

Taxation Policies and Profitability of Deposit Money Banks in Nigeria

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ABSTRACT

This study investigated the effect of taxation policies on the profitability of deposit money banks in Nigeria. The ex-post facto research design was employed to assess the effects over the period 2013 to 2022. The sample size comprised five major Nigerian banks (Zenith Bank, Access Bank, UBA, FCMB, and Fidelity Bank) selected using a non-probability sampling technique. Data were sourced from published audited financial statements available on bank websites, the Nigerian Stock Exchange, and the Federal Inland Revenue Service. Variables included ROA as the dependent variable, and Corporate Income Tax (CIT), Value-Added Tax (VAT), and Withholding Tax (WHT) as independent variables. The study employed panel data Ordinary Least Square (OLS) regression on EViews version 12 for analysis. The results indicated that a higher Corporate Income Tax (CIT) rate, with a coefficient of -0.903132 and a p-value of 0.0000, had a significant and negative effect on bank profitability. In contrast, Value Added Tax (VAT) exhibited a coefficient of 0.287309 with a non-significant p-value of 0.6276. However, Withholding Tax (WHT), with a coefficient of -3.286051 and a p-value of 0.0200, significantly reduced bank profitability. The study concluded that CIT and WHT policies directly influenced bank profitability, underscoring the need for balanced tax policy decisions. VAT showed no direct effect due to the indirect intermediary role of banks. Recommendations include reviewing CIT and WHT policies concerning the banking sector, ensuring VAT policy transparency, and considering incentives or exemptions to maintain industry stability. The study contributed by emphasizing tax policy effects on the financial sector and informed balanced taxation approaches.

Keywords: Deposit money banks, Taxation policies, Profitability, Return on assets, Companies Income Tax

INTRODUCTION

Background to the Study

The Nigerian banking sector plays a crucial role in the country's economy, acting as an intermediary between savers and investors. The sector consists of various types of banks, including deposit money banks, microfinance banks, and development banks (Ozili, 2020). Deposit money banks, in particular, have a significant impact on the economy as they provide various financial services such as deposit-taking, lending, and payment settlement. Taxation policies implemented by the government can have a profound effect on the profitability of deposit money banks (Ado, Rashid, Mustapha & Ademola, 2020). These policies are designed to raise revenue for the government, promote economic growth, and address income inequalities. However, the impact of taxation on banks' profitability requires careful analysis due to the unique characteristics of the banking industry (Ado et al., 2022).

In Nigeria, the primary tax laws governing the operations of deposit money banks include the Companies Income Tax Act (CITA), Personal Income Tax Act (PITA), and the Value Added Tax Act (VATA). These laws prescribe the tax rates, exemptions, deductions, and rules for the computation of taxable income (Agbonika & Agbonika, 2021). The Central Bank of Nigeria (CBN) also has regulatory guidelines that affect the tax obligations of deposit money banks. The profitability of deposit money banks is a crucial indicator of their financial health, efficiency, and ability to generate returns for shareholders. It directly influences the banks' ability to meet regulatory requirements, expand their operations, and provide adequate returns to investors. Profitability is measured by various financial ratios, including return on assets (ROA) and return on equity (ROE) (Edem, 2017).

Despite the intrinsic importance of understanding the impact of taxation policies on the profitability of deposit money banks, there is a noticeable inconsistency and gap in the existing body of knowledge. While some studies such by Nnadi and Akpomi (2005) and Hassan and Oyedele (2022) have explored the broader relationship between taxation and banking performance, there is a lack of specific research that delves into the intricacies of how different taxation policies affect the profitability of deposit money banks, particularly within the Nigerian context. Existing studies have shed light on the general influence of taxation policies on the banking sector. For instance, literature have demonstrated that corporate income tax rates can directly impact the profitability of banks (Blundell & Bond, 2001; Castro, 2013). Similarly, Achua (2008) and Udeh (2015) noted that changes in taxation policies and regulations can substantially influence the profitability of deposit money banks in Nigeria. However, the existing studies tend to provide a broad overview of the relationship between taxation and banking profitability without distinguishing between different taxation policies, such as VAT, corporate income tax, and specific regulatory levies. These taxation policies often have distinct implications, yet their individual impact remains insufficiently explored.

Furthermore, the complex interplay of economic conditions and evolving regulatory requirements necessitates more nuanced research. A good example is the implementation of the Value Added Tax (VAT) Act in Nigeria. The cost structure and profitability of banks were directly impacted by this regulatory change, although the scope and specifics of this impact are not sufficiently covered in the research that are now available. The dynamic nature of the banking sector, the shifting regulatory landscape, and the changing economic landscape highlighted the need for accurate and current study on how tax laws affect deposit money banks' profitability in Nigeria. This paper attempted to investigate the specific effects of various taxation policies, including corporate income tax, VAT, and other levies, on the profitability of deposit money banks in Nigeria. By filling this research gap, it will also advance knowledge of the intricate interactions between taxation policies and the profitability of deposit money banks in Nigeria. It aims to rectify the discrepancies in earlier research and offer relevant insights into the complex link between tax laws and the banking industry in particular setting of Nigeria.

Objectives of the Study

The objectives of the study are to:

- i. examine the effect of corporate income tax on return on assets (ROA) of deposit money banks in Nigeria;
- ii. examine the effect of value-added tax (VAT) on ROA of deposit money banks in Nigeria; and
- iii. examine the effect of withholding tax on ROA of deposit money banks in Nigeria.

Hypotheses of the Study

The following null hypotheses were tested for this study:

H₀₁: There is a significant effect of CIT on ROA of deposit money banks in Nigeria.

H₀₂: There is no significant effect of VAT on ROA of deposit money banks in Nigeria.

H₀₃: There is a significant effect of WHT on ROA of deposit money banks in Nigeria.

LITERATURE REVIEW

Conceptual Framework

Concept of Taxation Polices

According to Van Apeldoorn (2018), taxation policies are the rules and regulations that govern how the government collects revenue from individuals and businesses. Taxation policies can have various effects on the economy, such as influencing the allocation of resources, the distribution of income, the level of economic activity, and the stability of the financial system (Van Apeldoorn, 2018). Deposit money banks are financial institutions that accept deposits from customers, lend money to borrowers, and provide other services such as payment systems, foreign exchange, and wealth management (Mishkin & Eakins, 2018). Deposit money banks

are subject to taxation policies that affect their profitability, risk-taking behaviour, and contribution to the public sector (Keen & de Mooij, 2012).

One of the taxation policies that has been proposed or implemented in some countries is the bank levy, which is a charge on the liabilities or assets of deposit money banks. The bank levy is intended to address two externalities that arise from excessive risk-taking by deposit money banks: the systemic risk that results from the interconnectedness of banks and the potential spill over effects of their failure on the real economy, and the moral hazard problem that arises when banks expect to be bailed out by the government if they face insolvency (Investopedia, 2021; Puławska, 2021). The bank levy varies in its design and scope across different jurisdictions, but generally it is calculated as a percentage of the bank's balance sheet, excluding some items such as insured deposits, government debt, or prudential capital (OBR, 2021; Parliament of Australia, 2017). The bank levy aims to discourage banks from excessive borrowing and leverage, and to create a fund for future crisis resolution (IMF, 2010).

The bank levy can have various impacts on deposit money banks and the economy, depending on its design features and behavioural responses. The bank levy can affect the profitability, capital structure, funding costs, lending activities, and risk-taking incentives of deposit money banks (Benczur et al., 2018). The bank levy can also affect the fiscal position, financial stability, economic growth, and social welfare of the economy (Benczur et al., 2018). The empirical evidence on the effects of the bank levy is limited and mixed. Some studies by Devereux et al., (2019) and Schandlbauer (2017) found that the bank levy reduces leverage, increases capital ratios, lowers risk-weighted assets, and enhances financial stability. Other studies find that the bank levy increases funding costs, reduces lending volumes, shifts activities to less regulated sectors, and reduces economic growth (Benczur et al., 2018).

The optimal design of the bank levy depends on several factors, such as the objectives, trade-offs, constraints, and country-specific circumstances (Schoenmaker & Siegmann, 2014). The bank levy should balance between raising revenue for public purposes and correcting market failures in the financial sector. The bank levy should also take into account the interactions with other taxation policies and regulatory instruments that affect deposit money banks (Keen, Krelove & Norregaard, 2011).

Taxation Policy Components

Corporate Income Tax (CIT)

CIT holds significant implications for deposit money banks, serving as a crucial component of their financial landscape. CIT is a tax levied on the profits earned by corporations, and in the context of deposit money banks, it plays a pivotal role in shaping their financial strategies, operational capabilities, and overall fiscal health (John-Akamelu, Ezejiofor & Ndum, 2022). According to Adegbe and Fakile (2011), CIT is a primary taxation policy that deposit money banks must grapple with. Their study emphasizes the impact of CIT on banks' profitability and highlights the varying tax rates across different countries, including Nigeria. The authors emphasise how these tax rates can significantly influence the ability of banks to grow, invest, and distribute dividends to shareholders.

Higher CIT rates translate into reduced after-tax profits for deposit money banks. This reduction in profitability, as emphasized by Adegbe and Fakile (2011), can have profound implications. It can curtail the growth prospects of banks, limit their capacity to make strategic investments, and impact their ability to provide returns to shareholders in the form of dividends. The intricate relationship between CIT and deposit money banks is further explored by other scholars. For instance, Mizruchi and Stearns (1994) discuss how taxation policies, including CIT, play a role in shaping corporate behaviour. They argue that taxes influence decision-making processes within corporations, impacting their financial strategies and, consequently, their overall performance.

In practical terms, deposit money banks must carefully navigate the CIT landscape to optimize their financial outcomes. This involves not only managing profits but also aligning strategies with tax obligations. As noted by Dyreng, Hanlon, and Maydew (2010), firms, including banks, engage in tax planning to minimize their tax

liabilities while remaining compliant with regulations. This strategic approach underscores the dynamic interplay between corporate income tax and financial decision-making within the banking sector.

H0₁: There is a significant effect of CIT on ROA of deposit money banks in Nigeria.

Value-Added Tax (VAT)

VAT is an important concept for deposit money banks in many countries. VAT is an indirect tax that is levied on the value added at each stage of production of a good or service (Ojong, Anthony, & Arikpo, 2016). For deposit money banks in countries with a VAT system, the banks serve as an agent for collecting and remitting VAT on behalf of the government. Specifically, when banks charge fees for services provided to customers, they are required to assess VAT on those fees and remit what they collect to tax authorities (Eragbhe & Modugu, 2014). This includes assessing VAT on charges for services like account maintenance, wire transfers, check processing, cash handling, and others.

So essentially banks serve as an intermediary in the VAT collection system between the government and banking service customers. The administrative costs and complexity of properly charging, collecting, reporting, and remitting VAT places some burden on deposit money banks (Eragbhe & Modugu, 2014). However, studies have found that VAT implementation has not negatively impacted the profitability of banks in countries like Nigeria (Ironkwe & Peter, 2015). Proper understanding and complying with VAT regulations is an important responsibility for deposit money banks in many countries. The VAT collection and remittance role banks play facilitates government tax revenue generation while having minimal detrimental effect on bank financial performance (Ironkwe & Peter, 2015).

H0₂: There is no significant effect of VAT on ROA of deposit money banks in Nigeria.

Withholding Tax (WHT)

Withholding tax (WHT) is another important tax for consideration by deposit money banks. Withholding tax refers to the tax deducted at source on payments made to service providers and deposited to tax authorities on behalf of the ultimate tax payer (Eugene & Chineze, 2015). In the context of deposit money banks, WHT applies to certain types of investment income earned by bank customers. For example, when a bank customer earns interest, dividends, or rent payments deposited in their bank account, the bank has responsibility to assess and deduct WHT before making the payment (Adejumo & Sanyaolu, 2020). The bank then remits the WHT collected to tax authorities.

By serving as intermediaries that guarantee tax compliance, banks facilitate WHT as an efficient tax collection mechanism for governments (Muibi & Sinbo, 2013). However, managing the administrative responsibilities associated with properly calculating WHT amounts, communicating details to customers, deducting payments accurately, and remitting the WHT to appropriate tax agencies creates additional operating costs for banks. Nonetheless, studies focused specifically on Nigerian deposit money banks indicate that WHT implementation does not obstruct bank profitability (Adejumo & Sanyaolu, 2020). Acting as a WHT collecting agent on investment earnings paid to bank customers is a key duty of deposit money banks. Though this tax compliance role poses administrative challenges, it supports effective tax revenue generation for governments without severely impeding bank financial performance.

H0₃: There is a significant effect of WHT on ROA of deposit money banks in Nigeria.

Concept of Profitability in Deposit money banks

Profitability is a fundamental concept in the operation of deposit money banks, and it serves as a key performance indicator and an essential element for the sustainable functioning of these financial institutions (Jan, Lai & Tahir, 2021). It is the ability of a bank to generate earnings and maximize returns on its investments, assets, and overall operations. Profitability in deposit money banks is a multifaceted concept that encompasses various financial metrics and ratios, which are used to evaluate the effectiveness of a bank's

financial operations and its ability to generate income in the context of its risk exposure and capital structure (International Monetary Fund, 2023).

Profitability is a crucial aspect of the banking sector as it determines the economic value and sustainability of these institutions. To provide a comprehensive understanding of the concept of profitability in deposit money banks, this discussion will delve into the key components and metrics used to measure profitability, the factors influencing profitability, and its significance in the banking industry (Sachdeva & Ramesh, 2023).

Profitability within the banking sector is multifaceted, involving a range of key components and metrics as outlined by Alshatti (2015) and Investopedia (2021). These metrics offer insight into the financial health and operational efficiency of banks. Key components include Return on Assets (ROA), which measures a bank's ability to generate profits from its total assets, and Return on Equity (ROE), which evaluates the effective use of shareholders' equity to generate profits. Additionally, the Net Interest Margin (NIM) stands out as a critical indicator, highlighting the efficiency in managing interest income and expenses. Non-Interest Income, encompassing various sources such as fees and commissions, further contributes to overall profitability by diversifying revenue streams. Furthermore, the Efficiency Ratio serves as a measure of how efficiently a bank manages its expenses. Lastly, banks' Loan Loss Provisions play a crucial role in assessing profitability, with smaller provisions indicating stronger financial performance and larger provisions suggesting higher inherent risks (Alshatti, 2015; Investopedia, 2021).

THEORETICAL FRAMEWORK

The theoretical framework underpinning the relationship between taxation policies and profitability in deposit money banks is essential to understanding how various taxation policies influence the financial performance of banks in Nigeria. This study is anchored on the tax shield theory, agency theory and pecking order theory to offer insight into the complex interplay between taxation policies and bank profitability. The Tax Shield Theory is highly relevant in this study because banks often rely on debt financing to fund their operations and maintain liquidity.

Tax Shield Theory

One foundational theory for understanding the impact of taxation policies on bank profitability is the Tax Shield Theory. This theory, postulated by Franco Modigliani and Merton Miller in 1963, asserts that the interest tax shield generated by debt financing enhances a firm's value by reducing its tax liability. When taxation policies allow for the deduction of interest expenses, deposit money banks can reduce their taxable income and, subsequently, their tax liability (Myers, 1974 as cited by Michalkova, Stehel, Nica & Durana, 2021). By deducting interest expenses from their taxable income, banks can enhance their profitability, as less tax is paid on their earnings. This theory underlines the importance of understanding how different taxation policies, especially those governing interest expenses and deductions, can directly affect the profitability of banks (Myers, 1974 as cited by Michalkova, Stehel, Nica & Durana, 2021).

Agency Theory

The Agency Theory is pertinent when examining the relationship between taxation policies and bank profitability. Agency theory, postulated by Michael C. Jensen and William H. Meckling in 1976, posits that conflicts of interest arise between principals (such as shareholders) and agents (such as executives), leading to the need for mechanisms to align their objectives and ensure effective corporate governance. This theory emphasizes the separation of ownership and control in corporations and how this separation can lead to agency problems. In the context of taxation policies, agency theory posits that corporate executives and managers may act in their self-interest rather than in the best interests of shareholders (Jensen & Meckling, 1976 as cited by Al-Kayed, 2017). This theory becomes particularly relevant when taxation policies create incentives or disincentives for bank management. For example, changes in corporate tax rates may motivate executives to engage in tax planning activities, which can have consequences for the bank's profitability. Understanding agency problems and aligning the interests of bank management and shareholders within the context of

taxation policies is essential for assessing their impact on profitability (Jensen & Meckling, 1976 as cited by Al-Kayed, 2017).

Pecking Order Theory

The Pecking Order Theory, postulated by Donaldson in 1961 and later expanded by Myers and Majluf in 1984, posits that firms have a hierarchy of preferences for financing sources, preferring internal funds, followed by debt, and being more reluctant to issue equity due to information asymmetry and signalling concerns (Assfaw, 2020). This theory suggests that firms have a pecking order of financing sources, with internal funds (retained earnings) as the preferred source, followed by debt and equity. Taxation policies play a significant role in this decision-making process. For banks operating in Nigeria, where corporate income tax and interest expense deductions are critical, the Pecking Order Theory is pertinent. Taxation policies can influence the availability of internal funds and the attractiveness of debt financing. Understanding how banks prioritize these financing sources within the context of taxation policies can provide insights into their profitability (Aremu, Ekpo, Mustapha & Adedoyin, 2013).

Empirical Review

Habila, Jim-Suleiman, and Uchendu (2024) examined the effect of tax liabilities on the financial performance of listed deposit money banks in Nigeria. A review of theoretical, conceptual, and empirical literature on tax liabilities and financial performance was conducted. Tax liabilities were represented by company income tax, tertiary education tax, value-added tax, and capital gains tax. The study used an ex-post facto research design, with a sample of 10 banks selected from 14 listed deposit money banks using judgmental sampling. Secondary data were obtained from audited financial reports from 2013-2022. Panel least squares regression was used, and the Hausman test showed that the fixed effect model was best for interpreting results using STATA 17. Findings showed that company income tax had a positive and significant effect on financial performance, while tertiary education tax and capital gains tax had a negative and significant effect. Value-added tax had a positive but insignificant effect. The study concluded that these taxes reduced the financial performance of the banks and recommended strategic tax planning and a review of fiscal policies to introduce tax incentives and reliefs.

Adewole (2023) analyzed the impact of company income tax on the dividend policy of listed deposit money banks in Nigeria. The study examined the relationship between company income tax, education tax, profit after tax, and dividend per share. Using ex-post facto research, panel data from 2012-2020 for five banks was analyzed with pooled OLS regression, fixed effect, random effect panel analysis, and Granger causality tests. Results showed that company income tax and education tax had a negative significant impact on dividend per share, while profit after tax had a positive impact. A bidirectional causal relationship was found between dividend policy, company income tax, and education tax, while profit after tax showed a unidirectional relationship. The study recommended standardized tax audits, cautious penalties, exploring lower-tax investment alternatives, and using tax reliefs to reduce liabilities.

Obubohebieri (2023) studied the effect of monetary policies on the performance of Deposit Money Banks in Nigeria. The ex-post facto design was used with time series data from 1981-2021 from the CBN Statistical Bulletin. Simple Linear Regression analysis revealed that the cash reserve ratio and liquidity ratio had no significant effect on performance, while maximum lending rate and monetary policy rate had a significant effect. The study recommended that banks avoid excessive liquidity and use overnight and short-term borrowing to meet withdrawal requirements.

Akeem et al. (2022) investigated the impact of monetary policy instruments—open market operations, cash reserve requirements, liquidity ratios, and interest rates—on the performance of banks, using return on assets as a metric. Purposive sampling selected five listed deposit money banks. Data from CBN statistical bulletins and company reports (2012-2021) were analyzed using multiple linear regression and Pearson correlation. The study found that open market operations had no significant positive effect on profitability, while cash reserve ratios had a significant positive effect. It concluded that monetary policies significantly influence profitability

when combined. The study recommended focusing on policies beyond OMO and maintaining an adequate cash reserve ratio due to its significant impact on performance.

Adefunke and Usiomon (2022) explored the effect of company income tax on corporate performance using data from 12 listed firms on the Nigerian Stock Exchange (2011-2020). Regression analysis via SPSS revealed that company income tax had a positive significant effect on profit after tax and return on equity (ROE), while change in shareholders' funds had a negative yet significant effect on ROE. The study recommended tax incentives and reforms to reduce the tax burden on companies, encouraging their growth.

Omankhanlen et al. (2021) examined the relationship between monetary policy and bank profitability, focusing on liquidity ratio, interest rate, and money supply (M2) from 2002-2019. Using an Auto Regressive Distributed Lag and Error Correction Model, the study found a positive long-run relationship between liquidity ratio and bank profitability, a negative relationship with interest rates, and a positive relationship with M2. The study recommended measures to improve the implementation of these policies to enhance bank profitability.

Sobiech, Chronopoulos, and Wilson (2021) investigated the impact of bank taxation on corporate financing choices and investment behavior. They found that taxing banks' gross profits increased bank leverage, reduced risk, and decreased credit supply. This impacted corporate financing choices as firms with banks subject to gross profit tax showed lower leverage and shifted to more costly bond financing. Greater tax exposure also negatively affected corporate investments, highlighting the importance of bank taxation in shaping corporate strategies.

Adejumo and Sanyaolu (2020) analyzed corporate tax planning and the profitability of Nigerian listed banks using data from 2012-2018. Results showed that tax planning, measured by the effective tax rate, had a significant negative effect on profitability. The capital adequacy ratio positively influenced profitability, while bank age and size had no significant effect. The study concluded that tax planning negatively impacts profitability and recommended that banks engage tax consultants and use debt in their capital structure to reduce tax burdens.

A research by Gambacorta, Ricotti, Sundaresan, and Wang (2017) examined how taxes affect banks' liability structures. Their work is based on a dynamic model that determines the ideal bank liability structure by taking into account various issues including endogenous default, regulatory closure, and bank runs. The study experimentally examined these assumptions by exploiting regional and temporal changes in the Italian tax rates on productive activity (IRAP), particularly during the global financial crisis, using supervisory data from the Bank of Italy. The results showed that banks respond to falling tax rates by cutting leverage and nondeposit liabilities more than deposits. The reaction of the bank on the asset side is contingent upon its financial strength; banks with adequate capital concentrate on growing their assets, while those with little capital concentrate on improving their balance sheets.

Horvath (2013) estimated the short- and long-term effects of corporate income taxes (CIT) on portfolio risk and bank capital structure, taking into account the fact that these effects are determined simultaneously. The results showed that a ten percentage point increase in the statutory CIT rate was associated with an increase in bank leverage of 0.8–1.4 percentage points and a decrease in the average risk-weight of assets of 2–7 percentage points. Taxation had a relatively little overall impact on bank risk, but it did cause substantial changes in portfolio allocation in favour of less lending. These results suggest that the expected gains for bank stability from reducing the tax bias favouring debt may not materialise.

In 2019, Boscá, Domenech, and Rubio-Ramírez examined the macroeconomic effects on banking in a small open economy under a currency union of three different tax alternatives: increased taxes on earnings, deposits, and loans. They used a thorough DSGE model in their investigation, which included a banking sector and extensive tax arrangements. These three tax choices produced comparable results on macroeconomic factors, according to their research. In response to rising taxation, banks raised their markups and increased lending interest rates, which transferred some of the fiscal burden to individuals and companies. Despite raising government income, these tax policies resulted in longer-term GDP declines, higher loan interest rates, and lower credit volume, deposits, and bank capital. The study's simulation exercises showed that, regardless of the

tax rate applied, the trade-off between government revenues and economic activity could be succinctly described by an elasticity of GDP in relation to ex post government revenue, or roughly -0.9.

Chiorazzo and Milani (2011) investigated the degree to which European banks can proactively shift their tax responsibilities using bank-level data from 1990 to 2005. They investigated the effects of value-added tax (VAT) and corporate income tax (CIT) on pre-tax earnings and their constituent parts. The results showed that VAT and CIT are both advanced. The main impact of this forward shifting is on overall operating revenue; but, in the case of CIT, it also impacts loss provisions, which may have an adverse effect on the stability of banking institutions.

METHODOLOGY

The research design embraced in this investigation is the ex-post facto research design, to build up a significant linkage between Taxation Policies and Profitability of Deposit money banks in Nigeria. The choice of the ex-post facto research design for this investigation, is justified by its appropriateness for studying phenomena that have already occurred without manipulation, allowing for the assessment of naturally occurring relationships and providing insights into cause-and-effect associations based on historical data. This design is particularly suitable for analysing the impact of taxation policies on the profitability of banks over time, offering a retrospective examination that aligns with the objective of establishing significant linkages between these variables in the Nigerian banking context. Non-probability sampling technique was used to arrive at the sample size for this study. All the deposit money banks that documented their yearly financial statements with Nigeria Stock Exchange from 2013 to 2022 without missing any year was chosen for this investigation. The five chosen banks were Zenith Bank, Access Bank, UBA, FCMB and Fidelity Bank. Data were collected from the published audited financial statements of the selected deposit money banks being displayed on their websites, the Nigerian Stock Exchange website and the Nigerian Federal Inland Revenue Service (FIRS) website. The data covered the period from 2013 to 2022.

Measurement and Operationalization of Variables

The information in Table 1 shows the measurement of the variables used in the study.

Table 1: Variable Measurement

Variable	Measurement	A priori expectation
Dependent variable		
Return on Assets (ROA)	ROA is typically calculated by dividing a company's net income by its total assets (Alshatti, 2015; Edem, 2017; Investopedia, 2021).	
Independent variables		
Corporate Income Tax (CIT)	This is the amount of income tax that a corporation is required to pay to the government based on its taxable income. It is usually expressed as a percentage of the corporation's taxable income (Adegbie & Fakile, 2011; John-Akamelu, Ezejiofor & Ndum, 2022).	Negative
Value-Added Tax (VAT)	VAT is a consumption tax levied on the value added to goods and services at each stage of production or distribution. It is typically expressed as a percentage of the final sales price (Eragbhe & Modugu, 2014;	Negative

	Ironkwe & Peter, 2015; Ojong, Anthony, & Arikpo, 2016).	
Withholding Tax (WHT)	This is a tax deducted at the source on various types of income, such as interest, dividends, or payments to non-resident individuals or entities. It is expressed as a percentage of the income being withheld ((Eugene & Chineze, 2015; Adejumo & Sanyaolu, 2020).	Negative

Method of Data Analysis

This study uses panel data Ordinary Least Square (OLS) regression technique in analysing the data. In doing this, computer package of E-views version 10 is used. The results of the analysis were extracted and presented in tabular form.

Model Specification

The model for study was adopted from Abiahu and Amahalu (2017) and Adejumo and Sanyaolu (2020) and formulated as follows:

$$ROA = f (CIT + VAT+ WHT + e).....(1)$$

This is further restated mathematically as:

$$ROA = \beta_0 + \beta_1CIT + \beta_2VAT + \beta_3WHT+ e.....(2)$$

Where:

ROA = Return on Assets

CIT = Corporate Income Tax

VAT = Value-Added Tax

WHT = Withholding Tax

e = Error Term;

β_0 = Intercept

$\beta_1 - \beta_3$ = Coefficients of the regression

RESULT AND DISCUSSION

Descriptive Statistics of Variables

Table 1 presents the result of the descriptive statistics for the key variables in the study.

Table 1: Descriptive Statistics of Variables

Statistics	ROA (%)	Corporate income tax (%)	Value added tax (%)	Withholding tax (%)
Mean	2.209600	1.950000	0.188000	0.118000
Median	2.060000	1.950000	0.100000	0.100000

Maximum	3.850000	2.600000	0.600000	0.300000
Minimum	1.280000	1.300000	0.100000	0.100000
Std. Dev.	0.629548	0.323407	0.140901	0.048192
Skewness	1.075064	2.73E-16	1.319966	1.577276
Kurtosis	3.326327	2.157406	3.653846	6.397364
Jarque-Bera	9.853210	1.479092	15.40991	44.77767
Probability	0.007251	0.477331	0.000451	0.000000
Sum	110.4800	97.50000	9.400000	5.900000
Sum Sq. Dev.	19.42019	5.125000	0.972800	0.113800
Observations	50	50	50	50

Return on Assets (ROA)

The Return on Assets (ROA), as indicated by the mean value of approximately 2.21%, suggests that, on average, the banks in the sample earn a return of 2.21% on their assets. The very close median value (2.06%) to the mean implies a symmetrical distribution, where most banks cluster around this average. The range, spanning from 1.28% to 3.85%, highlights variability in bank profitability. The standard deviation of 0.63% signifies the dispersion of ROA values around the mean, reflecting some degree of diversity in bank performance. The positive skewness (1.075) suggests that the distribution is skewed to the right, with a longer tail on the right side, indicating the presence of outliers or banks with exceptionally high ROA. The kurtosis of 3.33 indicates that the distribution is more peaked and has heavier tails compared to a normal distribution.

Corporate Income Tax (CIT)

Moving to CIT, the mean tax rate is 1.95%. Both the mean and median being identical at 1.95% indicate a symmetric distribution, with most banks having a tax rate near the average. The range varies from a minimum of 1.30% to a maximum of 2.60%, suggesting some variation in tax rates. The standard deviation (0.32%) reflects relatively low variability in tax rates. The skewness close to zero (2.73E-16) indicates that the distribution is nearly normal. The kurtosis of 2.16 suggests that the distribution is less peaked and has lighter tails compared to a normal distribution.

Value Added Tax (VAT)

VAT exhibits a mean rate of 0.188%, representing the average VAT rate for the banks in the sample. With a median of 0.1%, the distribution leans towards lower VAT rates within the middle range. The range spans from 0.1% to 0.6%, implying variation in VAT rates among banks. The standard deviation (0.14%) suggests some variability in VAT rates. The positive skewness (1.32) indicates a right-skewed distribution, with a longer tail to the right, implying the presence of banks with higher VAT rates. The kurtosis of 3.65 suggests that the distribution has heavier tails and is more peaked compared to a normal distribution.

Withholding Tax

Withholding tax has a mean of 0.118%, representing the average withholding tax rate for the banks in the sample. The median of 0.1% indicates a lower middle range for withholding tax rates. The range extends from 0.1% to 0.3%, indicating some variability. The standard deviation of 0.048 suggests relatively low variability in withholding tax rates. The positive skewness (1.58) indicates a right-skewed distribution, and the kurtosis of

6.40 suggests that the distribution has extremely heavy tails and is highly peaked compared to a normal distribution, potentially indicating the presence of outliers with very high withholding tax rates.

Regression analysis for the effect of taxation policies on profitability of deposit money banks in Nigeria

The results presented in Table 2 offer a comprehensive analysis of the regression model, which examines the effect of taxation policies on the profitability of deposit money banks in Nigeria, specifically in terms of Return on Assets (ROA).

Table 2: Regression analysis for the effect of taxation policies on profitability of deposit money banks in Nigeria

Dependent Variable: ROA				
Method: Panel EGLS (Cross-section random effects)				
Date: 10/27/23 Time: 13:45				
Sample: 2013 2022				
Periods included: 10				
Cross-sections included: 5				
Total panel (balanced) observations: 50				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
Corporate income tax	-0.903132***	0.162691	-5.551211	0.0000
Value added tax	0.287309	0.588330	0.488347	0.6276
Withholding tax	-3.286051**	1.362883	-2.411103	0.0200
C	0.897408	0.341420	2.628458	0.0116
Effects Specification				
			S.D.	Rho
Cross-section random			0.375350	0.7809
Idiosyncratic random			0.198814	0.2191
Weighted Statistics				
R-squared	0.483843	Mean dependent var		0.365020
Adjusted R-squared	0.450180	S.D. dependent var		0.284594
S.E. of regression	0.211026	Sum squared resid		2.048475
F-statistic	14.37337	Durbin-Watson stat		1.452819

Prob(F-statistic)	0.000001		
	Unweighted Statistics		
R-squared	0.185561	Mean dependent var	2.209600
Sum squared resid	15.81656	Durbin-Watson stat	1.058647

Where: *** and ** are significant at 1% and 5% probability level respectively

Corporate Income Tax (CIT): The coefficient for CIT in the regression model is -0.903132, and it is highly statistically significant at 1% level of probability (p-value = 0.0000). This coefficient indicates that CIT has a substantial and negative effect on the profitability of deposit money banks, as measured by ROA. The negative coefficient suggests that as the CIT rate increases, the ROA of banks decreases. In other words, higher corporate income tax rates are associated with reduced profitability for deposit money banks in Nigeria. This finding is in line with that of Chen and Frank (2022) who reported that taxes imposed on businesses, such as CIT, can have a direct impact on their financial performance. When banks face higher tax burdens, it reduces their after-tax income, subsequently lowering their profitability. Dunkelberg (2021) has also shown that higher corporate income tax rates can deter investment, reduce the incentive for businesses to expand, and, in the context of banks, limit their capacity to generate profits. The negative relationship between CIT and bank profitability underscores the significance of tax policy decisions and their implications for the financial sector.

Value Added Tax (VAT): The regression coefficient for the Value Added Tax (VAT) variable is 0.287309, indicating a positive relationship between changes in VAT rates and the ROA of Nigerian deposit money banks. However, this coefficient is not statistically significant, with a p-value of 0.6276. This result implies that within the study sample, fluctuations in prevailing VAT rates do not exert a statistically significant impact on the profitability as measured by ROA of the examined deposit money banks. A potential rationale for why VAT changes did not significantly affect bank profitability is the indirect nature of VAT relative to other tax types like corporate income tax or withholding tax. As intermediaries in the Nigerian VAT system, deposit money banks are responsible for assessing and collecting VAT on certain banking services provided to customers, as well as remitting accumulated VAT to tax authorities (Eragbhe & Modugu, 2014). However, the banks do not directly bear the burden of VAT expenses, but rather serve as facilitators of the tax. This intermediary position of banks could contribute to why shifts in VAT rates may not directly or substantially impinge on bank profitability metrics like ROA. Furthermore, modifications to VAT policy likely shape broader macroeconomic outcomes like consumer behaviour, business costs, inflation, and aggregate demand within an economy (Muibi & Sinbo, 2013). So, while banks play an administrative role in the VAT collection process, changes in VAT rates may impact banks indirectly through influencing wider economic conditions, as opposed to directly altering bank tax obligations or expenses. Within the Nigerian setting, the statistically non-significant relationship found between VAT changes and bank ROA aligns with the characterization of deposit money banks as intermediary collectors of VAT, rather than direct payers (Federal Inland Revenue Service (FIRS), 2021).

Withholding Tax (WHT): The coefficient for Withholding Tax is -3.286051, and it is statistically significant at 5% level of probability (p-value = 0.0200). This result indicates that withholding tax has a substantial and negative impact on the profitability of deposit money banks, as measured by ROA. Withholding tax is a tax levied on certain financial transactions, typically affecting interest income and dividends. The negative coefficient suggests that as the withholding tax rate increases, the ROA of banks decreases. This implies that a higher withholding tax rate reduces the after-tax returns that banks can generate from certain financial instruments and investments. Consequently, this impacts the overall profitability of these banks. The significant negative effect of withholding tax on ROA aligns with prior research findings. Khan, Jehan and Shah (2017) conducted a study in Pakistan and found that withholding tax policies can influence investment decisions and reduce the after-tax returns for investors. The negative relationship observed in this study indicates that deposit money banks in Nigeria are similarly affected by withholding tax policies.

Overall Model Significance: In Table 2, the F-statistic is reported as 14.37337 with an extremely low p-value of 0.000001. This low p-value strongly suggests that the overall model is highly significant at 1% level of probability. In practical terms, this means that at least one of the independent variables included in the model (CIT, VAT, and WHT) has a substantial and statistically significant impact on ROA for deposit money banks in Nigeria. The high R-squared value (0.483843) further reinforces the model's explanatory power. R-squared, also known as the coefficient of determination, measures the proportion of the variance in the dependent variable (ROA) that is explained by the independent variables. In this case, approximately 48.38% of the variability in ROA is accounted for by the included taxation policy variables.

Test of Null Hypotheses

To test the null hypotheses, the study makes the following conclusions based on the results:

Null Hypothesis 1: There is a significant effect of CIT on ROA of deposit money banks in Nigeria. This null hypothesis is rejected due to the highly significant coefficient and low p-value for CIT.

Null Hypothesis 2: There is no significant effect of VAT on ROA of deposit money banks in Nigeria. This null hypothesis is not rejected as the coefficient for VAT is not statistically significant.

Null Hypothesis 3: There is a significant effect of WHT on ROA of deposit money banks in Nigeria. This null hypothesis is also rejected due to the significant coefficient and low p-value for Withholding Tax.

Hausman test for the effect of taxation policies on profitability of deposit money banks in Nigeria

Table 3 presents the results of the Hausman test, which is used to assess whether taxation policies have a significant effect on the profitability of deposit money banks in Nigeria. The test showed a non-significant p-value (0.1317) typically indicating that the Random Effects model is more appropriate for modelling the relationship between taxation policies and the profitability of deposit money banks in Nigeria.

Table 3: Hausman test for the effect of taxation policies on profitability of deposit money banks in Nigeria

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.824687	3	0.1317

CONCLUSION

Conclusively, this study has provided valuable insights into the effect of taxation policies on the profitability of deposit money banks in Nigeria. The findings highlight the significance of corporate income tax and withholding tax, which were found to have a direct and negative impact on bank profitability. While VAT showed no significant influence, its indirect nature and broader economic implications warrant continued policy clarity. The study emphasizes the need for a balanced approach to taxation policies, with a focus on maintaining the equilibrium between revenue generation and the financial health of the banking sector. Policymakers should consider potential adjustments to taxation policies and incentives to ensure the stability and sustainability of the financial industry. Further research avenues include exploring the impact of taxation policies on other financial performance metrics and evaluating the effectiveness of tax incentives and exemptions within the banking sector.

RECOMMENDATIONS

Based on the findings, the study offers the following recommendations:

- i. Policymakers should take into account the impact of corporate income tax on the banking sector. The study's results emphasize that higher CIT rates can reduce bank profitability. Careful consideration should be given to tax rate adjustments to maintain a balance between revenue generation and the health of the banking industry.
- ii. Given the significant impact of withholding tax on ROA, a comprehensive review of withholding tax policies is recommended. Policymakers should assess the implications of withholding tax on investment decisions and profitability, considering potential adjustments to mitigate adverse effects on banks.
- iii. While the study found no direct impact of VAT on bank ROA, policymakers should ensure transparency and clarity in VAT policies, especially concerning financial intermediaries like banks. The indirect nature of VAT means it can influence broader economic activities, and its implications should be well understood.

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