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CORPORATE INCOME TAX BURDEN ON LIQUIDITY OF LISTED DMBs IN NIGERIA

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Abstract

This study assesses the effect of corporate income tax burden on liquidity of listed deposit money banks in Nigeria from 2018 to 2022. The entire fourteen listed deposit money banks served as population of the study. Data ware obtained from annual reports and accounts of the banks. Correlation analysis and panel analysis were used within this framework. Panel multiple regression analysis is used to manipulate the dependent variable that is, liquidity measured by cash ratio, independent variable corporate income tax burden measured by marginal tax rate and tax expense and control variable used was bank's age. The result reveals that, marginal tax rate has significant positive effect on liquidity and tax expense has negative significant effect on liquidity. On the control variable bank's age indicates a positive significant effect on liquidity among listed deposit money banks in Nigeria. The study recommends among others that, Nigerian banks should focus on tax planning strategies, such as utilizing tax incentives and credits, structuring tax efficient transactions and managing tax risks effectively. By doing so, the firms can potentially enhance their financial performance and increase their liquidity position and could encourage banking sector's growth and development.

Keywords: *Corporate income tax burden, Bank's age, Liquidity.*

INTRODUCTION

In order to fulfil its statutory commitments to guarantee economic growth, development, and security in Nigeria, taxation is one of the most significant sources of government revenue. Tax is vital in attaining growth and development in any known human society in helping government to provide the basic infrastructures and social amenities for the people or public (Jennifer, 2022). Taxation is the practise of collecting taxes in a specific region; in this context, tax is described as "a monetary charge imposed by the government on persons, entities, transactions, or properties to yield revenue" (National Tax Policy, NTP, 2019). As a result of the state's sovereign power, it has also been defined as the enforced proportional contributions from persons and properties levied for the support of government and for all public needs (Kurawa & Saidu, 2018).

Liquidity is the ability of a bank to quickly deploy the cash it may need to meet customers demand. Cash holdings in cash or on deposit with the Federal Reserve or another central bank are two sources of liquidity. It usually results from owning securities that can be rapidly liquidated for a small loss. Typically, this refers to the highly reliable tools, such as short-term government bills maturing. In fact, if the term is concise and adequate, the bank may decide to

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hold on until the principal is returned at maturity (Obaretin & Sadiq, 2022).

Recent tax system adopted in January 1st, 2022 on Nigerian banks to pay 0.25% to the government via Federal Inland Revenue Services. It stated that a science and engineering levy of 0.25% of profit before tax is payable by companies engaged in banking, mobile telecommunication, information and communication technology (ICT), aviation, maritime and oil and gas with turnover of N100 million and above. Pre-tax profit of banks is estimated to increase by 16.2 % to N1.33 trillion in 2021 and forecast to increase by 22.3% to N1.55 trillion in 2022 (Afrinvest West Africa, 2023).

Regardless of the scenario, scholars such as Taiwo and Oyedokun (2022), Akadakpo and Akogo (2022), have emphasized the influence of corporate income tax on organizations growth and development. Consequently, this paper assesses the impact of corporate income tax burden on liquidity position of listed deposit money banks in Nigeria.

The issue of multiple taxation inefficiency in tax planning and administration, bravery and corruption among others affect banks as a challenge of corporate tax imposition. This makes corporate bodies to continuously face challenge of paying excessive corporate income tax burden which in turn affect their financial liquidity and consequently lead to the banking failure (Onyebu, 2020). In line with the preceding arguments, it is crucial to examine the impact of corporate income tax burden on liquidity position of listed deposit money banks in Nigeria. It crucial because most of the recent papers has been conducted in foreign contexts such as Nwaeke, at el. (2022), Ikeda (2012), Sebastien and Coastel (2018) while some of the papers based in Nigeria are insufficient for making a justifiable conclusion due to the various methodological shortcomings which includes out-dated years of covering, focusing on firms other than banks basing findings on limited number of companies for example Owoniya and Olaoye (2022), Aqsa and Ghulam (2021). The broad objective of this paper is to assess the impact of corporate income tax burden on liquidity position of listed deposit money banks in Nigeria. The specific objectives of this paper are to: examine the effect of marginal tax rate on liquidity of listed deposit money banks in Nigeria, examine the effect of tax expense on liquidity of listed deposit money banks in Nigeria and finally, examine the effect of bank's age on liquidity of listed deposit money banks in Nigeria.

The paper's findings would be of immense benefit to the government and regulators in Nigeria, providing a useful guide for formulating policies and decisions regarding tax rates that positively impact the liquidity position of banks in Nigeria.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

This section presents review of related literature and concepts of corporate income tax and liquidity. It also contains theories that are link to the paper. The section is divided into two, the conceptual review and theoretical reviews.

Concept of Taxation

Taxation is being conceptualized in different ways by various studies depending on the scenario used in defining it. Soyode and Oyedokun (2019) see tax is a charge that the government imposes on property, people, or transactions in the exercise of its sovereign rights in order to fund the government, enforce the law, and fund the state's numerous legal operations. It is also perceived as a tax imposed by the government to raise money from both people and companies

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(Owoniya & Olaoye 2022). Apart from the sale of crude oil, Nigeria's government receives funding from a variety of sources, including taxes. Tax revenue is utilized by the government to carry out its mandate, which includes national defence, distributing welfare items, resolving conflicts, safeguarding people's lives and property, and putting laws and policies into effect (Chude & Chude, 2015). Many purposes are met through taxation, including providing funds to finance government spending, redistribution of wealth, macroeconomic stability, economic growth etc. (Kabajulizi, 2019). Tax can be either or indirect. Examples include company income taxes and personal income taxes while tax is indirect if the charge is levied on one individual with the intention that the obligation would be passed on to third parties (Oladele & Agbaje, 2017).

From conceptual perspective, the term corporate income tax has been viewed distinctively by different scholars. Abiahu and Amahalu (2017) viewed it as legal transfer or payment to the government by the entities or organizations. These taxes are applied to the earnings generated by businesses throughout a specific tax period while conducting their operations (Aqsa & Ghulam 2021). This study adopts the definition offered by Abiahu and Amahalu (2017) and concludes that corporate tax is the legal transfer or payments to the government by the corporate entities or organization.

Concept of Corporate Liquidity

The term "liquidity" describes how quickly and easily an asset may be turned into cash. While a custom manufacturing plant is not a liquid asset as gold is. In reality, liquidity has two aspects: loss of value versus ease of conversion. If price are lowered enough, it can easily turn any asset into cash. Therefore, a highly liquid asset is one that can be swiftly sold without suffering a major value loss. According to Stephen (2018), an illiquid asset is one that cannot be immediately changed into cash without experiencing a significant price decrease.

Tamplin and Zheng (2021) opine that, a measure of liquidity is the ease with which a financial instrument can be exchanged for cash at a price that corresponds to its true market value. Since it doesn't need to be converted and may be used immediately, ready cash is regarded as the most liquid asset. Since it may take some time to locate a buyer at the right price and complete the business, tangible assets like real estate, collectibles, fine art and so on, are seen as being relatively illiquid. Financial instruments like cash, stocks, and other publicly traded financial assets are in the middle of the liquidity spectrum.

Liquidity refers to how easily one can market belongings or securities without having an effect on their price. When an asset has a high level of liquidity, it can promptly and willingly be marketed for its predicted selling price Low liquidity (Schultz, 2022).

Theoretical Framework

Despite reviewing numerous ideas theories, the Ability-to-Pay Approach theory is the foundation of this paper. This is due to the founder view by Adam Smith (1776), demonstration that all individuals and corporate entities can afford to pay higher taxes than those who earn lower income. The ability to pay theory was also reviewed by Friedman in (1970) which states that people should be asked to pay taxes in accordance with their financial situation, and that a person's taxable capacity should be mostly established by their income and assets. This theory was amended by Werner in (2005) which indicates that businesses or organizations should pay taxes according to their ability and capacity to pay, which makes it relevant to this study. A

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company's tax payment capacity can be ascertained by evaluating its financial performance. For example, company income tax is a tax imposed on corporate profits unless the act specifically exempts those enterprises.

METHODOLOGY

Design

The paper adopts correlational research design. It is a research design that seeks to explain statistical relationship between two or more variables. It is considered most appropriate research design for this paper in view of the fact that it warrants testing of expected relationships between and among variables and the derivation of logical inferences regarding such relationship. The population of this paper consists of fourteen (14) deposit money banks listed on the Nigerian Exchange Limited as at 31 December 2022. However, the basic criterion for inclusion of any banks into this selection is consistent of the availability of data throughout the period of the study. Therefore, the population of this paper remains fourteen banks (14) (representing 100% of the listed banks in Nigeria).

The paper uses secondary data extracted from the published annual reports of the sampled banks. The annual reports ware retrieved using official websites of the banks. The data covers a period of five years (2018–2022). This method of data collection, known as non-survey, involves utilizing data obtained from this source for the computation of ratios. These ratios serve as metrics to measure the impact of corporate income tax burden on liquidity of listed deposit money banks in Nigeria. The data comprise various items, including profit before tax, tax expense, current tax, deferred tax and cash ratio.

The panel data regression technique is used in this paper based on the type of data and prior research. Multiple regression analysis is the primary technique used for the data analysis, and it was performed using statistical software version 12. Several robustness tests, including multicollinearity, normalcy, and heteroskedasticity, ware used to examine the data in more detail. These are done to make sure the data is normally distributed; the error term's variability is constant, and the independent variables ware free from multicollinearity issues. Enhancing the validity of any statistical inference drawn is the main goal of these analyses. Hausman specification tests are conducted to determine if fixed effect or random effect should be used in the paper because the data contains panel properties.

Model of specification

In order to assess the extent to which liquidity and the corporate income tax burden measures marginal tax rate, and tax expense, the banks under investigation's published annual reports and accounts are the source of the liquidity. The identical published annual reports and accounts are the source of equal amounts of the independent variables. The coefficient of determination (r^2) is calculated to explain the changes in the dependent variable owing to the independent variables since other factors besides the independent variables and specified control variable are expected to affect the bank's liquidity position. An error term, ϵ, is added to the relationship to account for all other factors that affect the liquidity. Therefore, the following definitions apply to the functional relationships among these variables:

$$Y_{it} = f\,(\beta_0 + \beta_1 X_{it} + \beta_2 X_{it} \ldots\ldots \beta_n X_{nit} + \epsilon_{it}$$

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Where:

Y= dependent variable of the banks

X= Explanatory variable

$\beta_{0=}$ intercept term.

ϵ_{it}= the error term

From general form of the regression equation this model is designed to test each of the hypothesis developed.

$$CR_{it} = \beta_0 + \beta_1 MTR_{it} + \beta_2 TE_{it} + \beta_3 AG_{it} + \epsilon_{it}$$

Where:

CR = Cash ratio

MTR = Marginal tax rate

TE = Tax expense

AG = Bank's age

i = represents the number of banks of the panel data

t = represents the time periods of the panel data.

RESULTS AND DISCUSSION

This chapter contains statistics summary of results in terms of means, standard deviation, minimum and maximum value for the study variables.

Summary of Descriptive Statistics

Table 1: The result of variables used in the estimation described statistically.

	CR	MTR	TE	AG
Mean	1.1486	0.4727	0.7435	5.1668
Standard Deviation	1.7252	2.9665	5.5059	1.2611
Minimum	0.044	-1.5814	-8.9287	0.0000
Maximum	10.338	23.8324	32.6373	73963
Observation	70	70	70	70

Source: STATA Output, 2024

As evidence from the Table 1, the Cash ratio of the study's banks has an average of 1.1486 with a standard deviation of 1.7252, suggesting relatively high level of dispersion in the cash ratio. The minimum CR value is 0.044, indicating the lowest level of liquidity position of the sampled banks. The maximum cash ratio of the sampled banks is 10.338. It also appeared that 0.4727 represented the mean value of marginal tax rate (MTR), with a standard deviation of 2.9665 which is suggesting high rate of dispersion from the mean, while the minimum and maximum

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value stood as -1.5814 and 23.8324 respectively. Furthermore, the banks recorded highest mean value of tax expense (TE) of 0.7435 with standard deviation of 5.5059, while -8.9287 and 32.6373 represents minimum and maximum values respectively. 0.5544958 stood as mean of Bank's age (AG) with standard deviation of 1.2611, while 0.00000 and 7.3963 are the respective minimum and maximum values.

Correlation Coefficient

Before estimating a regression analysis, it is imperative to understand the correlation coefficient of the variables. This is because knowing the nature of the correlation coefficient is essential in order to choose which variables to include in the model. The result is presented in Table 2.

Table 2: Correlation Coefficients of the Model

Variables	CR	MTR	TE	AG
CR	1.0000			
MTR	-0.0142	1.0000		
TE	0.0808	0.7079	1.0000	
AG	-0.0211	-0.0465	-0.0362	1.0000

Source: STATA Output, 2024

Table 2 presents the results of correlation matrix of the variables. According to the correlation coefficients of -0.0142, 0.0808, -0.0211, the marginal tax rate, tax expense and banks age are all inversely correlated with cash ratio. This means that an increase in these variables is connected with decrease or increase in cash ratio of listed deposit money banks in Nigeria.

Diagnostic test

To be able to know whether data use for analysis is reliable, the various diagnostic test which includes test of multicollinearity, normality, heteroskedasticity and Housman specification test were carried out.

Test of Multicollinearity

Multicollinearity is a condition where there are two or more independent variables which are correlated. Multicollinearity was tested for using VIF. As indicated by Field (2009) when the values of VIF are more than 10 it shows that multicollinearity exists.

Table 3: Multicollinearity Test

Variable	VIF	1/VIF
MTR	2.28	0.4383
TE	2.28	0.4389
AG	1.22	0.8217
Mean VIF	1,06	0.9422

Source: STATA Output, 2024

As indicated in Table 3 above the VIF values results revealed that the VIF values do not exceed 10, hence there is absence of multicollinearity.

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Test of Heteroskedasticity

Heteroskedasticity test is carried out to find out whether the disturbances appearing in the population regression function are homoscedastic (same variance). Breusch-Pagan's test for heteroskedasticity is performed. The result produces the value of chi square of 14.42 while its probability is 0.0001 which is significant at 1%. This indicates the presence of heteroskedasticity. To address this, robust regression is run. The result of the test, as detailed in appendix (b) reveals that the model can be relied upon for drawing statistical inferences.

Normality Test

Normality test was done using Shapiro-Wilk normality test. The result is presented in Table 4.

Table 4: Shapiro-Wilk Test for Normal Data

Variable	Obs	W	V	Z	Prob.≥(Z)
CR	70	0.6159	22.261	6.719	0.0000
MTR	70	0.1810	47.420	0.357	0.2331
TE	70	0.3052	40.275	8.003	0.0000
AG	70	0.9418	3.375	0.634	0.4220

Source: STATA Output, 2024

The results show that the data for most of the variables is normally distributed as two of the variables have insignificant values.

Housman Test

Considering the panel attributes of the study, fixed and random effect regressions were carried out. The results of these are presented in appendix (b). Subsequently, Housman specifications test was conducted to give direction as to one (fixed or random) to choose. The result is presented in Table 5.

Table 5: Housman Test

Sqrt(diag(v b	(b) Fixed	(B) Random	(b-B) diff.	V-B(S.E)
MTR	-0.2842	-0.2156	-0.0686	-0.0417
TE	0.1415	0.1190	0.0232	0.0223
AG	-0.2724	-0.1181	-0.1543	-0.2576
Chi^2 (4)	5.00			
pron≥chi^2	0.2878			

Source: STATA Output, 2024

The results in Table 5 show a probability value of 0.2878, which greater than 0.05, on this basis the random effect model is chosen.

Regression Results

The summary result of the random effect is presented in Table 6.

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Table 6: Summary of Random Effect Regression Results
Dependent Variable: Cash ratio (CR)

Independent variable	Coefficient	Z	P≥(Z)
MTR	-0.2156	-2.12	-0.034
TE	-0.1182	-2.22	-0.027
AG	-0.1181	-0.57	-0.567
R^2	0.5074		
Wald Chi^2	15.56		
Prob	0.0037		

Going by the output in Table 6, wald chi^2 is 15.56, indicating significant at 1% level, showing that the model is adequate and correctly specified. The coefficient of determination R^2 is 0.5074, showing that 51% are explained jointly by the dependent variable cash ratio (CR) and the independent variables combined in the model. Hence 49% is explained by variables outside the model or capture by error term.

Discussions of Major Findings

This sub-section test the hypotheses presented in chapter one of this paper; hypothesis testing is hereby presented as follows:

Hypothesis One

H01: There is no significant relationship between marginal tax rate and cash ratio of listed deposit money banks in Nigeria.

Variable	coefficient	std. error	t-statistic	Prob.
MTR	-0.2155	0.0604	-2.0596	0.034

The results indicate that, there is a significant negative relationship between marginal tax rate and cash ratio of listed deposit money banks in Nigeria. Thus, the null hypothesis is rejected and alternative hypothesis is accepted. This means that, there is significant negative relationship between marginal tax rate and cash ratio of listed deposit money banks in Nigeria. The research's findings are in line with Owoniya and Olaoye (2022). The outcome however, conflicts with Adefunke and Osiomon (2022).

Hypothesis Two

H02: There is no significant relationship between tax expense and cash ratio of listed deposit money banks in Nigeria.

Variable	coefficient	std. error	t-statistic	Prob.
TE	-0.1181	0.0506	-2.1042	-0.027

The results show that, there is a significant negative relationship between tax expense and cash ratio of listed deposit money banks in Nigeria. According to the result, the null hypothesis is rejected and alternative hypothesis is accepted. This means that, there is significant negative relationship between tax expense and cash ratio of listed deposit money banks in Nigeria. The research's finding is in line with Nwaeke et al., (2022). The outcome, however, differs from Ilimena and Goodluck (2022).

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Hypothesis Three

H03: There is no significant relationship between bank age and cash ratio of listed deposit money banks in Nigeria.

Variable	coefficient	Std. error	t-statistic	Prob.
AG	0.1181	0.9559	-3.1073	-0.0567

The result reveals that, there is a significant negative relationship between bank age and cash ratio of listed deposit money banks in Nigeria. According to the result, the null hypothesis is rejected the alternative hypothesis is accepted. This means that, there is significant negative relationship between bank age and cash ratio of listed deposit money banks in Nigeria. The outcome is in line with Aqsa and Ghulam (2021) findings. While Ojelabis' (2023) point to a negative association.

CONCLUSION

In light of the findings of this paper, the followings conclusions are made:

i. The study concludes that managing and optimizing the marginal tax rate can potentially lead to high level of financial liquidity of listed deposit money banks in Nigeria.
ii. The study also, concludes that increase in tax expense of listed deposit money banks in Nigeria would lead to decrease in liquidity positions which in turn discourage business expansion.
iii. The study further concludes that increase in period being in operation as bank age would significantly affect liquidity of listed deposit money banks in Nigeria, other factors, such as assets quality and retained earnings, may have a larger impact on liquidity position of listed deposit money banks in Nigeria.

RECOMMENDATIONS

Drawings from the conclusions of this paper, the followings recommendations are put forward:

i. The Nigerian listed deposit money banks should focus on tax planning strategies, such as utilizing tax incentives and credits, structuring tax efficient transactions and managing tax risks effectively. By doing so, the banks can potentially enhance their financial performance and increase their level of liquidity position.
ii. Also, the Nigerian listed deposit money banks should continue to monitor their tax expense closely but, to focus on the other areas that may have a larger influence on liquidity position, such as revenue growth, cost management, operational efficiency or capital structure optimization.
iii. As a result of bank age has significant effect on liquidity position, the deposit money banks in Nigeria should balance the use of debt and equity to maintain the optimal period being in operation that positively impacts on liquidity position without exposing the banks to excessive financial risk.

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