectiveness of taxation by ensuring proper and equitable tax assessment and timely filling of returns.

Ezuqwu & Akubo (2014), carried out a study to analyse the effect of high corporate tax rate on the liquidity of corporate organizations in Nigeria. The population of study comprises the selected corporate organizations while the sample size of the study is fourty one (41). Taro Yamane sampling technique was adopted because it ensures a satisfactory degree of representativeness and un-biasness. The study revealed that, the burden of high corporate tax falls on the corporate organisations as it affects their liquidity, but the incidence of high corporate tax rate falls on the customers and suppliers through forward and backward shifting of prices- all things being equal. It is therefore, recommended that, the Nigeria corporate tax rate of 30% should be reduce below OECD average corporate tax rate of 25.32% to avert the negative economic effects of high corporate tax rate on the long-run and also the government should strengthen the Bank of Industry to close the funding gap in the corporate organisations.

Etale & Bingilar (2016), examined the impact of companies' income tax, value-added tax on economic growth in Nigeria using secondary time series panel data. It was collected for the period 2005 to 2014 from the Statistical Bulletin of the Central Bank of Nigeria (CBN). The study employed Ordinary Least Squares (OLS) technique based on SPSS 20 version for the analysis of data with Gross Domestic Product (GDP), the dependent variable and proxy for economic growth. Via multiple regression the results of the analysis showed that both Companies Income Tax and Value-Added Tax have significantly positive impact on economic growth. From the findings, the study recommended that government should strengthen the tax administration system to broaden the tax income, and embark on tax education to ensure voluntary tax compliance. The study also recommended that the tax authorities should employ qualified tax professionals who should be regularly trained and be retained in the tax administration system for efficient tax administration and collection.
Quite often, literatures on this subject uses Corporate Profit and Corporate Profitability as though the can be used interchangeably; they are not one and the same thing. While Corporate Profit is an absolute value, Corporate Profitability is obtained via Profitability Ratios.

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3.0 Methodology

3.1 Introduction

Research methods are methods, procedures or modalities by which the researcher intends to accomplish the objectives of the research project that is, an analytical approach in data collection and evaluation in arriving at the research objectives (Yomere & Agbonifoh, 1999). It describes, to significant users, how hypotheses were tested and the basis for which conclusions were drawn.

This research work borders on the Effects of CIT on Corporate Profitability of DMB's in Nigeria.

3.2 Research Design

The data used are secondary data s. This method of data collection was determined by factors such as the research topic and purpose.

3.2 Population of the Study

The population of this study is based on the RoA and CIT returns of Zenith Bank, Access Bank, UBA, First Bank, Union Bank, Fidelity Bank, First City Monument Bank (FCMB) and Guaranty Trust Bank for the year 2017.

3.4 Sample Size and Sampling Techniques

Eight DMB's operates with international operating license in Nigeria and these eight from the international operations strata are all considered.

3.5 Source and Method of Data Collection

All data used in the analysis are from secondary source otherwise known as secondary data culled from the annual report of the considered banks.

3.6 Technique and Instruments of Data Analysis

Statistical Package for Social Scientists (SPSS) version 17.0 was employed to analyze the data while Multiple Regression analysis was used to test the hypotheses formulated.

3.7 Model Specification

Regression analysis models are used to help us predict the value of one variable from one or more other variables whose values can be predetermined. Economic indicators will be utilized in carrying out this data analysis for effective comparison. The *Econometric Model* is as follows:

Thus: $RoA_i = \beta_0 + \beta_1 CIT_i + \mu_i$

Where:

Return on Assets (RoA); and

Companies Income Tax (CIT);

4.0 Data Presentation, Analysis and Interpretation

4.1 Data Analyses

Table 4.1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4597811851.583	2926280373.480		-1.571	.167
	CIT	3.103	.085	.998	36.601	.000

a. Dependent Variable: RoA

Table 4.2

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.998[a]	.996	.995	5330488915.29533	2.202

a. Predictors: (Constant), CIT
b. Dependent Variable: RoA

Table 4.3
ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	38063897751851650000000.000	1	38063897751851650000000.000	1339.612	.000[b]
	Residual	170484672456518070000.000	6	28414112076086346000.000		
	Total	38234382424308170000000.000	7			

a. Dependent Variable: RoA
b. Predictors: (Constant), CIT

From table 4.1, R is the correlation co-efficient which is 0.998. Table 4.2 is the model summary table, R is the correlation co-efficient which is 0.998, R Square is the Regression Coefficient at 0.996, Adjusted R Square is the standardized regression coefficient at 0.995. Durbin Watson is the autocorrelation coefficient at 2.202. The *Correlation Coefficient (R)* explains the strength of relationship between CIT and Corporate Profitability of Nigeria's Deposit Money Bank's. R value of 0.998 represents a strong positive relationship between Companies Income Tax and Corporate Profitability of Deposit Money Banks in Nigeria. The *Coefficient of Determination (R^2)* gives an idea of how much of the variance in the dependent variable (CIT) is explained by the model. This indicates that our model explains 99.6% of the variance in Corporate Profitability. About 0.4% is left unaccounted for which is attributed to error term, this indicates that either some of the explanatory variables used are not important or that other important explanatory variables have been left out.

Hence, to test the significance of the parameter estimates, F-statistic was used.*Adjusted Coefficient of Determination* is used when a small sample is involved (N<30), the R square value tends to be a rather optimistic overestimation of the true value of the population (Yomere & Agbonifoh, 1999), thus, the Adjusted R square statistic corrects this value to provide a better estimate of the true population. In this case, we have 8 observations which is small, thus the normal R squared value is better off at 99.6% shared variance over the Adjusted R squared at 99.5% shared variance.

From table 4.3, the F value of 1339.612 is the one-way ANOVA result that tests the overall reliability of the parameter estimates.

4.2 Model Presentation
From the beta coefficients, the research model for the period can be presented thus:
RoA= - 4597811852+ 3.103CITi + μi------------[Research Model]
From the research model, the beta coefficient is - N 4597811852 while the 3.103 is the Companies Income Tax coefficient for the model.

4.3 Test of Hypothesis

The null hypotheses for this research have been stated earlier; the null hypothesis (H_0) will be tested using F-test. F-test was used to evaluate the overall significance of the model. The level of significance (α) used is five per cent (5%) at 0.05.

Decision rule for the F-test is such compares the confidence level and the p-value of the parameter estimates. If the p-value is less than the confidence level, the null hypothesis is rejected (Gujarati & Potter, 2009). Therefore;

let: p-value = λ
Confidence Level= α

Thus if: $\lambda \leq \alpha$ (Reject H_0)
$\lambda \geq \alpha$ (Accept H_0)

But: $\alpha = 0.05$

Test for null hypothesis H_0, by using F-test thereby comparing p-values for the parameter estimate at a confidence level of 5%.

Null Hypothesis

This test on this null hypothesis is to be carried out using F-test. Its stated thus;

H_0: There is no strong and positive relationship between Companies Income Tax (CIT) and Corporate Profitability of Deposit Money Banks in Nigeria (DMB's).

λ=0.000, α=0.05 (Where λ=p-value and α=confidence level at 5%)

But: $\lambda \leq \alpha$: 0.000≤0.05 [Reject H_{01}]

Therefore; the null hypothesis that Companies Income Tax does not have a strong and positive relationship with Corporate Profitability of Deposit Money Banks in Nigeria (DMB's is rejected.

4.4 Discussion of Findings

The following findings emanates from this research work:

There exists a strong positive correlation of 0.998 between Companies Income Tax (CIT) and Corporate Profitability of Deposit Money Bank's in Nigeria. CIT significant effect on Nigeria's Deposit Money Bank's (DMB's) Corporate profitability to an extent of 99.8%.

Companies Income Tax (CIT) proves an important factor in profit planning. The ANOVA (Table xxx) shows "sig" value of 0.000. This good fitness of proves the sufficiency of CIT in explaining tax effect on Return on Assets (RoA) of Deposit Money Bank's in Nigeria.

5.0 Summary, Conclusion and Recommendations

5.1 Summary

While profit is the absolute amount, profitability a business' ability to produce a Return on Investment based on its resources in comparison with the alternative investments. The study examines the effect of Companies Income Tax (CIT) on Corporate Profitability of DMB's in Nigeria with deliberate focus on the Deposit Money Banks with international operating license in Nigeria for the year 2017.

5.2 Conclusion

From the findings, we can conclude that there exists a strong positive relationship between Companies Income Tax and Corporate Profitability of DMB'S in Nigeria. Thus; CIT proves a strong factor in profit planning and dividend policy decisions.

5.3 Recommendation

The study recommends reduction in CIT rate. Reduction in CIT and Education Tax will translate to increase in Marginal Productivity of Labour in the longrun. This is in consonance with the view of Ezugwu & Akubo, 2014 that CIT can be reduced to be at par or within range of OECD average of 25.32% or slightly above it but certainly not more than 30% that is currently being charged.

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