Company Income Tax (CIT) and Firms’ Financial Performance: A Study of Selected Downstream Oil and Gas Firms in Nigeria

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Abstract
The limited research in the downstream oil and gas and overdependence of the Nigerian economy on the upstream area of the oil and gas necessitated the investigation into the effects of company income tax on firms’ financial performance of the downstream area of the oil and gas sector in Nigeria. Purposive sampling technique was used to select six firms from a population of ten listed oil and gas firms in the Nigerian Exchange as at 2021, while secondary data were sourced from the annual reports of these six (6) oil and gas firms for fifteen years (2006 – 2020). Profit before tax (PBT) was used as proxy for performance indicator, company income tax (CIT) as independent variable and firms’ size (FS) as control variable. The method of data analysis adopted in the study were descriptive statistics, panel unit root test, panel co-integration test and static panel model regression estimation technique. The result of the study with p=0.0001<0.05 revealed that the null hypothesis was rejected, therefore, the study concluded that company income tax (CIT) had effects on firms’ financial performance. Thus, the study recommended that oil & gas firms’ management need to consciously review tax policy and tax reforms on regular basis to determine the tax incentives, tax holiday, tax waver and legal tax loopholes in order to reduce the tax burden on the profitability of the firm.

Keywords: Company Income Tax; Corporate Performance; Profit Before Tax; Downstream Oil and Gas Firms

JEL Classification: H21, H25, H2

I. INTRODUCTION
In countries all over the world, it is a well-known fact that tax contributes majorly to the economic planning and development of the countries. Taxation is basically raising funds from levy on profits for the growth and development of a country’s economy, but issues of tax evasion through tax loopholes and tax avoidance reduces tax amount and this result to decrease in government revenue generation. Okafor (as cited in Osho, Omotayo & Ayorinde, 2018) viewed tax as the charges levied on wealth and income of a person or firms for social, common and economic benefit of the masses or public. Tax is a mechanism of public finance for government to raise revenue and determine the pattern of expenditure to be applied. The burden of taxes is solely on taxpayers and this creates adverse effect on both individuals and firms. Tax, as a compulsory levy imposed on individuals and
corporate bodies assisted the government of the country in generating funds for rendering essential services, financing government expenditure and fiscal planning purposes (Ilaboya, 2012). Tax can be classified as direct taxes (personal income tax, company income tax, petroleum profit tax, capital gains tax and value added tax) and indirect taxes (import duties, export duties, customs and excise duties).

Before 1965, total income and profits were liable to income tax, but the imposition of corporation tax on companies’ profit commenced in 1965, which saw a uniform tax rate system on all profits and additional charge to income tax. Taxation of companies is regulated by the Companies Income Tax Act, LFN 2007 (as amended), except taxation of companies engaged in petroleum production, while the Federal Inland Revenue Service (FIRS) which is the operational arm of the Federal Board of Inland Revenue (FBIR) is charged with the tax management and administrative responsibilities of the Companies Income Tax (Oyebanji & Oyebanji, 2017). The stipulated Company Income Tax (CIT) chargeable on companies’ profits was a flat rate of 30% before the tax reform of 2019, which was signed into law in February 2020. According to the Finance Act (2019), the CIT rate is now 30% for large companies (companies with gross turnover greater than ₦100m), 20% for medium-sized companies (companies with gross turnover or revenue greater than ₦25m, but less than ₦100m), while small companies are exempted from tax (companies with gross turnover of ₦25m or less).

Performance of corporate organizations is being affected by the loss of huge amount of profit in form of tax each year since if such loss of profit is ploughed back into the company and effectively utilized, it could change the fortunes of the company and that of its stakeholders (Akadakpo & Akogo, 2022). Etim, Nweze and Umoffong (2020) also observed that Nigerian government are yet to actualize the projected revenue that they expected from taxes which serves as a medium to increase the accrued government revenue and country’s gross domestic products (GDP). Many companies try to evade or avoid payment of taxes due to the reason stated by Abiola and Asiweh (as cited in Etim, et al., 2020) that majority of Nigerians and companies are not feeling the effect of taxation in the area of economic growth and development. Neely, Gregory and Platts (as cited in Al-Matari, Al-Swidi & Hanim 2014) stated that the efficiency and effectiveness of actions for maximization of
returns on activities is performance measurement, which could easily be affected positively or negatively by corporate income tax. The issues of unnecessary taxes, multiple taxation, and government’s bureaucracy and over-regulation affect firms as the challenges of tax imposition make businesses in Nigeria to suffer and it affects their growth and development.

Studies on the effects of company income tax on financial performance had produced conflicting results (Adefeso, 2018; Kurawa & Saidu, 2018) in the same industry; thereby, necessitated the study in a different sector of the economy to determine if company income tax has effects in the Oil and Gas sector. Also, majority of the studies on company income tax are dominant in different sectors of the economy and the economy as a whole (Adefeso, 2018; Kurawa & Saidu, 2018; Osho, et al., 2018; Ogwuche, Abdullahi & Oyedokun, 2019; Etim, et al., 2020; Abiola, et al., 2022), but the downstream Oil and Gas has been neglected since it is the upstream area of the sector that is highly concentrated on in Nigeria. Hence, the study examines the effect of company income tax on financial performance of downstream Oil and Gas firms in Nigeria. The study adopts firms’ tax expenses as independent variable measurement of corporate income tax, firms’ size as control variable, while profit before income tax (PBIT) as dependent variable. Flowing from the objective of the study, the hypothesis is stated in the null form:

H₀: company income tax has no significant effect on financial performance of downstream Oil and Gas firms in Nigeria

II. LITERATURE REVIEW

Conceptual Review

Company Income Tax

Companies’ income tax is defined as tax imposed on companies or firm’s profit which are received in Nigeria from businesses, trading, interest, premium, rent, royalties, royalties and others revenue sources (Ogbonna & Appah, as cited in Osho, et al., 2018). The enabling law guiding the collection of taxes on profits made by companies in Nigeria is the Companies Income Tax Act, LFN 2007 (as amended), except for companies engaged in the exploration of petroleum products. The tax is currently paid based on the turnover of the companies as specified in the Finance Act, 2019. Companies with turnover above ₦100m, pay at the rate of 30%, those with turnover above ₦25m, but below ₦100m, pay 20% tax rate, while those with turnover
below ₦25m are exempted from tax. Ola (as cited in Ogwuche, et al., 2019) stated that due to the inadequate monitoring, non-compliance with laws and regulations make tax payer to evade tax which makes the company income tax administration in Nigeria not up to measurable standards.

Corporate Performance
Corporate performance refers to the operating efficiency and performance of the company during a certain period of operation. (Guangguo, et. al., as cited in Ouyang, 2020). Measurement of firm’s performance is a continuous process and it is paramount for companies that want to survive for a long period to consider the profit level in all activities. From the economist perspective, profit is the amount derived or gained from operating activities. The view of the financial analyst is that the major aim of business activities of firms is to maximize profit and minimize cost. Hence, the bases for measurement of performance can be financial and non-financial performance measurement. Most financial performance measurement proxies are profitability, asset operation level and debt repayment ability while non-financial performance measurement are customers’ satisfaction, product differences, customers’ loyalty, brand preference (Robert, Dia & Zhang, 2016). For the purpose of the study, profit before tax is used as a measure of performance.

Theoretical Review
Laffer Curve Theory
Arthur Laffer (1979) propounded the Laffer Curve Theory to show the relationship between official tax rates and tax revenue obtained by government. The theory explained that changes in taxable income will results to changes in rate of taxation, which is the concept of taxable income elasticity. It also reveals that an extreme tax rate of 0% and 100% will be raised due to no tax revenue and government can maximize tax revenue through at least having one tax rate. The theory is related to the study because it will help firms to examine the extent of effects of tax rate increase on profitability as the curve explained that increase in taxes from zero level will result to increase in tax revenue collected by the government.

Optimal Tax Theory
Ramsey (1927) propounded the optimal tax theory and later established by Mirrlees (1971). The optimal tax theory explained that there are set of constraints in choosing tax system which will enhance social welfare maximization and this is the
function of individual’s utility in the society that will determine the social welfare maximization. In the study of Mankiw, Weinzierl and Yagan (2009), optimal marginal tax rate schedules were examined based on the equitable ability to distribute and view personal features, attributes and income level which should be the bases for taxes. Also, considered that only final goods ought to be taxed, and typically ought to be taxed uniformly (actual tax policy). In relating this to corporate income tax, the theory helps in reducing the negative effect of corporate taxes on the level of private investment (and hence increase investment toward the level that would be obtained in a no-tax environment). In this case, the rate of corporate tax payable becomes a negative function of the rate of profit reinvestment, and hence, firms, which increase their rate of reinvestment, diminish their taxation liabilities. The theory also explained that distortionary corporate tax effect could be minimized without total taxation revenue reduction (Fox & LeAnn, 2002).

**Empirical Review**

Adefeso (2018) investigated the influence of corporate tax policy on the firms’ performance of fifty-four (54) selected quoted manufacturing firms in Nigeria from 1990 to 2002. Generalized Method of Moment (GMM) was adopted to analyse the data and the result showed that the relationship between corporate tax policy and the output performance of quoted manufacturing firms in Nigeria is positive significant. Kurawa and Saidu (2018) examined the effects of corporate tax on firms’ financial performance of sixteen (16) consumer goods companies listed on the floor of the Nigerian exchange from 2006 to 2016. The study applied regression analysis on the data and the findings revealed that the relationship between corporate tax and financial performance is negatively insignificant. In the study of Osho, et al. (2018), the impact of company income tax on gross domestic products in Nigeria was investigated. Secondary data was obtained and analyzed using Ordinary Least Square Linear Regression model and the study discovered that the effect of company income tax revenue on gross domestic products in Nigeria is positively significant. In a similar study by Ogwuche, et al. (2019), the impact of company income tax on economic growth in Nigeria for an eleven-year period (2007-2017). Multiple regression analysis technique was also applied to analyze the data and the findings revealed that company income tax has significant influence over economic growth
in Nigeria. Olaoye and Oluwatoyin (2019) investigated the effect of corporate income tax on profitability of firms in Nigeria scanning from 2007 to 2016. Pooled ordinary least square was adopted as estimate approach to discover that coefficient of corporation income tax at 2.418830 is positive and the p-value of 0.0000 is statistically significant. Etim, et al. (2020) from 1980 to 2018 to examine the relationship between companies’ income taxes and economic growth in Nigeria at the long run. Various analytical tools were adopted to analyze the secondary data. The findings of the study revealed that companies’ income tax and economic growth are positively significant. The study showed a long run relationship between CIT and economic growth. Also, in the work of Nwaorgu, Oyekezie and Abiahu (2020) for period of 2013 to 2017 on ten (10) listed manufacturing enterprises. Ex-post facto research design was adopted and basic linear regression method of data analysis showed that no significant impact of corporation tax rate on firms' returns on equity.

In a recent work by Akadakpo and Akogo (2022) examined the impact of company income tax on corporate performance. Ten years data from 2011-2022 was collected from the annual reports of listed firms on the Nigerian Stock Exchange and regression analysis was used as a technique for data analysis. The findings revealed that company income tax (CIT) has a positive and significant effect on profit after tax (PAT) and returns on equity (ROE). Abiola, et al. (2022) analyzed the influence of company income tax on firms’ profitability in the consumer goods sector of the Nigerian economy. Secondary data for 2012 to 2018 was obtained from published financial statements of the fifteen (15) selected consumer goods companies quoted on the Nigerian Exchange (NE). Panel Fully Modified Ordinary Least Square (FMOLS) model was adopted in analyzing the data and the result indicated that company income tax has a positive and significant influence on profit after tax in consumer goods sector of the economy.

The gap created from these reviews showed that most of the authors concentrated on manufacturing sector of the economy (Adefeso, 2018; Kurawa & Saidu, 2018; Olaoye & Oluwatoyin, 2019; Nwaorgu, et al., 2020; Akadakpo & Akogo, 2022; Abiola, et al., 2022), while others focused on the economy as a whole (Osho, et al., 2018; Ogwuche, et al., 2019; Etim, et al., 2020), neglecting the downstream Oil and Gas area of the economy as studies in the
Oil and Gas focused on the upstream Oil and Gas.

III. METHODOLOGY

The study adopted ex-post facto research design as documentary data is already in existence. The population of the study was ten (10) Oil and Gas firms listed on the Nigerian Exchange as at 2021, while six (6) firms (Oando Plc, Eterna Plc, Conoil Plc, MRS Plc, Japa Oil & Maritime Services Plc and Forte Oil) were purposively selected based on those with the highest turnover, market share and availability of data. Secondary data were sourced from the annual reports of these six (6) Oil and Gas firms for 2006 to 2020. The dependent variable for the study was financial performance proxied with profit before tax which was used since different companies pay different taxes and the tax effect has not been considered on the earnings generated; the independent variables were company income tax (CIT), while firm size (FS) was used as control variable proxied with total sales revenue.

The panel data analysis phases include preliminary analysis, model estimation and post estimation tests. The preliminary analysis involves descriptive analysis (such as mean, maximum, minimum, skewness, kurtosis and Jarque-Bera statistic), panel unit root test and panel cointegration test. For the model estimation, static panel regression analysis was employed to examine the effects of company income tax (CIT) on financial performance of the selected Oil and Gas companies. Random effect (RE) and fixed effect (FE) static panel estimation methods were employed. The choice between the aforesaid methods depends on the Hausman test result. The post-estimation tests include cross-sectional dependence (CD) test, serial correlation test and normality test, while E-views statistical software 9.0 was adopted for econometric analyses.

The model for the study is:

\[ PBT_{it} = \beta_0 + \beta_1 CIT_{it} + \beta_2 FS_{it} + \mu_{it} \] \hspace{1cm} (1)

In order to ensure uniform unit of measurement in terms of elasticity, the econometric form of the model after expressing same in log-linear form is specified in eqn2:

\[ lnPBT_{it} = \beta_0 + \beta_1 lnCIT_{it} + \beta_2 lnFS_{it} + \mu_{it} \] \hspace{1cm} (2)

Where ln PBT represents Log of Profit before Tax, ln CIT is Log of Company Income Tax, ln FS is Log of Firms’ Size, \(\beta_0\) is the Intercept Coefficient, \(\beta_1\) - \(\beta_2\) are the Partial Regression Coefficient of CIT and FS respectively, \(\mu\) is the Error term.
IV. RESULTS AND DISCUSSION

Descriptive Statistics

<table>
<thead>
<tr>
<th>Statistics</th>
<th>CIT</th>
<th>FS</th>
<th>PBT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>13.3723</td>
<td>18.1529</td>
<td>14.5327</td>
</tr>
<tr>
<td>Median</td>
<td>13.5043</td>
<td>18.3394</td>
<td>14.6517</td>
</tr>
<tr>
<td>Maximum</td>
<td>16.6840</td>
<td>20.3368</td>
<td>17.5298</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>1.3404</td>
<td>1.3540</td>
<td>1.2382</td>
</tr>
<tr>
<td>Skewness</td>
<td>-0.2215</td>
<td>-1.0862</td>
<td>-0.7823</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>3.7294</td>
<td>3.8901</td>
<td>5.5347</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>2.1847</td>
<td>16.5341</td>
<td>26.6172</td>
</tr>
<tr>
<td>P-value</td>
<td>0.3354</td>
<td>0.0003</td>
<td>0.0000</td>
</tr>
<tr>
<td>Observations</td>
<td>72</td>
<td>72</td>
<td>72</td>
</tr>
</tbody>
</table>

Table 1: Descriptive Statistics of Variables
Sample Period: 2006 - 2020

Table 1 shows that PBT had a negative skewness of -0.7823, which showed that the data is symmetric in nature. The Jackne-Bera statistic of 26.6172 with p=0.0000<0.05 indicated that the PBT is not normally distributed. Company Income Tax (CIT) and Firms’ Size (FS) series with skewness of -0.2215 and -1.0862 respectively revealed a negative skewness and symmetrical distribution. The Jackne-Bera statistic of 2.1847 and 16.5341 respectively alongside its p-value (p=0.3354>0.05 and 0.0003<0.05) indicated that at 0.05 significance level, the null hypothesis of normality was accepted for CIT which implied that the data were normally distributed, while that of FS were rejected, implying that the data were not normally distributed. PBT, CIT and FS have their standard deviations lower than their respective mean averages. This implies that PBT, CIT and FS seem to have some degree of moderate dispersions of values around the averages across the selected Oil and Gas firms for the given sample period. PBT, CIT and FS are leptokurtic because their kurtosis coefficients are above the threshold criteria of 3 as a moment distribution.
Panel Unit Root Test

Table 2: Panel Unit Root Test (Cross-sectional independence)
Sample Period: 2006 - 2020

<table>
<thead>
<tr>
<th>Variables</th>
<th>Levin Lin &amp; Chu: P-value**</th>
<th>Im, Pesaran and Shin: P-value**</th>
<th>ADF-Fisher chi-square: P-value**</th>
<th>PP-Fisher Chi-square: P-value**</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>@ Level</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PBT</td>
<td>0.0536***</td>
<td>0.0878</td>
<td>0.0713</td>
<td>0.0000***</td>
</tr>
<tr>
<td>CIT</td>
<td>0.0057***</td>
<td>0.0118***</td>
<td>0.0187***</td>
<td>0.0000***</td>
</tr>
<tr>
<td>FS</td>
<td>0.0180***</td>
<td>0.0383***</td>
<td>0.0358***</td>
<td>0.0646</td>
</tr>
<tr>
<td><strong>@ 1ST DIFF</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PBT</td>
<td>0.0002***</td>
<td>0.0371***</td>
<td>0.0121***</td>
<td>0.0000***</td>
</tr>
<tr>
<td>CIT</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>FS</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

** 0.05 level of significance

Source: Author’s computation (2022)

Adopting panel unit root test (Levin, Lin and Chu panel unit root test as common unit root) and (Im, Pesaran & Shin, ADF-Fisher chi-square and PP-Fisher Chi-square panel unit root test as individual unit root process) to check the stationarity of data, the results showed that company income tax (CIT) and firms’ size (FS) were stationary at level. Considering the p-value at 0.05 level of significance, the null hypothesis was rejected, which implied the series were stationary, while profit before tax (PBT) at p-value was not stationary at 0.05 level of significance, therefore, the null hypothesis was accepted. Profit before tax (PBT) was tested at first difference and the result revealed that the p-value was stationary at 0.05 level of significance. Thus, the null hypothesis was rejected. From the above analysis, CIT and FS were stationary at level, while PBT was stationary at first difference. Hence, there is need to apply panel co-integration test.
Panel Co-Integration Test

Table 3: Pedroni Residual Co-integration Test, Kao Residual Co-integration Test and Johansen Fisher Panel Co-integration Test

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sample Period: 2006 - 2020</td>
<td></td>
<td>Source: Author’s computation (2022)</td>
</tr>
<tr>
<td>PBT, CIT &amp; FS</td>
<td>0.0636</td>
<td>0.1368</td>
<td>0.0527</td>
</tr>
</tbody>
</table>

The panel co-integration adopted for the research is Pedroni residual co-integration test, Kao residual co-integration test and Johansen Fisher panel co-integration test. The linear deterministic assumption of data trending is based on the 5% significant level for the two models for co-integrating equation. The critical values (level of significance) are the yardstick for comparing panel co-integrating likelihood ratio.

The Johansen Fisher panel co-integration test and Kao residual co-integration test rejected the null hypothesis, while Pedroni residual co-integration test accepted the null hypothesis. Hence, the variables are co-integrated which implied the existence of a long-run relationship between the variables (CIT and FS) and financial performance (PBT).

Static Panel Model Result

The model estimation being natural logs for the variables was examined. Fixed effect (FE) and Random effect (RE) estimators were adopted as static panel data estimation methods because the panel data structure of short panel involves 6 cross-section units (Oil and Gas companies), that is, $N = 6$ and time period of 15 years ($T = 15$) between 2006 to 2020.
Table 4: Estimates Static Panel Model Results
Panel Data Structure: 2006 – 2020 X 6
Dependent Variable: \textit{PBT}

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>RE</th>
<th>FE</th>
</tr>
</thead>
<tbody>
<tr>
<td>\textit{Constant}</td>
<td>4.4150***</td>
<td>2.2009</td>
</tr>
<tr>
<td>\textit{CIT}</td>
<td>0.4810***</td>
<td>0.3937**</td>
</tr>
<tr>
<td>\textit{SIZE}</td>
<td>0.2037*</td>
<td>0.3892***</td>
</tr>
</tbody>
</table>

Statistics:
- R-squared: 0.4670, 0.5629
- Adj. R-squared: 0.4514, 0.5143
- F-statistic: 29.7925***, 11.5893***

Diagnostics:
- Jarque-Bera stat.: 233.7881, 106.5402

Hausman Test:
- Chi-square stat.: 5.6213
- \textit{p-value}: (0.0602)

Source: Author’s computation (2022)

\textit{Note}: The values in the parenthesis () are the \textit{p}-values for the respective coefficients, while ***, ** & * denote statistical significance at the conventional 1%, 5% and 10% levels of significance, respectively.

Table 4 presents the summary of the estimates and statistics obtained from the estimated static panel regression model using the random effect (RE) and fixed effect (FE) estimators. Based on the Hausman test result \((p = 0.0602 > 0.05)\), the random effect method is found to be efficient more than the fixed effect estimator. This implies that null hypothesis is accepted, that is, RE estimator is appropriate for the data being examined. Thus, the fixed effect estimator is considered not appropriate. Based on the foregoing, the random effect estimator is chosen in evaluating the objectives of the study.

\textbf{Test of Hypothesis}

The static panel model result on Table 4 showed the coefficient \((\beta_1)\) of PBT with respect to CIT is 0.4810, which indicated that for every 1% increase in CIT, PBT increased by 0.48%. It explained the theoretical a-priori expectation of positive slope in coefficient between PBT and CIT i.e. \(\beta<0\). The individual effects of the Profit before Tax (PBT) is statistically significant at \(p=0.0001<0.05\). This implied that company income tax had effect on profit before tax.

The analysis further revealed that Profit before Tax (PBT) can also be influenced by other factors besides Company Income Tax.
(CIT). Considering the coefficient of determination (R²) of 0.4670 which means that changes in PBIT can be explained by 46.7% variations in CIT and FS. Durbin-Watson statistics of 0.8663 showed that there is an element of positive autocorrelation between company income tax (CIT) and profit before tax (PBT). The probability of F-statistic is 29.7925>2.88 criteria helps to evaluate the overall statistically significant of the function for better fit to the data. p-value of 0.0000 indicated that Company Income Tax (CIT) and Firms’ Size (FS) jointly had effects on the firms’ financial performance.

**Post Estimation Tests**

The post estimation tests conducted include cross-sectional dependence test, normality test and serial correlation test. The essence of these tests is to affirm the applicability of the underlying assumptions of OLS and the efficiency of the estimates obtained.

Table 5: Post Estimation Test Results for FE Method

<table>
<thead>
<tr>
<th>Test</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson CD test</td>
<td>0.9994</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>233.7881</td>
</tr>
</tbody>
</table>

Source: Author’s computation (2022)

Table 5 presents the results of the cross-sectional dependence test, serial correlation test and normality test. As regards the cross-sectional dependence test, the null of “no cross-sectional dependence” cannot be rejected since the p-value (0.3176) of the Pearson CD test statistic (0.9994) is above 0.05 level of significance. This suggests that the cross-section residuals are independent or not correlated.

As shown in Table 5, Jarque-Bera statistic (233.7881) preserves the assumptions of normality of the estimated model since the p-value (0.0000) is less than 0.05 level of significance. In other words, the normality test result reveals that the residuals of the estimated model are not normally distributed having statistically significant test result. Based on the foregoing, the estimated parameters are valid for inferences and policy making having satisfied underlying assumptions of the estimation method.

**Discussion of Findings**

The above empirical findings on the effects of companies’ income tax (CIT) on firms’ financial performance showed that the
asymptotic significance is less than 0.05 decision criterion. At 5% significant level, the result passed the overall significant test (F-test) which indicated that companies’ income tax (CIT) had effects on firms’ financial performance. The study supports the findings of some previous researchers (Adefeso, 2018; Osho, et al., 2018; Ogwuche, et al., 2019; Olaoye & Oluwatoyin, 2019; Etim, et al., 2020; Akadakpo & Akogo, 2022; Abiola, et al., 2022) who discovered positive relationship between company income tax and financial performance, while it contradicted the findings of other researchers (Kurawa & Saidu, 2018; Nwaorgu, et al., 2020) which revealed that corporate income tax has no substantial relationship with financial performance.

V. CONCLUSION AND RECOMMENDATIONS

The provisions of tax benefits and available tax incentives have been sources of motivation for firms to pay company income tax, which invariably impacts on their financial performance as revealed in the study. The recent tax reforms that categorized zero (0) tax rate for small scale enterprises, 20% tax rate for medium scale enterprises and retaining the initial 30% tax rate large scale companies are welcome initiative for sustainability of present and future business investment in Nigeria. Nigerian economy has always focused on the upstream area of the Oil and Gas sector since it is the major contributor of financial resources to the economy, but the findings of this study revealed that the company income tax generated from the downstream area has positive effect on profitability of the firms, which invariably has positive impact on the economy.

Based on the above, the study recommended that Oil & Gas firms’ management need to consciously review tax policy and tax reforms on regular basis to determine the tax incentives, tax holiday, tax waver and legal tax loopholes in order to reduce the burden of tax on the profitability level of the firm since high corporate tax rate could result to low profit level which affect all financial projects and economic decision of the firms. Besides, management needs to give proper attention to the tax rate of Nigeria and various rate of other countries which the activities of the company extends to, in order to enhance adequate provision for tax liability as at when due. Finally, the Nigerian government should stop the over-dependence on upstream Oil and Gas firms and also focus more attention on company income tax in order to reduce the loopholes
of tax evasion and avoidance, which reduce tax revenue.

References


