

CORPORATE TAX, FIRM CHARACTERISTICS AND THE FINANCIAL PERFORMANCE OF SELECTED INSURANCE COMPANIES IN NIGERIA

Tunde Olutokunboh OBAFEMI *1, Anthony Ufuoma DAVID*2

*1(P.hD), Department of Accounting and Finance, Faculty of Management Sciences, Ajayi Crowther University Oyo, Oyo State, Nigeria

*2Ph.D Student, Department of Accounting and Finance, Faculty of Management Sciences, Ajayi Crowther University, Oyo, Oyo State, Nigeria.

Email: obafemitunde01@gmail.com, Email: ufuomadavid67@gmail.com

DOI: <https://www.doi.org/10.58257/IJPREMS30597>

ABSTRACT

Performance of Organizations around the globe have been having affected by many factors for which tax and others take prominence. Hence, this study evaluates the impact of Corporate Tax and Firm Characteristics on the Financial Performance of selected Insurance Companies in Nigeria. Panel design was employed for this study. Secondary data used were gathered basically from published annual report and accounts of listed Insurance companies in Nigeria for over 10year period of 2011 – 2021. Explanatory variables include; Corporate Tax (CT), Firm Size (FS), Firm Age (AGE) and Leverage (LEV) while Return on Asset (ROA) formed the dependent variable. Descriptive statistics in addition to Pearson Product Moment Correlation (PPMC) and Pooled Ordinary Least Square (OLS) methods were used to analyze the data collected over the study period. Findings from the study among others indicate that there exist a positive significant effect of Corporate Tax (CT), Firm Size (FS) and Firm AGE (AGE) on Return on Asset ($\beta = 0.0277012; 0.0093884; 0.0508625, p > 0.0019; 0.002; 0.0013$) while leverage (LEV) had negative effect on Return on Asset ($\beta = -0.02564, p > 0.020$). On the basis of these findings, the study concludes that Insurance Companies in Nigeria should endeavour to consistently meet their tax liability as they fall due. Also the management of Insurance companies in Nigeria should try to maintain a reasonable asset to liability ratio so that its negative effect on profitability could be put under check.

Keywords: Corporate Tax; Firm Characteristics; Financial Performance; Consumer Goods

1. INTRODUCTION

Taxation of corporate earnings, as an important component of fiscal policy, has over the year become a topical issue of great interest having effect on macroeconomic and microeconomic. When taxes are imposed, authority and governments seek to collect financial resources to the fund budget. As a financial cum economic stabilization instrument, taxation performs multiple functions. It may be regulatory, protective or revenue mobilization in nature which forms the basis for its employment by economies (Otwani, Namusonge & Nambuswa, 2017). Numerous literatures exist on the relationship between corporate tax and financial performance of organizations.

2. LITERATURE REVIEW

Ado, Rashid, Mustapha and Ademola (2021) examined the impact of corporate tax planning on the financial performance of listed companies on the Nigeria Exchange Group (NXG). Secondary data were collected from published annual report and accounts of listed companies in addition to information retrieved financial records of the Thompson Reuters DataStream. Eighty-four (84) companies were sampled for a duration of nine years from 2010-2018 which provided 756 observation. Multiple regression was employed to analyze collected data. The study found that the inventory intensity reveals no relationship with Return on Asset (ROA). It was also revealed that capital intensity has a negative significant relationship with ROA. However, the study further reveals that leverage is positively and significantly related to ROA. The findings suggest that firms need to employ the services of tax experts and implement more healthy tax planning strategies for higher financial performance.

Nwaorgu, Oyekezie and Abiahu (2020) examined the effect of corporate tax on the sustainable financial performance of listed Manufacturing firms in Nigeria. The study employed ex post facto research design using data from 10 listed Manufacturing firms. A five-year data set spanning 2013-2017 was employed and analyzed using simple linear regression method. Findings from the study revealed that corporate tax payment has no significant effect on the return on equity of firms. Further findings revealed a positive and significant effect of corporate tax payment on the debt to equity ratio of the listed firms. The study therefore recommended that Investors in the Nigerian Manufacturing sector should use their tax pay-out policy as a tool for financing decision as it greatly affects the firm's debt to equity ratio (Capital combination) decision making. It was also recommended that Nigerian Manufacturing Firms should

encourage the prompt payment of tax as it has no significant effect on their returns but in turn, increases the market value of the firms.

Adrew (2020) examined the impact of corporate tax and firm characteristics on the performance of selected manufacturing firms in Nigeria. Four (4) companies listed on the Nigeria Exchange Group were sampled for a period of 10 years. Regression analysis was used to run the secondary data extracted from financial reports of the selected manufacturing firms. Descriptive statistics and correlation matrix was employed to identify the normality of data and relationship existing between variables. Corporate Tax, Firm Size and Firm Age were used as independent variables while Return on Assets was employed to proxy performance. Findings revealed that Corporate Tax has positive correlation with profitability of quoted manufacturing firms at 1% significance level. For firm Size, the results showed no significant relationship with profitability while Firm Age has positive relationship with profitability of quoted manufacturing firms at 10% level of significance. The study recommends that Government should empower small and medium manufacturing firms by providing enabling environment, soft loans and other equipment needed for them to improve in their businesses which will also increase in revenue generation through the taxes that such firms will pay to the government. Also the management of manufacturing firm should utilize its assets efficiently as excess production, poor inventory management will lead to a decline in profitability of the firm.

Mohammad and Ahmed (2019) examined the effect of corporate income tax rate on investment decisions of listed Deposit Money Banks (DMBs) in Nigeria. Using descriptive research design and panel data generated from annual reports and accounts of the sampled DMBs covering a 5year period of 2014 to 2018, the study employed Ordinary Least Square (OLS) regression to analyze the data gathered for the study. Findings indicated that after tax cash flow is the major factor that affects investment decisions of listed DMBs in Nigeria. Whereas depreciation tax shield and interest tax shield had insignificant effect on investment decisions of listed DMBs in Nigeria and corporate tax rate has no effect on investment decisions of listed DMBs in Nigeria as the company income tax rate of 30% has been constant over decades.

Otwani, Namusonge and Nambuswa (2017) investigated the effect of corporate income tax on financial performance of the companies listed on the Nairobi Securities Exchange in Kenya with the objective of establishing the effect of corporate income tax on financial performance of the companies listed on the Nairobi Securities Exchange in Kenya. The study adopted a mixed research design made up of both qualitative and quantitative. Secondary data was extracted from the NSE database, Capital Markets Authority (CMA) database, journals and other publications. A sample of fifty-nine out of a target population of sixty-nine companies publicly listed as at January, 2015 was extracted from the NSE website. The key findings were that there is a positive relationship between corporate income tax and financial performance of listed companies on the NSE in Kenya.

Assidi, Aliani, and Omri (2016); and Pitulice, Stefanescu, Minzu, Popa, and Niculescu (2016) carried out studies on the effect of corporate income tax on profitability of firms in Tunisian and Romania respectively. Using simple regression, they discovered that corporate income tax is a statistically significant determinant of firm profitability as a reduction of effective tax rate leads to a significant increase of firm profitability.

Rohaya, Nor'Azem and Bardai, (2010) conducted a study on corporate income taxes and revealed an association between income tax and profitability of corporate institutions. The study related to the impact of corporate income tax liabilities on different variables of a firm as gross profit, cost of sales, expenses etc. A sample of 7,306 companies was taken from the hotels and restaurants sector, includes 6,594 in business services and 1,484 in transport manufacturing sectors, for the accounting periods 1995 to 2000. The conclusion was that corporate income tax adversely affects the profitability of corporate institutions but has a positive relationship with the firm size and age of companies.

3. METHODOLOGY

The study employed panel design for this research. Panel design was chosen because of the nature of the data used for this study which is basically the audited annual report and accounts of listed insurance companies. Fifty-three (53) Insurance companies registered by the National Insurance Commission constitute the population of the study while twenty-three (23) companies formed the sample size which was arrived at using purposive sampling technique. The technique becomes imperative because certain conditions such as year of incorporation, availability and accessibility to published financial statements must be met. The technique also ensured that listed Insurance Companies who have been in existence and whose published financial statements are available and accessible for the last ten (10) years, are purposively selected.

Secondary data which are sourced from published annual report and accounts of listed Insurance firms formed the major source of data for this study. Independent variables are Corporate Tax (CT), Firm Age (FA) Firm size (AGE) and Leverage (LEV) while the dependent variable is Return on Asset (ROA). Hence;

$$ROA_{it} = \alpha + \beta_1 CT_{it} + \beta_2 FS_{it} + \beta_3 AGE_{it} + \beta_4 LEV_{it} + \epsilon_{it}$$

Where;

ROA – Return on Asset

CT – Corporate Tax

FS – Firm Size

FA= Firm Age

LEV – Leverage

α = Constant.

β_1, β_2 and β_3 = Coefficients of independent variables.

ϵ = error term

4. RESULTS AND DISCUSSION

Data generated from published annual reports and accounts of listed insurance companies in Nigeria for the period of the study are presented, analyzed, interpreted and discussed in this section. The data was analyzed using descriptive statistics, correlation matrix and regression analysis of the dependent and explanatory variables. The descriptive statistics show values for the minimum, maximum, mean and standard deviation of the study variables. The correlation matrix depicts the relationship between all independent variables and the dependent variable and as well the relationship existing among independent variables themselves. The regression analysis consisting of model summary, and coefficient in the result of the study with which presentation, analysis, conclusion and recommendations are offered.

Table 1: Descriptive Statistics

VARIABLES	N	Minimum	Maximum	Mean	Std. Deviation
ROA	230	-1.4100	2.3212	0.2661	0.2601
CT	230	2.4000	0.9000	0.7130	0.1145
FS	230	1.6667	1.0000	0.9454	0.1230
AGE	230	0.3000	0.9200	0.6752	0.1843
LEV	230	2.2001	0.3200	0.8532	0.1320

Source: E-View, 2021

Table 1 above reveals that the ROA of the Insurance companies over the 10 years period under review ranged from a minimum of -0.4100 to a maximum of 2.3212 with a mean value of 0.2661 and a standard deviation value of 0.2601 respectively. It is observed that the standard deviation value is not far away from the average value which connotes that there is no too much variation existing in the variables.

Table 2: Pearson Product Moment Correlation Matrix (PPMC)

	ROA	CT	FS	FA	LEV
ROA	1.0000				
CT	0.8620	1.0000			
FS	0.0983	0.0987	1.0000		
AGE	0.0784	0.0445	0.0630	1.0000	
LEV	0.0683	0.0359	0.0023	0.0354	1.0000

Source: E-View, 2021

From the above table 2, it is observed that variables are on diagonal roll are 1.000 which means that each variable is perfectly correlated to itself. The relationship between Corporate Tax, Firm Size, Firm Age, Leverage and ROA has values of 0.8620, 0.0983, 0.0784 and 0.0683 respectively. This signifies that corporate tax, firm size, firm age and leverage are positively affecting performance of Insurance companies in Nigeria. The corporate tax has a strong relationship with performance. Firm size, firm age and leverage have a weak positive relationship on performance. From the same table 2, it could be seen that the relationship existing between the independent variables themselves is a weak relationship, it could be concluded that there is no multi-collinearity existing between independent variables.

This opines that independent variables were carefully and appropriately selected because there is no inter dependency between them but instead, they are perfectly independent and could be studied together under the same model.

Table 3. Pooled OLS Estimate (ROA, CT, FS, FA and LEV)

Variable	Coefficient	Standard Error	T-Values	P- Value	R ²	Adj. R2	Sig.
C	54.69243	43.7499	1.62	0.106	0.4451	0.4253	0.0008
CT	0.0277012	.0509505	2.36	0.019*			
FS	0.0093884	.0018803	4.99	0.002*			
AGE	0.05086251	.313047	-1.02	0.310			
LEV	-0.025642	.0601002	2.23	0.020			

Source: E-View, 2021

Table 3 presented above reported the estimates of the relationship between Corporate Tax, Firm Characteristics and Performance of selected Insurance Companies in Nigeria. The corresponding tables present estimates of explanatory variables including Corporate Tax (CT), Firm Size (FS) Firm Age (AGE) and leverage (LEV) with respect to dependent variables ROA.

Table above revealed the coefficient estimates reflecting the impact of all the explanatory variables on ROA. Specifically it reported estimates of 0.0277012, 0.0093884, 0.05086251 and -0.025642 for CT, FS, FA and LEV respectively. The estimates and corresponding probability values reported revealed that CT and AGE exert insignificant positive impact on ROA with exception of FS with positive and significant impact while LEV revealed negative impact on the performance of the selected Insurance companies measured in terms of ROA. The result in respect to CT; AGE and ROA is in line with the previous findings of Adrew (2020), Otwani *et al.*, (2017), Assidi *et al.*, (2016), Rohaya *et al.*, (2010).

It is necessary to emphasize that a unit increase in CT causes ROA about 2.7% improvement. In the case of FS, a unit increase in it caused about 0.94% increase in ROA as the case with FA that caused a 5.1% improvement in ROA due to a unit increase in it. Finally, the result revealed that whenever there is a unit increase in LEV, it causes about 2.6% reduction in the value of ROA of selected Insurance companies in Nigeria.

Adjusted R-square statistics reported in the table stood at 0.4253 which means that about 42 percent of the systematic variation in ROA of the selected Insurance Companies in Nigeria can be explained jointly by explanatory variables including CT, FS, AGE and LEV leaving the remainder to variables not captured in the model. This shows that the joint explanatory variables did not explain much of the variation. Reported f-statistics and probability values of 13.57 and 0.0008 respectively authenticate the level of significance of the combined influence of all explanatory variables used to proxy Corporate Tax, Firm Characteristics and financial performance measure in terms of ROA.

5. CONCLUSION AND RECOMMENDATIONS

The paper evaluated the impact of Corporate Tax and Firm Characteristics on the Financial Performance of selected Insurance Companies in Nigeria for a 10year period of 2011- 2021. The study reveals that there is positive insignificant impact between corporate tax, Firm Age and Return on Assets of selected Insurance Companies in Nigeria. Firm Size however showed a significant positive relationship with Return on Assets of selected Insurance Companies in Nigeria while Leverage exerts an insignificant negative impact on ROA. By implication, the Insurance Companies in Nigeria should endeavour to consistently meet their tax liability as they fall due. This has the potential of rebranding and improving their corporate image which in capable of attracting more investors, government intervention and customers patronage. With this, better and improved profitability could be ensured. Also the management of Insurance companies in Nigeria should try to maintain a reasonable asset to liability ratio so that its negative effect on profitability could be put under check. Future researches could expand the research frontier put capturing more independent variables in relation to other performance indicators.

6. REFERENCES

- [1] Ado, A.B, Rashid N, Mustapha, U.A & Ademola, L.S (2021). The Impact of Corporate Tax Planning on the Financial Performance of Listed Companies in Nigeria, International Journal of Economics, Management and Accounting 29 (2): 273-29.
- [2] Adrew, C (2020). Impact of Corporate Tax and Firm Characteristics on the Performance of Manufacturing Firms in Nigeria, Global Journal of Applied, Management and Social Sciences (Gjamss); vol.18, p.20 – 30.

- [3] Assidi, S., Aliani, K., & Omri, M. (2016). Tax Optimization and the Firm's Value: Evidence from the Tunisian Context. *Borsa Istanbul Review*, 16(3): 177-184.
- [4] Mohammad, Y. & Ahmed, H. (2019). Effect of Corporate Income Tax Rate on Investment Decisions of Listed Deposit Money Banks in Nigeria. Proceedings at the 9 Account and Finance Research Association (AFRA) Conference Keffi, 2019.
- [5] Nwaorgu, I. C, Oyekezie, K.S & Abiahu, M.C (2020). Effect of Corporate Tax on Sustainable Financial Performance of listed Firms in Nigeria, *Journal of Taxation and Economic Development*, 19 (1): 50-63.
- [6] Otwani, M.N, Namusonge, G.S & Nambuswa, E.M (2017). Effect of Corporate Income Tax on Financial Performance of Companies listed on the Nairobi Securities Exchange in Kenya, *International Journal of Social Sciences and Information Technology*, 3 (3): 2467-2477.
- [7] Pitulice, I., Stefanescu, A., Minzu, V., Popa, A., & Niculescu, A. (2016). Research of Corporate Tax Impact on Financial Performance. Case of Companies listed on Bucharest Stock Exchange. *Management and Economics Review*, 1(2): 203- 216.
- [8] Rohaya, M. N., NurSyazwani M. F. & Nor'Azam, M. (2010). "Corporate Tax Planning: A Study on Corporate Effective Tax Rates of Malaysian Listed Companies", *International Journal of Trade, Economics and Finance*, 1(2), 1-5.