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Corporate Tax and Profitability of Deposit Money Banks in Nigeria

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Abstract

The study examines the impact of corporate tax on profitability of Deposit Money Banks in Nigeria. The liquidity challenges faced by banks in Nigeria in the recent times and the restricted access to bank loans and facilities by firms and individuals could be linked with high corporate tax payment and this has adversely affected the economy at large. The specific objective of this study is to investigate the extent to which company income tax (CIT) affects the profit after tax (PAT) of Deposit Money Banks in Nigeria. The research adopted a causal research design and a sample of 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 used to analyze the data with the aid of SPSS version 20. The regression result on the data for Access Bank Plc., Diamond Bank Plc. and GTB Plc., revealed a positive significant impact of CIT on PAT and existence of a 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.

Keywords:
Corporate tax
Deposit money banks
Liquidity
Profitability and Nigeria.

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1. Introduction

Companies Income Tax Act, 2007 (as amended) empowers the Federal Inland Revenue Service Board (FIRSB) to assess and collect taxes from all limited liability companies that operate from or within Nigeria. The Board operates through the FIRS (Federal Inland Revenue Service). Companies are required by the Act to pay 30% of their assessable profit as tax to the government after the deduction of all allowable expenses as specified by the Act. The Federal Inland Revenue Service (FIRS) is the body charged with the responsibility to collect this tax on behalf of the government. The management board that administers the tax on the profits of incorporated companies in Nigeria is the FIRS Board. Company Income Tax is calculated on the net profit of companies doing business in Nigeria except those exempted by the Act. The rate has remained 30% from 1996 year of assessment till date. There is also an additional 2% charge on companies' profits referred to as education tax. However, it has been noted that taxation is the major revenue source of the government in every country, the life wire of every nation and a function of the level of development seen in a nation. Infrastructures, public goods and services spring up from the revenue generated through tax (Omodero, Okafor, Azubike, & Ekwe, 2016). Corporate taxes denote one of the main sources of income to finance government budget, but also an important determinant of a capital investment in every nation (Pitulice, Nescu, Minzu, Popa, & Niculescu, 2016). The government is concerned about raising more revenue to finance its expenditure responsibilities while investors are interested in a conducive business environment with a reduced tax burden (Pitulice et al., 2016). Therefore, the fiscal policy of every country has to strike the balance by including tax incentives that could make a country attractive for meaningful and sustainable economic investments. The payment of taxes is actually supposed to be according to income earned which ordinarily should not have been a burden, since those that earn higher pay more taxes and the low income earner pay less taxes. However, the high rate of company income tax has created the problem of tax evasion and avoidance of firms in Nigeria. Tax avoidance is the wilful and different lawful ways a taxpayer tries to reduce or eliminate his/her tax liabilities while tax evasion is the unlawful act to prevent payment of tax (Mughal & Akram, 2012). The struggle leaves the government with less revenue and at the same time has brought companies so many unresolved tax issues with the government. Due to the frustration, firms now employ the services of financial experts who could manipulate tax laws so as to reduce the burden of corporate taxation on them. This has led to a high profile of tax avoidance for companies who could afford to hire tax consultants to lessen their tax liability by all means. Deposit Money Banks in Nigeria derive their income from interest accruing through the credits made available to private sectors. The introduction of Treasury Single Account in 2015 affected the level of banks liquidity as all Ministries, Departments and Agencies (MDAs) of the government were instructed by the federal government to close all accounts opened with the commercial banks to avoid revenue leakages. Though, this effort was part of the corruption fight but it affected the economy by reducing the amount of credits banks could make available to the private sectors. Since the only investment banks make is majorly to give businesses loan facility to enable them earn the interest on it, the high company income tax on profitability of banks is also compounding the liquidity challenges they are facing. The study has been focused on the Deposit Money Banks in Nigeria to know the effect of tax on them from 2006 to 2016. The major objective of this study is to investigate the impact of company income tax on the profitability of money deposit banks in Nigeria. The specific objective is to determine the impact of company income tax (CIT) on profit after tax (PAT) of Deposit Money Banks in Nigeria.

1.1. Research Hypothesis

The following null hypothesis has been formulated for the study.

H0: Company income tax does not have significant impact on the profit after tax of Deposit Money Banks in Nigeria.

1.2. Acknowledgement

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2. Literature Review

2.1. Conceptual Framework.

The variables selected for the study were the amount of corporate tax expenses based on 30% CIT rate applied by banks on their profit before tax and profit after tax. The CIT amount is the independent variable while the dependent variable is the Profit after Tax (PAT) for the periods covered by the study.

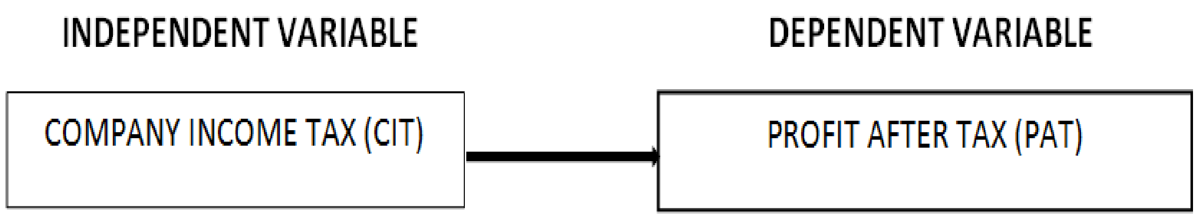

Figure-2.1. The impact of CIT on PAT.

Source: Desk Research, 2018.

Company Income Tax

Tax is a compulsory contribution imposed by the government on the incomes, profits, goods, services or properties of individuals and corporate persons, trusts and settlements. These taxes are collected for the purpose of executing government responsibilities in form of defense, provision of education and health services, infrastructures and as a fiscal tool to control the control the economy (ICAN, 2014). Taxation is seen as a tool for National Development and growth (National Tax Policy, 2004). Company Income Tax as one of taxes collected by the government for national development, is levied on the chargeable profits of all companies operating in the country except those exempted as specified by the Act (Ezugwu & Akubo, 2014). According to Syed, Syed, and Zia (2011) company income tax is one that is charged on the profits generated by companies, public corporations and unincorporated associations such as industrial and provident societies, clubs and trade associations after every accounting period.

Profit after Tax

Profitability depends on the ability of a firm to generate revenue which is capable of absorbing all expenses, including tax and then leave a balance that could be pooled back into the business for expansion. Peavier (2012) defined profitability as the organizational performance indicator which reveals the return on sales and return on investment. Profit after tax is the net amount earned by a business after all tax expenses have been deducted (Ezugwu & Akubo, 2014).

Corporate Profitability and Taxation

Taxation of corporate profits, is a vital element of fiscal policy, it influences both macroeconomic and microeconomic. Therefore, tax law reforms targeted towards keeping tax rate low could increase the value of companies (Neghina, 2012). The importance of corporate profitability and of keeping corporate tax rate low cannot be overemphasized. It is such that every government that considers economic and employment growth a priority must reflect in their fiscal policy (Canadian Manufacturers & Exporters, 2015). The incidence of corporate tax is that it reduces the fund available for re-investment and growth of a business. It also affects dividend distribution thereby discouraging the investing public (Ezugwu & Akubo, 2014). In conclusion, when businesses make profit and pay little taxes, they will have enough fund to re-invest and expand. By so doing more employment opportunities spring up and the economy of the country improves. The reverse becomes the case when tax rates are high and there are not adequate tax incentives to reduce the tax burden on firms.

Banks' Lending, Liquidity and Company Income Tax

Lending represents the fundamental investment feature of a bank's business model, as their earnings are derived primarily from the interest and fees accruing from loans and overdraft facilities (Gallemore, Mayberry, & Wilde, 2017). Researches have shown that corporate income taxes have an economically meaningful effect on corporate behavior for non-banks, including capital structure and risk taking (Heider & Ljungqvist, 2015; Ljungqvist, Zhang, & Zuo, 2015). However, due to government's effort to prevent revenue leakages, all accounts kept by MDAs with the commercial banks in Nigeria have been closed following the adoption of TSA in Nigeria. This has left the commercial banks with less credit to lend to private sectors. The lack of liquidity in banks have restricted access to credit by small-scale businesses and individual businessmen (Uzor, 2015). Liquidity challenges prompt banks to limit lending (Cornett, McNutt, Strahan, & Tehranian, 2011; Ivashima & Scharfstein, 2010). Borrowers' run on credit lines to access capital only compound the shortage of liquidity and banks' ability to cope with this challenge depends on their exposures and the level of government's backing they have (Acharya & Mora, 2015; Cornett et al., 2011; Ivashima & Scharfstein, 2010). Corporate taxation affects bank liquidity management through its negative effect on operating cash flows. It diverts operating cash flows to the government and leaves banks with less liquidity to satisfy lending needs (Gallemore et al., 2017). In a nutshell, company income tax reduces the cash flows of banks because they rely on it to cope with their lending responsibility.

2.2. Theoretical Review

2.2.1. Regulatory Framework on Company Income Tax (CIT)

Companies Income Tax Act 1979 (CITA 1979) contained in chapter 60 Laws of the Federation of Nigeria (LFN) 1990 was the principal legislation governing companies tax administration in Nigeria. The Act came into force after several amendments and consolidation of provision on the former CITA 1961. Further amendment was also done on CITA 1979 in 2004 and continued until we now have the Companies Income Tax Amendment Act 2007 which is the Act presently used in Nigeria for companies tax administration. This is used in addition to Federal Inland Revenue Service Establishment Act (FIRSEA) 2007. According to Azubike (2009) tax reform is a continuous process which tax administrators and policy makers undertake to ensure that tax systems reflect the changes in the economic, social and political environments of a nation. In line with the ongoing amendments, Section 26 of this FIRSEA (2007) provides that corporate bodies and individuals may be given notice by the Service to produce information relating to their profits and income respectively. The information may be in form of books, documents and any other information required by the Service for examination. This could be needed by the Service for a stipulated time period. The individual or representative of the Company may also be required to be physically present to give oral representation in respect of the income or profit in question at a designated place as may be specified by the Service. In respect of the above, Section 28 of this Act requires every bank to prepare and file quarterly returns with the Service of all transactions involving the sum of N5,000,000 and above which relate to individuals while corporate bodies' transactions from N10,000,000 and above are also filed alongside with their names and addresses. Any bank that defaults, pays a fine of N50,000 on individual customers while that of corporate customers is N500,000.

2.2.2. Ability-To-Pay Theory of Taxation

Kendrick (1939) propounded this theory which states that taxes should be levied on individuals and companies according to their ability to pay. This implies that tax burden should be placed on companies and individuals with higher income. He stated that money for public expenditure should come from "him that hath" instead of "him that hath not". This implies that more tax burden should be placed on companies and individuals with higher income. In other words, individuals and companies (including Banks) should pay taxes according to what they earn. Someone who earns more should pay more tax while an individual who earns less should pay less tax. For the purpose of banks' liquidity which is the basis on which they can provide funds to private sectors for businesses, the ability to pay tax should be considered seriously to enable them have enough liquid asset to give credit facility to organizations and individuals for their operations. This is in line with progressive taxation principle, fairness and equity.

2.3. Empirical Review

2.3.1. Foreign Studies on the Impact of Corporate Tax on Companies

Some of the foreign studies reviewed in this paper have been outlined below.

Syed et al. (2011) studied the effect of Corporate Income Tax and Firms' size on capital investment made in tangible assets by the manufacturing firms. The study used 65 manufacturing companies as the sample. These manufacturing companies used belong to the nine non-financial sectors listed in Karachi Stock Exchange Pakistan. In order to draw inference from the study, panel financial data on annual basis was gathered for the period of six years, spanning from 2004-2009. Multiple regression analysis was the statistical technique used with the aid of multiple statistical tools to have the most accurate result. The results indicated the existence of negative relationship between corporate income tax and investment while positive relationship between firms' size and investment was found. Thus, the study concluded that excess tax obligations on companies could discourage corporate investors.

Neghina (2012) examined tax impact on the financial performance of companies listed on the Bucharest Stock Exchange (the Stock Exchange of Romania, the Sovereign State located in the Southeastern Europe). The impact problem of profits tax on corporations was the issue the study addressed among others. Out of 31 companies, the paper used data for 25 companies listed on the Bucharest Stock Exchange from 2006-2011. The selected parameters relevant to the economic and financial strength of the companies were Return on Equity (ROE), Return on Assets (ROA), Financial Leverage (FL), Effective tax rate, Firm size, Relative increase in total assets and Effective interest rate. The regression analysis revealed a negative correlation between the effective tax rate, interest rate and performance, and a positive relationship between leverage, firm size, relative growth of the company and financial performance. The study therefore confirmed certain theories which hold that increased leverage enhances company performance.

Mayende (2013) used Cobb-Douglas production function to examine the effects of tax incentives on firms' performance in Uganda. The secondary data used for the study were obtained from the World Bank as stated under Region Program on Enterprises Development from 2000-2002 in conjunction with Uganda Manufacturers Association Consultancy and Information Services (UMACIS). The number of firms used for the study were 392 chosen from the four sectors (Commercial agriculture, Construction, Manufacturing and Tourism). The list of firms that had incentives from the Uganda Revenue Authority were majorly those on the Manufacturing Sector. The panel data used for the analysis were obtained on the gross sales, cost of raw materials, capital stock, labour force employed, cost of production etc. The study found that firms with tax incentives do well in terms of gross sales and value added more than their counterparts. Therefore, it was suggested that government needs to restructure the provision of tax incentives for better performance of firms.

Canadian Manufacturers and Exporters (2015) investigated why profits are important and higher corporate tax rates are a bad idea. The study was concerned about Canada's Manufacturing and Exporting communities considering the fact that excess corporate tax inhibits their growth and does not savings of money for business expansion. Canadian Manufacturers and Exporters (CME) has about 100,000 companies in their network which consist of 90 per cent Canada exporters and 82 per cent manufacturers. The study revealed the trend of Federal Statutory Tax rate on general business income. In 2000 it was 28%, then from 2004 to 2007, it was reduced to 21% and subsequently 15% in 2012. Then increased to 26.3% in 2015. The study analysed the effect of these different rates on business profits for those number of periods (2000-2015). The trend analysis was depicted with graphs and curves. The result showed that Canada's manufacturing sector paid greater share of its profits in corporate taxes than other business sectors. When tax rates declined, businesses expanded and the moment it increased expansion ceased. The paper revealed that the money that would have been used for reinvestment and expansion of business were absorbed by high corporate taxes leaving the business crashing down. The conclude the study was able to draw was that high corporate income tax rates will depress rates of return on invested capital thereby making Canada a less attractive place for capital investment. The multiplier effect will be that Canada will experience economic net loss and increase in the rate of unemployment.

Fuest and Liu (2015) assessed the impact of taxation on firms under different ownership which could be private, collectively owned and state owned companies. The study made use of the firm-level annual survey of industrial firms data set conducted by the National Bureau of Statistics of China. About 41 industry sectors were covered. The variables used for the analysis were corporate tax (independent) while investment and financial decision of firms (dependents). Investment was represented by total fixed assets while debt-asset ratio was used as proxy for firms' financial decisions. The result indicated that decrease in the statutory tax rate for domestic firms induced collectively owned enterprises and private firms to reduce debt while the result for state owned enterprises was not significant. The result also revealed that the reduction in tax induced investment in the capital cities like Hong Kong, Macao and Taiwa.

Pitulice et al. (2016) evaluated the impact of corporate tax on financial performance of firms. The sample used in the study comprised a total number of 20 firms listed on the Bucharest Stock Exchange. The secondary data the study employed were obtained from the published financial statements of the firms for the period of 2012 to 2014. The statistical tool used for data analysis was the multi-regression analysis with the aid of E-view 9. The dependent variables were the net profit and return on assets while the independent variables were the effective tax rate, firm size, asset structure, long-term debt to total assets ratio and financial leverage. The study excluded independent variables with no significant impact and then found evidence that corporate tax and the effective tax rate had negative significant impact on the financial performance of firms.

Gallemore et al. (2017) investigated the relationship between corporation taxation and bank outcomes which includes: lending growth, leverage, liquid asset holdings, and risk-taking. The sample covered 31 U.S. Commercial Banks which represented 29 percent of all commercial banks in the U.S Single-State. Cross-sectional research design was employed in order to study the relations. The secondary data used covered a period of 1996 to 2013 and were collected from the following sources: the U.S. Multistate Tax Guide, Individual State Income Tax Codes, State Revenue Department Websites, Book of the States and the significant features of fiscal federalism. Multi-regression analysis and F-test were conducted and the result showed that tax rate had significant effects on specific banks especially during economic downturn and credit risk uncertainty. The study went further to reveal that corporate income tax affected bank outcomes, such as lending and leverage which subsequently affect the capital available for both individuals and non-bank corporations. The study therefore suggested that policy makers and regulators should try to harmonize the policy implications of corporate tax on banks.

Nekasa, Namusonge, and Makokha (2017) employed a mixed research design to evaluate the effect of corporate income tax on financial performance of companies listed on the Nairobi Securities Exchange (NSE) in Kenya. A Sample of 59 out of a target population of 69 companies publicly listed companies in 2015 was extracted from the NSE website. The secondary data were obtained from the NSE data base, Capital Markets Authority (CMA) database, journals and other publications. The predictor variables were: investment, Age/Debt, Firm Size and Liquidity, while the dependent variable were profitability and Return on Investment of firms. The regression result revealed that corporate income tax had significant positive influence on financial performance of companies listed on the NSE in Kenya. The study supported the view that corporate income tax has a significant effect on financial performance and encouraged policies that could ensjure that firms promptly pay their corporate taxes to the government.

2.3.2. Studies in Nigeria on the Impact of Corporate Tax on Profitability of Companies

Odia and Ogiedu (2013) researched on the effect of corporate taxes on the dividend policy of banks in Nigeria. The study's focus was to test the relationship among profit, dividend and taxes. Therefore, the independent variables were the profit and corporate taxes while the dependent variable was the dividends paid. The periods covered were 2000 to 2008 and the sample of nineteen commercial banks in Nigeria was used. The secondary data employed were gathered from the financial statements of the banks as published by the Nigerian Stock Exchange. The regression result of the data analysis indicated that taxes had negative and non-significant impact on the dividend policy of the banks while the profit showed a significant positive relationship and had robust significant positive impact on dividend. The study therefore suggested that since profit is the major means of paying dividend to encourage investors, the tax liability should be considerably minimized to boost business expansion through more meaningful investment by the investing public who are motivated through regular payment of dividend.

Onuorah and Chigbu (2013) used the Ordinary Least Square (OLS) technique to examine the impact of corporate taxation on company's reserves and dividends in Nigeria. The study made use of secondary data covering the period of 2000 to 2011. The problem that corporate tax was reducing company's reserve as well as hindering expansion and payment of dividends. The data used for the study were collected from 35 companies listed in the Nigerian Stock Exchange and they were selected from 7 different sectors. The dependent variable employed was the annual dividend payments while the independent variables were the annual corporate tax expenses, earning per share and returns on earning per share. The result of the study indicated that corporate taxes do not affect companies reserve or payment of dividend. The study therefore suggested appropriate tax restructuring that will not affect regular dividend payment to encourage the investing public and expand businesses.

Ezugwu and Akubo (2014) did an empirical study on the effect of high corporate tax rate on the profitability of corporate organizations in Nigeria. The problem the study was concerned about is the extent to which high corporate tax rate threatens the survival of companies in Nigeria. The study employed causal research design and multi-regression statistical tool. The population used comprised 45 corporate organizations in Lagos while the sample size was 41. The study variables were the corporate profitability (dependent) and the corporate tax rates (independent). The secondary data employed was collected from the Federal Inland Revenue Services (FIRS). The data analysis was done with the aid of Statistical Package for Social Sciences (SPSS version 17). The study found a positive relationship between corporate tax rate and realized profit of companies. It was therefore recommended that the Nigerian Corporate tax rate of 30% should be reduced to avoid negative economic effects in the Country.

Chude and Chude (2015) studied the impact of company income taxation on the profitability of companies in Nigeria using Brewery Industry as a case study. The research employed secondary data on all the variables. The dependent variable was the earning per share (EPS) while the explanatory variable was the company income tax (CIT). All data were obtained from the published financial statements of the Brewery Companies. The Augmented Dickey-Fuller (ADF) unit-root test was carried out to test the effect of CIT on EPS at 5% level of significance. The result indicated the existence of a long-run equilibrium relationship and a positive significant impact of CIT on the EPS (P-Value 0.000 < 0.05). The study concluded that CIT affects the profitability of Nigerian Breweries significantly and recommended more improvement on tax administration.

Etale and Bingilar (2016) examined the impact of companys' income tax (CIT) and Value Added Tax (VAT) on the economic growth in Nigeria. The data employed covered a period of 2005 to 2014 and were sourced from the statistical bulletin of the Central Bank of Nigeria. The study made use of the Ordinary Least Squares (OLS) method with the application of SPSS version 20 for data analysis. The findings revealed that both the CIT and VAT had significant positive impact on economic growth in Nigeria. The study therefore suggested that tax authorities should employ more qualified tax professionals and retrain the existing tax officers for efficient and effective tax administration and collection.

2.4. Research Gap

Most of the studies reviewed above found negative influence of high corporate tax on companies' investment and profitability (Gallemore et al., 2017; Neghina, 2012; Pitulice et al., 2016; Syed et al., 2011) while some scholars believed corporate taxation has significant positive impact on profitability of firms, if it is well regulated and administered with caution (Chude & Chude, 2015; Ezugwus & Akubo, 2014; Nekasa et al., 2017). However, high corporate taxation does not encourage business expansion and also has a multiplier adverse effect on economic growth of a nation. The gap identified is that studies on the effect of corporate taxation on profitability of Deposit Money Banks (DMBs) especially in a developing country such as Nigeria are still very scarce. The present study had been aimed at filling the gap and will basically concentrate on the impact of corporate taxes on DMBs in Nigeria. Due to the special nature of banks and the financial distress most banks in Nigeria have gone through, it is important to determine the extent to which Company Income Tax (CIT) payment affects their profitability. This is because the cash flow from the operating profit makes it possible for banks to provide loan facilities to individuals and firms for investment. If this goal is defeated then there is a going concern problem and the existence of banks has to be questioned.

3. Methodology

The paper adopted causal research design because the data on the selected variables were historical and already existing. That means there is no room for data manipulation. Therefore, to determine the impact of Company Income Tax on profitability of Commercial Banks in Nigeria, the study made use of the already existing secondary type of data. All the data were collected from the Published Audited Financial Statements of the selected Money Deposit Banks being displayed on their websites and on the Nigerian Stock Exchange website. The data covered the period from 2006 to 2016. The population comprised the 21 commercial banks presently operating in Nigeria after consolidation. The sample of 12 banks which represents 57% of the population were selected based on the researchers' judgment and data availability. According to Ezugwu and Akubo (2014) a sample size is a compromise between what is required and what is achievable. Therefore, the selection was a combination of both the old and new generational banks actively and presently operating in Nigeria. These banks are: Access Bank Plc, Diamond Bank Nig. Plc, FCMB Plc, Fidelity Bank Plc, First Bank Nigeria Plc, Guaranty Trust Bank Plc, IBTC Plc, Sterling Bank Plc, Union Bank Plc, United Bank of Africa Plc, Wema Bank Plc and Zenith Bank Plc. The study adopted a generalized linear regression model where multiple regression analysis and student t-test were the statistical tools used for the analysis with the aid of SPSS version 20. The hypothesis is tested at 5% level of significance. The rejection criterion is that if the p-value is greater than 5%, the hypothesis is accepted and will be rejected if the p-value is less than 5%.

The econometric model is specified as follows:

PAT = $\dot{\alpha} + \beta_1 (CIT) + \varepsilon$

Where

PAT = Profit after Tax

ὰ = (alpha) showing constant effect of CIT on PAT
CIT = Company Income Tax
ε = Error term

3.1. The Empirical Results and Interpretation.

Table-4.1. Results Showing Evidence of Significant Positive Impact of Cit on Profitability of Selected Banks.

VARIABLE/TEST STATISTICS	ACCESS BANK PLC	DIAMOND BANK PLC	GTB PLC
Constant	10545.597	-3910.406	539.226
CIT	3.470	6.218	4.902
R	0.747	0.755	0.963
R^2	0.558	0.570	0.928
ADJUSTED R^2	0.509	0.523	0.920
STD ERROR OF THE ESTIMATE	14484.983	9513.073	11003.642
DURBIN WATSON	1.635	0.923	1.938
F-TEST	11.379	11.945	116.356
T-TEST	3.373	3.456	10.787
P-VALUE	0.008	0.007	0.000

Source: Authors' Computation, 2018.

The result on Table 4.1 shows that company income tax has a significant positive impact on profitability of the selected banks indicated above. The p-value of 0.008, 0.007, & 0.000 < 0.05 significant level. This results are statistically significant and robust. Therefore, the hypothesis that says company income tax does not have positive impact on profitability of banks is hereby rejected in the case of these three banks based on the result that emerged. These results are in line with the findings of (Chude & Chude, 2015; Ezugwu & Akubo, 2014; Nekasa et al., 2017) which revealed that corporate tax has significant positive impact on profitability of firms but conflict the findings of (Gallemore et al., 2017; Neghina, 2012; Pitulice et al., 2016; Syed et al., 2011). There are also positive relationships between CIT and PAT (74.7%, 75.5%, & 96.3%) for Access Bank Plc., Diamond Bank Plc., and GTB Plc. respectively.

Table-4.2. Results Showing Negative Impact of Cit on Profitability of Banks.

VARIABLE/TEST STATISTICS	FIRST BANK NIG. PLC	IBTC BANK PLC	STERLING BANK PLC	UBA PLC
Constant	43740.268	7192.358	6582.778	24429.785
CIT	-0.135	-0.728	-1.855	-0.466
R	0.084	0.168	0.255	0.116
R^2	0.007	0.028	0.065	0.014
ADJUSTED R^2	-0.103	-0.080	-0.039	-0.096
STD ERROR OF THE ESTIMATE	22274.555	3944.913	4952.008	22522.299
DURBIN WATSON	1.173	1.634	1.346	1.886
F-TEST	0.063	0.261	0.624	0.123
T-TEST	-0.252	-0.511	-0.790	-0.351
P-VALUE	0.807	0.622	0.450	0.733

Source: Authors' Computation, 2018.

The finding on Table 4.2 shows evidence that CIT has a negative impact on PAT. Though the the p-values are not statistically significant, but the t-tests reveal negative impact. Therefore the null hypothesis is accepted and the alternative which states otherwise rejected. These results are also in agreement with (Gallemore et al., 2017; Neghina, 2012; Pitulice et al., 2016; Syed et al., 2011) but are in discrepancy with the findings of (Chude & Chude, 2015; Ezugwu & Akubo, 2014; Nekasa et al., 2017). The difference in results between this current study and other studies may be as a result of the particular industries used, the methodology of each study and the time periods covered. There are also evidences that positive correlation between CIT and PAT does not exist (8.4%, 16.8%, 25.5% and 11.6%) in the banks stated above.

The Table 4.3 shows an evidence that CIT does not have impact on PAT. There is no significant relationship between the predictor variable and PAT in the case of Fidelity Bank Plc and Wema Bank Plc while there is an existence of a fair relationship among the other banks. Therefore the null hypothesis is also accepted in this circumstance.

Table-4.3. Results Indicating That Cit Does Not Impact on Profitability of Banks.

VARIABLE/TEST STATISTICS	FCMB PLC	FIDELITY BANK PLC	UNION BANK PLC	WEMA BANK PLC	ZENITH BANK PLC
Constant	2950.170	8211.659	13627.216	-1216.30	27738.338
CIT	2.076	0.389	0.672	3.750	3.063
R	0.442	0.086	0.508	0.166	0.486
R^2	0.196	0.007	0.258	0.028	0.236
ADJUSTED R^2	0.106	-0.103	0.176	-0.081	0.152
STD ERROR OF THE ESTIMATE	6058.994	5419.593	31362.243	7476.253	35785.008
DURBIN WATSON	2.911	1.865	1.987	2.464	1.315
F-TEST	2.187	0.066	3.133	0.255	2.787
T-TEST	1.479	0.258	1.770	0.505	1.669
P-VALUE	0.173	0.802	0.111	0.626	0.129

Source: Authors' Computation, 2018.

3.2. Discussion on Findings

The salient point to note on these findings is that CIT charge on Nigerian Banks requires a thorough review. The theory of ability-to-pay tax states that firms and individuals should pay tax based on the income available to them which is in line with the principle of fairness and progressive principle of taxation. The application is that, Banks who are under serious financial challenges should be given incentive if thorough investigation is carried out by the relevant tax authority and it is confirmed. The Nigerian environment does not allow businesses such opportunity, hence the flat tax rate of 30% on profits. Sometimes what Tax Authorities add back to profits and charge tax on it could be so financially devastating that companies will have no other option but to borrow to pay corporate tax levied on them. In such situation the ability-to-pay theory does not apply. It is rather an imposed levy, no longer payment based on income. In a conducive economic environment and under normal circumstances, firms should not borrow to comply with their civic responsibility which payment of corporate tax is part of it. Taxes should be paid out of sufficient available fund. The fact that CIT impacts positively on some banks and does not influence others positively is an indication that the ability-to-pay theory is not well applied in practice.

4. Recommendation and Conclusion

Looking at the findings of this study, we wish to recommend that the fiscal policy of the country should consider the circumstances surrounding the activities of banks in Nigeria and their special role in the pursuit of economic growth of the nation. Tax incentives that could reduce the tax burden on banks should be consciously incorporated in the fiscal policy and tax reforms to encourage their operations and going concern. Commercial Banks in Nigeria reduced to 21 due to consolidation caused by financial distress of many banks that are no more. This situation should be avoided through government backing and support to assist bank operations in all ramifications. Therefore new regulations to curtail excess corporate tax is necessary to enable them have enough liquidity to lend to firms. When firms and individuals are able to access capital, they will invest and the economic growth in the country will be enhanced.

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