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## **EFFECT OF CORPORATE TAXES ON FINANCIAL PERFORMANCE OF LISTED DEPOSIT MONEY BANKS IN NIGERIA.**

**Nasarawa State University Keffi  
Department of Taxation**

Prof. A. D. Zubairu  
HEMEN, Thomas Tyoyongu  
Dr. A. I. Olotu  
Dr. M. A. Yusuf

### ***ABSTRACT***

*The Nigerian banking sector play a vital role in economic growth through financial intermediation, by mobilizing and providing of deposit and credit services to households and firms. Its contribution to Nigeria's Gross Domestic Product (GDP) increased to N3.8 trillion in 2023, representing 26.5 per cent Year-on-Year (YoY) from N3.01 trillion reported in 2022. This study therefore, examined the effect of corporate taxes on financial performance of listed Deposit Money Banks (DMBs) in Nigeria from 2015 to 2024. The tax variables investigated were Company Income Tax (CIT), Value Added Tax (VAT), Education Tax (ET), Capital Gains Tax (CGT), and the National Information Technology Development Agency Levy (NITDAL), with Return on Assets (ROA) as the performance indicator. The study adopted longitudinal research design and utilized secondary data obtained from the audited financial statements of listed DMBs published on the Nigerian Exchange Group (NGX). The data were analyzed using panel regression techniques to determine the relationship between the tax variables and financial performance. The findings revealed that all tax variables had a negative and significant effect on banks' financial performance, implying that increased tax obligations reduce profitability and liquidity. Among these variables, Capital Gains Tax (CGT) showed the strongest negative effect, suggesting that it severely constrains reinvestment and growth. The study concludes that corporate taxes imposes a heavy fiscal burden on Nigerian banks, weakening their profitability and competitiveness. It recommends harmonizing tax policies, reducing CGT rates, and providing tax incentives for banks that reinvest profits in digital and capital development. The study suggests that future research should focus on assessing the impact of tax incentives and exemptions on bank investment decisions, technological innovation, and capital formation to provide actionable insights for policymakers. Additionally fiscal indicators such as withholding tax, excise duties, and stamp duties should be included to provide a more comprehensive understanding of tax effects on the banking sector.*

**Key Words: Financial Performance, ROA, Corporate Taxes, CIT, VAT, ET, CGT and NITDAL**

### **1.1 Background to the Study**

Commercial banks, are central to the Nigerian financial system. They play a vital role in economic growth through financial intermediation, by mobilizing and providing of deposit and credit services to households and firms (Oburota & Ifere, 2017). They are essential in the distribution of



financial resources, and any form of imbalance in its activities can make a general economic negative impact. Their contribution to Nigeria's Gross Domestic Product (GDP) increased to N3.8 trillion in 2023, representing 26.5 per cent Year-on-Year (YoY) from N3.01 trillion reported 2022, (Kayode, 2023). According to Gurley and Shaw (1960), financial intermediaries such as commercial banks play a central role in reallocating resources from surplus to deficit economic agents, thereby enhancing capital formation and productive investment. This is the extent to which a financial institution efficiently generates income, manages costs, and delivers value to shareholders, while maintaining solvency and complying with regulatory standards.

According to Rose and Hudgins (2013), bank financial performance measures how effectively management employs the bank's financial resources to achieve profitability, stability, and growth. Similarly, Brigham and Ehrhardt (2017) define financial performance as the firm's capacity to generate returns on investment and enhance shareholder value over time. It is typically measured using indicators such as Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), and Net Profit Margin (NPM) (Saunders & Cornett, 2022). Strong financial performance enables banks to expand credit, invest in technological innovations, and meet prudential guidelines, while poor performance can result in liquidity crises, diminished investor confidence, and regulatory sanctions (Mishkin, 2021). As custodians of public funds and facilitators of investment, commercial banks significantly influence the stability and growth of the national economy. To maintain public trust and fulfill their intermediation role, these banks must demonstrate operational soundness, capital adequacy, and financial sustainability.

Corporate taxes denote one of the main sources of income to finance government budget, but also an important determinant of a capital investment in every nation (Cordelia, and Amah 20218). The government is concerned about raising more revenue to finance its expenditure responsibilities while investors are interested in a conducive business environment with a reduced tax burden. The notion of taxes is thus as ancient as the economy itself.

Okonkwo., et al (2022) opined that Governments use tax revenue to carry out their traditional functions such as the provision of public goods and services; maintenance of law and order; defense against external aggression; and regulation of trade and business to ensure social and economic maintenance. While it is a financial hardship for corporate groups, it is a natural source of money for the government. Consequently, corporate businesses fight to pay it while the government forcibly deducts tax from their profits (Adejumo & Sanyaolu, 2020).

Despite the strategic importance of sound financial performance, DMBs in Nigeria are increasingly burdened by rising tax obligations. The corporate taxes environment in Nigeria includes multiple levies such as Company Income Tax (CIT), Value Added Tax (VAT), Tertiary Education Tax (TET), Capital Gains Tax, and the National Information Technology Development Agency Levy (NITDAL) (Fagbemi, Uadiale, & Noah, 2019). These tax liabilities impact banks' profitability by increasing operational costs and reducing retained earnings available for reinvestment or capital expansion (Omodero & Dandago, 2019). Recent fiscal reforms have further intensified tax pressures on banks. The Finance Act 2020 increased the VAT rate from 5% to 7.5%, while the Finance Act 2023 raised the TET from 2.5% to 3% (FIRS, 2023).

Empirical reveal evidence, with some taxes boosting performance through enhanced regulatory compliance and legitimacy, and others depressing returns by escalating operational costs. Excessive tax burdens have been shown to discourage capital accumulation, reduce shareholder



returns, and motivate tax avoidance strategies (Desai & Dharmapala, 2009; Slemrod & Gillitzer, 2019). However, some scholars argued that moderate tax supports financial stability and governance by promoting compliance and equitable resource redistribution (Nwaiwu & Nnadi, 2020). In Africa, evidence from countries such as South Africa and Kenya suggests that disproportionate tax burdens can negatively affect banks performance, (Owolabi & Badejo, 2019; Bwire & Kallon, 2020). According to Toshmatov, et al (2022), Henry et al (2024), and Ajayi, et al (2019) in their quest to assess the effect of CIT on banks profitability find a positive relationship while others like (Obi et al., 2022) highlight its negative effect on profitability and capital retention. Given the contradictory empirical evidence and the dynamic fiscal changes introduced by Nigeria's Finance Acts (2020-2024), a comprehensive assessment of how these taxes collectively impact the financial performance of listed DMBs is necessary. This study seeks to fill that gap by providing a multi-tax component analysis over a 10-year period (2015–2024), offering policymakers, regulators, and stakeholder's clearer insights into the effect of those corporate taxes on financial performance within Nigerians banking sector. Therefore, the main objective of this study is to examine the effect of corporate taxes on financial performance of listed deposit money banks in Nigeria with specific objectives to: assess the effect of CIT, VAT, ET, CGT, and NITDAL on financial performance of listed DMBs in Nigeria being proxy by Return on Assets (ROA) from 2015-2023. The study is hypothetical that CIT, VAT, ET, CGT and NITDAL has no significant effect on ROA of listed DMBs in Nigeria.

The motivation for this study stems from the need to inform policymakers, regulators, investors, and banking professionals about to what extent does those corporate taxes; CIT, VAT, ET, CGT, and NITDAL affect ROA of listed DMBs in Nigeria, from the findings of this study. The research will provide evidence based insights for optimizing tax policies, calibrating capital regulations, and enhancing banks' strategic planning. Ultimately, this study aims to contribute to a more resilient and efficient banking sector that can sustain economic growth in an increasingly complex fiscal and regulatory environment.

## 2. Literature Review

### Financial Performance

Financial performance refers to the measure of a company's financial health and its ability to generate profits from its operations over a specific period (Brigham & Ehrhardt, 2022). According to Olatunji and Ajisafe (2021), financial performance reflects the ability of a bank to generate sustainable earnings and maintain financial stability over time. Similarly, Onoh (2019) augured that financial performance in banking serves as a barometer for economic efficiency and competitiveness in the financial system. Adejumo and Sanyaolu (2020), financial performance refers to the measurement of the results of a firm's strategies, policies and operations in monetary terms. These results are reflected in the firm's return on assets or return on investments. Financial performance also provides how a company can use assets from its primary mode of business to generate revenues. Financial performance is measured by revenues from operations, operating income or cash flow from operations or total unit sales.

Almajali, Alamro and Al-Soub (2012), define financial performance as the measurement of what has been attained by the firm, which is an indicator of the good conditions for a period of time. The financial performance indicator is about flow of funds, the uses of firm's finances, their



efficiency and effectiveness. Firm performance can be observed from two points of view: financial and organizational; a company's performance can be measured based on variables that involve productivity, returns, growth or even customer satisfaction.

Barbosa & Louri, (2005) opined that financial performance is a critical determinant of business sustainability and growth. Various financial metrics are used to evaluate financial performance, including profitability ratios, liquidity ratios, and leverage ratios (Ross, Westerfield, & Jaffe, 2021). According to Olaoye, and Fasanmi (2022);

The efficiency with which a company is able to handle its resources is reflected in its bottom line. Earnings are one metric that might be used to evaluate how well it is doing. Financial performance, can commonly be measured by the many financial indicators, among these, Return on Assets (ROA) is a key indicator that assesses how efficiently a company utilizes its assets to generate earnings. For banks, whose operations rely heavily on managing assets like loans and investments, ROA is a direct indicator of performance.

### **Return on Assets (ROA)**

Return on Assets (ROA) is a financial ratio that measures a company's profitability in relation to its total assets (Damodaran, 2020). ROA indicates how effectively management is using assets to produce profits. A higher ROA signifies efficient asset utilization, while a lower ROA suggests inefficiencies in asset management. Factors influencing ROA include operational efficiency, asset utilization, market conditions, and taxation policies (Gitman, & Zutter 2019). In Nigerian, ROA is essential performance metric for businesses, particularly in the banking, manufacturing, and oil sectors (Okoye, & Ezejiofor. 2020). Regulatory frameworks, economic stability, and fiscal policies play a crucial role in shaping asset utilization and financial returns. Government policies, including corporate taxation, significantly impact the ROA of Nigerian firms (Adebisi & Gbegi, 2013).

Conversely, tax incentives can enhance ROA by allowing companies to retain more profits for reinvestment (Adebisi & Gbegi, 2013). The Nigerian government's taxation policies, compliance costs, and regulatory framework all play a vital role in shaping firms' financial performance. Thus, financial performance, as measured by ROA, is intertwined with corporate taxation in Nigeria. Understanding this relationship is crucial for policymakers, investors, and corporate managers aiming to optimize profitability and sustain long-term growth.

### **Corporate Taxes**

Corporate taxes are levy imposed on the net income or profit of corporations and other business entities by the government. It serves as a significant source of government revenue, funding public goods and services such as infrastructure, education, healthcare, and social security (OECD, 2021). The structure and rate of corporate taxation vary across countries, influenced by economic policies, regulatory frameworks, and international taxation agreements (Auerbach, 2020). Corporate taxes includes varieties of components such as Company Income Tax (CIT), Value Added Tax (VAT), Education Tax (EDT), Capital Gains Tax (CGT), National Information Technology Development Agency Levy (NITDAL), and other statutory levies regulated by the Federal Inland Revenue Service (FIRS) (FIRS, 2020). The primary objective of corporate taxation is to ensure that companies contribute a fair share to the economy in line with their profit generating capacity. However, its implications on corporate behavior, especially regarding investment, financial performance, and tax planning, have been widely debated. High corporate tax rates may discourage



investment and reduce post-tax earnings, thus affecting profitability indicators like Return on Assets (ROA) and Return on Equity (ROE) (Auerbach, 2007).

### **Company Income Tax**

Company Income Tax (CIT) is a direct tax imposed on the profits of corporate entities. The rate of CIT varies by country and is often subject to corporate tax laws and regulations. It is typically calculated as a percentage of a company's taxable income, which is derived after deducting allowable expenses and tax exemptions (Poterba, 2020). According to the CITA (2004, Section 9), CIT is defined as a tax chargeable on the profits of any company accruing in, derived from, brought into, or received in Nigeria. Company Income Tax is a compulsory charges on the income of corporate organization by the government. It serves as a primary revenue source for many nations and is often structured progressively or proportionally. (OECD, 2021).

Company income tax in Nigeria is administered exclusively by the Federal Inland Revenue Service (FIRS). The current enabling law is the Companies Income Tax Act, Cap 60 Laws of the Federation of Nigeria (LFN) 1990 or Cap C21 LFN 2004 as amended by decree 3 of 1993, decree 30, 31 and 32 of 1996, and decree 11 of 2007. (Danjuma, 2025). CIT is imposed on business profits after deductions for allowable expenses, including capita allowance, wages, and other business-related costs (Auerbach, 2006).

According to the OECD (2021), company income tax is defined as a direct tax imposed on the net income of corporations, which is subject to statutory rates and regulatory compliance in the jurisdiction where the corporation operates. "This the percentage of the profit of a company accruing in, derived from, brought into or received in Nigeria. CIT was created by the Companies Income Tax Act (CITA) 1979 and has its root from the Income Tax Management Act of 1961. Ibadin and Oladipupo (2015) explain, CIT is a major source of revenue, particularly from large industries like telecommunications, banking, and manufacturing.

### **Value Added Tax**

Value Added Tax (VAT), this is input VAT that banks pay on goods and services it consumes in running its operations, such as VAT on office supplies, professional services (audit, consultancy, IT services), VAT on fixed assets purchases (e.g., computers, generators, vehicles), VAT on utility or facility management services. It is a consumption tax levied on goods and services at various stages of production and distribution (OECD, 2021). VAT is multi staged tax collected on sales at all stages of distribution (Danjuma, 2014). ICAN (2019), describes VAT as "a multi-stage tax levied on the incremental value added to a product or service, collected at each stage of the supply chain. International Monetary Fund (IMF, 2022): Defines it as a broad-based consumption tax applied to the sale of goods and services, with mechanisms to prevent tax cascading through input tax credits. While VAT is primarily a government revenue tool, it also influences financial institutions, particularly banks, through its impact on operational costs, revenue generation, and customer behavior (Tanzi & Zee, 2001). Listed deposit money banks pay Value Added Tax (VAT) on a range of goods and services they consume in the course of their operations, even though financial services (like loan interest) are mostly exempt. According to FIRS (2021), some common examples of VAT that listed deposit money banks typically pay includes, VAT paid on the fees paid to professional and consultancy Services to auditors, legal firms, tax consultants, and management consultants, these fess usually attract VAT which banks pay. The VAT paid on IT



and Software Services which includes Fees for banking software, IT infrastructure support, and fintech solutions are typically VAT able.

### **Education Tax**

Education is a fundamental driver of national development, and adequate funding. Is essential to improve the quality of education in Nigeria. However, due to insufficient government allocations, alternative sources of financing, such as education tax, have been introduced (Okebukola, 2015). The Education Tax Fund (ETF), later restructured as the Tertiary Education Trust Fund (TETFund), was established to mobilize additional revenue for educational institutions through taxation on corporate entities (Omodero, 2020).

Education tax is a form of taxation imposed on eligible companies to generate revenue for funding educational institutions, particularly tertiary education in Nigeria. The tax is levied at 2% of assessable profits of companies registered in Nigeria and is administered by the Federal Inland Revenue Service (FIRS) before being disbursed to educational institutions through TETFund (Federal Inland Revenue Service (FIRS, 2022)). The imposition of education tax has significant implications for the financial performance of commercial banks in Nigeria. Since the tax is levied on the assessable profits of companies, including banks, it directly affects their net profit margins.

### **Capital Gains Tax (CGT)**

Capital Gains Tax (CGT) is a tax levied on the profit realized from the sale of assets such as real estate, stocks, and other investments. The tax is generally imposed when the asset is sold for a price higher than its original purchase cost. CGT rates vary based on factors such as the holding period and whether the asset is classified as short-term or long-term (Burman & White, 2021). Some governments provide exemptions or reduced rates for investments held over extended periods to encourage long-term investment (Gale & Krupkin, 2020). The Capital Gains Tax Act (CGTA) was enacted in 1967, setting the initial tax rate at 20% for all capital gains (Soyode & Kajola, 2006). Nigeria's CGT rate of 10% is one of the lowest globally, aimed at stimulating real estate and financial investments (OECD, 2021). According to FIRS, (2020) Capital Gains Tax (CGT) is charged at 10% on gains arising from the sale or disposal of chargeable assets, including financial instruments held by banks. Below are some examples of capital gains that banks may incur and be taxed on, Sale of Equity Investments (Stocks & Mutual Funds): Banks often invest in stocks of other subsidiaries company's, associate companies, or other corporate investments. If they sell shares at a price higher than the purchase price, the gain is taxable under capital gains tax regulations. Gains from shares traded on the Nigerian exchange group were exempt from CGT until June 2023. Post-2023, gains exceeding NGN 100 million in a year are now taxable. Real Estate Investments: Banks sometimes own properties, either as investments or repossessed collateral from defaulted loans. Selling such properties at a profit triggers capital gains tax. Trading in Foreign Exchange (Forex) Assets: Banks hold foreign currency denominated securities and may sell them at a gain due to currency appreciation. These gains will be subject to capital gains tax. (Finance Act, 2021).

### **National Information Technology Development Levy**

NITD levy is an income tax payable by certain categories of companies (including commercial banks) that have an annual turnover of at least NGN100million; it is calculated as 1% of the Profit before Tax (PBT) of liable companies. The National Information Technology Development Agency (NITDA) Act imposes the levy and requires the Federal Inland Revenue Service (FIRS)



to administer it. (Deloitte, 2021) The National Information Technology Development Agency (NITDA) is conceptualized by scholars as a central government institution established to drive, regulate, and coordinate the development and deployment of information and communication technology (ICT) for national economic growth and technological advancement. According to Ndukwe and Okereke (2020), NITDA represents an institutional framework through which government mobilizes resources, formulates policies, and enforces standards aimed at strengthening a country's digital economy and innovation capacity.

Ayo, Adewoye, and Oni (2019) define NITDA as a public sector agency designed to promote indigenous IT capability, enhance digital infrastructure, and facilitate the integration of technology into both public and private sector operations. They argue that the agency plays a strategic role in reducing digital dependence on foreign technologies and fostering local content development in ICT. Gangodawilage, Madurapperuma, and Aluthge (2021) view NITDA as a regulatory and developmental body that supports technology-driven governance and compliance systems. They emphasize that agencies like NITDA improve efficiency, transparency, and accountability by promoting the adoption of digital platforms in financial and administrative processes, including taxation and banking operations.

### **Empirical Review**

Onwughai, et al (2025) examines the effect of Company Income Tax (CIT) on the financial performance (ROA) of listed deposit money banks in Nigeria, with a particular focus on the moderating role of Firm Size in the CIT-ROA relationship. The study population comprises all 43 deposit money banks as published on the Central Bank of Nigeria's website as at April 26, 2024. A sample of twelve banks was selected using a purposive sampling technique. The study covers a fifteen-year period from 2009 to 2023, utilizing secondary data extracted from the audited financial statements of the selected banks. Employing ex-post facto research design, pooled regression was used for the analysis. The findings reveal a statistically positive but insignificant relationship between CIT and ROA. However, with moderation, the CIT-ROA relationship was found to be negative and significant. This study still fines whether with increase in firm size but CIT still affect the ROA of those listed DMBs.

Henry, et al (2024) examines the effect of tax liabilities on financial performance of listed deposit money banks in Nigeria. To accomplish this objective a comprehensive study on the theoretical, conceptual and empirical literature on tax liabilities and financial performance was examined. Tax liabilities was proxy by company income tax, tertiary education tax, value added tax and capital gain tax. This study adopted the ex-post facto research design. The population of the study consists of 14 quoted deposit money banks in Nigeria, judgmental sampling techniques was used to select ten banks as a sample size. Secondary data was obtained from audited annual financial reports of the listed deposit money banks in Nigeria from 2013-2022. the study adopted panel least squares regression through pooled effect, fixed effect, and random effect, from the outcome determined by the Hausman test, fixed effect regression was preferred for results interpretation with the aid STATA 17. Findings show that company income tax had a positive and significant effect on financial performance; tertiary education tax and capital gain tax had negative and significant effect on financial performance of listed deposit money banks in Nigeria. Value added tax had positive and insignificant effect on financial performance. This study ended in 2022 which the result might not be the same with current study due to changes in tax policy, e.g education tax rate



from 2.5% to 3% in 2023 finance act, and also there is need to include other tax variables to give a robust result.

Kupoluyi, et al (2024) investigates the impact of stamp duties (STD) and value added tax (VAT) on return on assets (ROA) and return on equity (ROE) using regression analysis on a dataset spanning the past decade from Nigerian consumer goods firms. The findings reveal that STD and VAT insignificantly influence ROA, suggesting that variations in STD and VAT rates and policies directly affect a firm's profitability from its assets. In contrast, both STD and VAT show significant effects on ROE, indicating that these taxes directly impact the return generated from shareholders' equity.

Abubakar, and Ali (2024) analyzed the impact of withholding tax (WHT) and education tax (EDT) on the financial performance of listed manufacturing companies in Nigeria, with a focus on Return on Assets (ROA) as a measure of profitability. Analyzing secondary data from five firms Guinness Nigeria Plc, Honeywell Flour Mills Plc, Nestlé Nigeria Plc, Flour Mills of Nigeria Plc, and Nigerian Breweries Plc over the period from 2014 to 2023, the study employs regression analysis to determine the relationship between tax variables and ROA. The regression model indicate that, the variance in ROA is explained by the model, though this result is primarily driven by factors other than the tax variables examined. The coefficients for WHT and EDT were found to be statistically insignificant, suggesting that neither tax significantly affects financial performance.

Toshmatov, et al (2022) analyzes the impact of corporate income tax and value added tax on the profitability of commercial banks. The profit tax and VAT paid by commercial banks has been selected as the object of this research. Empirical analysis demonstrates that there is a positive relationship between the profitability of commercial banks and profit tax, and that an increase in income tax rate will result in the rise of the bank profitability and price growth for banking products. While there is a negative correlation between the profitability of commercial banks and the VAT paid on income resources, it is not statistically significant. This is due to the fact that the exemption of VAT on financial services, VAT received by banks is not kept in a separate account and uses the services of small businesses that are not VAT payable. This study was carried out in 2022 and the sample size and the time of coverage not clearly specified.

Chinedu, et al (2022) examined the impact of corporate taxation on the financial performance of deposit money banks in Nigeria from 2011 to 2020. The specific objectives of the study were to determine the impact of company income tax (CIT) and national information technology levy (NITDL) on the profit of deposit money banks in Nigeria. A sample consisting of 7 deposit money banks and cross sectional data were obtained from their annual reports and financial statements were used for the analysis. The econometric of analysis was Autoregressive Lag Modelling (ARDL) approach, informed by a mixed order of integration of the variables. The findings indicate that- in the short run, CIT was not only significant, but exerted a positive impact on profit for the year of deposit money banks; while in the long run, it exerted insignificant and positive impact. It also revealed that NITDL had positive and significant impact on profit for the year of deposit money banks both in short and long run. However, the study used only seven banks for sampling, using only CIT and NITDL as corporate tax proxy and the scope in terms of year coverage is not specified which may affect generalizability.



Olaoye and Fasanmi (2022) examined the effect of taxes on profitability of Deposit Money Banks in selected African countries. Objectively, the study examined the effect of company income tax and education tax on profitability of DMBs in selected African countries in terms of return on equity and return on assets. Ex-post facto research design was adopted and the population covered all the 14 quoted Deposit Money Banks in Nigeria; out of which, 10 banks were purposively selected. Secondary data obtained from the audited annual financial statement of the selected banks for 10 years spanning from 2010-2019 was used. Panel regression of fixed and random effect estimation was to test the formulated hypotheses and this was carried out after descriptive statistics and Pearson correlation. It was discovered that corporate income tax exerts a positive but insignificant effect on profitability of deposit money banks in terms of return on equity and return on asset. Education tax was found to have a positive and significant effect on return on equity. However, it has a positive but insignificant effect on return on asset. This study ended 2019 which need to be updated, also study used only CIT and education tax as tax proxies, and more also is a Cross- African study which might not be compatible in Nigeria due to tax policy.

Ugbor, et al. (2022) examined the relationship between statutory payments and profitability of deposit money banks in Nigeria using data from 2011 to 2020. Corporation tax (CIT), technology tax (TCT), and tertiary education tax (TET) were the independent variables and proxies for statutory payments while earnings per share (EPS) was used as the dependent variable and measure for profitability. A sample of four (4) deposit money banks was selected from the 13 deposit money banks listed on the Nigeria Stock Exchange as at March 31, 2022. Data extracted from the selected banks were analyzed using Spearman's Correlation matrix. Findings from the analysis suggested that CIT positively and weakly related with EPS; while TCT and TET are both positively and strongly associated with EPS. The study ended 2020 which might need to extend to capture the current changes in tax policy, e,g education tax which now at 3% also to include other tax variables to make the research robust and to have a reliable result.

## **Theoretical Framework**

### **Laffer Curve Theory of Taxation**

The Laffer Curve Theory of Taxation was popularized by American economist, Arthur Laffer in the 1970s, although the underlying ideas can be traced back to earlier economic thought. Arthur Laffer is credited with formalizing and popularizing the Laffer Curve during discussions with policymakers in the 1970s, most notably with then-U.S. politicians. Laffer illustrated the concept with a simple graph on a napkin, which has since become a legendary moment in economic history. The theory explores the relationship between tax rates and tax revenue which suggests that there is an optimal tax rate that maximizes government revenue without discouraging productivity and economic growth. It posits that at a 0% tax rate, the government would collect no revenue, as there would be no taxes. Conversely, at a 100% tax rate, individuals would have no incentive to earn income, leading again to zero revenue. The curve suggests that there is a tax rate between these extremes that maximizes revenue. This optimal point balances the tax rate and the economic activity it generates.

### **Ability to Pay Theory of Taxation**

The principle of ability to pay theory of taxation started in the 16th Century. It was notably advanced by classical economists such as Adam Smith and later by John Stuart Mill. The theory



became more structured and influential in economic thought during the 19th and 20th centuries. The foundational ideas were proposed by Adam Smith in the 18th century, particularly in his seminal work, "The Wealth of Nations" (1776). John Stuart Mill further developed the theory in the 19th century, elaborating on its principles. The theory was further extended by the Swiss philosopher Jean Jacques Rousseau (1712- 1778), and the French political economist Jean Baptiste Say (1767-1832), as well as John Stuart Mills in 1872, thereafter by M.S. Kendrick, (1939). The theory was established as a progressive taxation principle that maintains that taxes should be levied according to a taxpayer's ability to pay. The theory stated that individuals who earn more money can afford to pay in taxes (Wang, 2016).

The Ability-to-Pay Theory of Taxation is a cornerstone of modern tax policy and is rooted in the principles of equity and fairness. This theory suggests that individuals should be taxed based on their ability to pay, which is typically measured by their income or wealth. The theory is considered the most equitable tax system. It is more widely accepted principle based on equity or justice. The philosophical rationale behind the theory maintains that taxes should be levied according to a taxpayer's ability. The idea is that people, businesses, and corporations with higher incomes should pay more taxes. (Danjuma, 2025).

### **Benefit Theory of Taxation**

The Benefit Theory of Taxation was propounded by Thomas Hobbes in the 17th century. The Benefit Theory was popular in the late 18th and early 19th centuries. It is also referred to as the "Quid Pro Quo" theory. The theory was primarily articulated by Swedish economist Knut Wicksell in 1896 and Erik Lindahi in 1919 and was further extended in the work of Richard Musgrave in 1959 and Paul Samuelson in 2000.

The benefit theory dictates that taxes should be apportioned to individuals according to the benefits they derive from government expenditure. According to Little (1965), the theory implies that taxes should be assessed as payment for services rendered by the authorities to the individual members of the state. The theory suggests that individuals should be taxed based on the benefits they receive from government services, aligning the cost of public goods and services with their consumption. i.e. the state provides certain facilities to its citizens who should, therefore, contribute to the cost or value of these facilities in proportion to benefits received by them. The more the benefit a citizen derives, the more taxes he should bear, is the main assumption of the theory. Listed deposit money banks in Nigeria, the balance between taxation and benefits is crucial because: Over taxing may reduce profitability, limit banks' ability to offer competitive interest rates and financial products. Under taxing may lead to inadequate public infrastructure, negatively impacting banking operations and economic stability.

### **3. Methodology**

This study adopted longitudinal research design because the nature of the variables is both cross-sectional and time series. Thus, longitudinal research designs best describe the patterns of change and the magnitude of relationships between the variables under investigation. This design also allows measurements of each variable over two or more distinct time frame.

#### **Population, Sample, and Sampling Techniques**

The population of the study consists of 13 the listed Deposit Money Banks (DMBs) in Nigeria as of December 31, 2024. As per available in formation, there are currently 13 listed DMBs on the Nigerian Exchange Group (NXG) These banks are regulated by the Central Bank of Nigeria (CBN)



and play a critical role in the Nigerian financial system. Since the population consists of 13 Listed Banks, this study adopts a census sampling technique by including all 13 listed DMBs in the sample for the period of 10 years from 2015 to 2024. A census approach is used because the population is small and manageable, ensuring that the findings are representative of the entire population without the need for sampling. As noted, a census sampling method is employed to include all 13 listed DMBs in Nigeria. This approach is advantageous because it eliminates sampling bias and ensures comprehensive coverage of the entire population, leading to more accurate and generalizable findings.

**Table 3.1: Working population for the Study**

S/N	list of Deposit Money Banks(Commercial banks)
1	Zenith Bank Plc
2	Access Bank Plc
3	Fidelity Bank Plc
4	FCMB Plc
5	First Bank of Nigeria Plc
6	Guaranty Trust Bank Plc
7	Stanbic IBTC Bank Plc
8	United Bank for Africa Plc
9	Sterling Bank Plc
10	Unity Bank Plc
11	Wema Bank Plc
12	Jaiz Bank
13	Eco Bank Plc

*Source: listed deposit money banks in Nigeria by Nigerian Exchange Group as of 2024*

### Methods of Data Collection

This study relies on secondary data collected from the annual financial statement of 13 listed DMBs in Nigeria. The data spans 10 years, covering the period from 2015 to 2024. The sources the data include; annual reports of financial statements of the sampled banks, available from their official websites, the Nigeria Exchange Group (NXG) for corporate taxes which includes Corporate Taxes data such as Company Income Tax (CIT), Value Added Tax (VAT), Education Tax (TETFund), Capital Gain Tax (CGT), and National Information Technology Development Agency Levy (NITDAL), Also financial performances data such as Return on Asset will be obtained to determine the effect of the corporate taxes variables on financial performance of listed deposit money banks in Nigeria.

### Technique for Data Analysis and Model Specification

Data was analyzed using panel data regression analysis. As this technique allows for the control of individual heterogeneity across banks and accounts for both time- series and cross-sectional variations. Fixed effects or random effects models will be employed depending on the result of the Hausman test, which will determine the appropriate model to use. Descriptive statistics, correlation



analysis, and diagnostic tests (eg. Multicollinearity. VIF and Heteroscedasticity) was also conducted to ensure the reliability of the model. The econometric software STATA was used for data analysis due to its robust features for panel data regression and diagnostic testing.

**Model Specification**

To examine the correlation between corporate taxes and the financial performance of listed deposit money banks in Nigeria, the study specifies the following baseline panel data regression model:

$$ROA_{it} = \alpha_{it} + \beta_0CIT_{it} + \beta_1VAT_{it} + \beta_2ET_{it} + \beta_3CGT_{it} + \beta_4NITDAL_{it} + \mu_{it}$$

Where:

ROA= Return on Assets

CIT<sub>it</sub> = Company Income Tax paid by the listed DMBs

VAT<sub>it</sub> = Value Added Tax paid by the listed DMBs

ET<sub>it</sub> = Education Tax paid by the listed DMBs

CGT<sub>it</sub> = Capital Gain Tax paid by the listed DMBs

NITDAL<sub>it</sub> = National Information Technology Development Agency Levy Paid by DMBs

t = Time specific effects

α= Constant

μ=Error term (uncovered variables).

β<sub>0</sub>, β<sub>1</sub>, β<sub>2</sub>, β<sub>3</sub>=Slopes of Coefficient of the explanatory variables

**Table 3.2 Variable Measurement**

S/N	Variable type	Variable name	Measurement	Source
1	Dependent	Return on assets (ROA)	Net income / Total assets	Justice & Offor (2024), Akinyede, (2023)
2	Independent	Company income tax (CIT)	Amount of CIT paid for the period of the study	Henry et al. (2024), Justice & Offor (2024)
3	Independent	Value added tax (VAT)	Amount of VAT paid for the period of the study	Toshmatov et al. (2022); Justice & Offor (2024) Vincent, and Carlo (2009)
4	Independent	Education tax (ED Tax)	Amount of ED Tax paid for the period of the study	Olaoye & Fasanmi (2022), and Ugbor et al. (2022)
5	Independent	Capital gains tax (CGT)	Amount of CGT paid for the period of the study	Ogugua, and Okafor (2025), Henry et al. (2024) Alpheaus, et al (2024) Akakpo, (2024)
6	Independent	National Information Technology Development Agency Levy (NITDAL)	Amount of NITDAL paid for the period of the study	Gbulum, et al (2025), Chukwuma, et al (2024), and Chinedu, et al (2022)

*Source: Author's Compilation, 2025*



### 3.5. Justification of Methods

The panel data approach is employed in this research because it facilitates removal of the unobservable heterogeneity that may exist in the different firms. It is used when large numbers of observations are necessary and there is a need to decrease the possibility of multi-collinearity among the included variables. It combines the features of time series data and cross-sectional data. Longitudinal panel data analysis is a method of statistical analysis that is adopted widely in social sciences research and econometric analysis to analyzed two-dimensional data. These data over time are collected from same source and then the collected data are analyzed. This research work also used secondary source of data; this source is the most adequate method of data collection for this research study. The study was gravitated towards assessing the effect of dividend policy on financial performance in which case primary data was not only be unreliable but equally unrealistic. Hence, secondary data which are verifiable are the most appropriate source of data.

### 4. Results and Analysis

**Table 4.1 Descriptive Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	130	-3.877	3.744	-18.1	2.221
CIT	130	0.824	0.282	0.393	1.744
VAT	130	0.289	0.107	0.098	0.614
ET	130	0.083	0.045	0.003	0.235
CGT	130	0.029	0.028	0.001	0.145
NITDAL	130	0.037	0.04	0.002	0.222

**Source: Stata Output, 2025**

The Return on Assets (ROA), has a mean value of -3.877 with a standard deviation of 3.744,. The minimum ROA is -18.1, while the maximum is 2.221. Company Income Tax (CIT) has a mean of 0.824 and a standard deviation of 0.282. Its values range between 0.393 and 1.744, The Value Added Tax (VAT) has a mean of 0.289 with a standard deviation of 0.107, and ranges from 0.098 to 0.614, the Education Tax (ET), the mean value is 0.083, and the standard deviation is 0.045, with a minimum of 0.003 and a maximum of 0.235, Capital Gains Tax (CGT) has a mean of 0.029 and a standard deviation of 0.028. National Information Technology Development Agency Levy shows a mean of 0.037 with a standard deviation of 0.040, varying between 0.002 and 0.222.

**Table 4. 2 Correlation Matrix Analysis**

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) ROA	1.000					
(2) CIT	-0.869	1.000				
(3) Vat	-0.731	0.695	1.000			
(4) ET	-0.852	0.655	0.441	1.000		
(5) CGT	-0.940	0.738	0.593	0.798	1.000	
(6) NITDAL	-0.862	0.688	0.568	0.696	0.835	1.000

**Source: Stata 17 Output, 2025**

CIT shows a very strong negative correlation with ROA ( $r = -0.869$ ). VAT has a strong negative relationship with ROA ( $r = -0.731$ ). Education Tax exhibits a strong negative correlation with



ROA ( $r = -0.852$ ). CGT has the strongest negative correlation with ROA ( $r = -0.940$ ) among all tax variables. NITDAL shows a strong inverse relationship with ROA ( $r = -0.862$ ).

**Table 4.3 Variance Inflation Factor (VIF)**

To assess the presence of multicollinearity among the independent variables, the Variance Inflation Factor (VIF) and tolerance values were examined.

**Variance Inflation Factor (VIF)**

VIF	1/VIF
5.240	0.191
3.480	0.288
3.020	0.331
2.920	0.342
2.060	0.485
3.340	

**Source: Stata 17, 2025**

The results showed that the VIF values ranged from 2.060 to 5.240, with a mean VIF of 3.340, while the corresponding tolerance values (1/VIF) ranged from 0.191 to 0.485. This confirms that each tax variable contributed independently to explaining variations in financial performance. According to Field (2018) and Gujarati and Porter (2020), a VIF value below 10 or a tolerance value above 0.10 indicates that multicollinearity is not a serious concern. Based on these benchmarks, all the predictors in the model fall within the acceptable range.

**Table 4. 4 Heteroskedasticity**

The Breusch–Pagan/Cook–Weisberg test was conducted to examine whether the variance of the error terms in the regression model is constant (homoskedasticity) or varies across observations (heteroskedasticity). Consequently, the study adopted robust estimation techniques to ensure consistency and efficiency of the regression coefficients (Gujarati & Porter, 2020).

<b>Heteroskedasticity</b>
Breusch–Pagan/Cook–Weisberg test for heteroskedasticity
Assumption: Normal error terms
Variable: Fitted values of roa
H0: Constant variance
chi2(1) = 4.72
Prob > chi2 = 0.0697

**Source: Stata 17 Output, 2025**

However, the Breusch–Pagan/Cook–Weisberg test indicated the presence of heteroskedasticity ( $\chi^2 = 4.72$ ;  $p = 0.0297$ ), meaning that the error variances were not constant across observations. The null hypothesis ( $H_0$ ) states that the model has constant variance (homoskedastic errors). The result shows a chi-square ( $\chi^2$ ) value of 4.72 with a corresponding p-value of 0.0697. Since the p-value is more than 0.05, the null hypothesis of homoskedasticity is accepted. In practical terms, this implies that the model’s error terms vary with the level of the predicted values of Return on Assets (ROA).



**Table 4. 5 Hausman**

The Hausman test was conducted to determine the appropriate estimation technique between the fixed effects and random effects models.

**Hausman (1978) specification test**

	Coef.
Chi-square test value	1.683
P-value	.891

**Source: Stata 17 Output, 2025**

The test produced a chi-square value of 1.683 with a p-value of 0.891. Since the p-value is greater than 0.05, we fail to reject the null hypothesis that the random effects estimator is consistent and efficient. Hence, the random effects model is more suitable for this study than the fixed effects model.

**Table 4. 6. Regression Results and Interpretation**

**Random Effect Regression results**

ROA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
CIT	-2.657	.131	-20.22	0.000	-2.915	-2.4	***
VAT	-6.182	.216	-28.67	0.000	-6.604	-5.759	***
ET	-22.962	.474	-48.40	0.000	-23.892	-22.032	***
CGT	-44.186	.706	-62.56	0.000	-45.571	-42.802	***
NITDAL	-12.534	.485	-25.86	0.000	-13.484	-11.585	***
Constant	3.759	.131	28.65	0.000	3.502	4.017	***

  

Mean dependent var	-3.877	SD dependent var	3.744
Overall r-squared	0.989	Number of obs	130
Chi-square	188871.591	Prob > chi2	0.000
R-squared within	0.999	R-squared between	0.972

**Source: Stata 17, 2025**

The regression results reveal that all the corporate tax variables examined; Company Income Tax (CIT), Value Added Tax (VAT), Education Tax (ET), Capital Gains Tax (CGT), and National Information Technology Development agency Levy (NITDAL) shows negative and statistically significant effects on the financial performance of listed deposit money banks in Nigeria. The significance level at 1% ( $p < 0.01$ ) across all tax variables indicates a high degree of reliability and robustness of the estimated relationships.

Company Income Tax (CIT) has a negative and significant on listed deposit money with the coefficient of -2.657, and p-values of (0.000), which implies that an increase in CIT will leads to a corresponding 2.657- decrease in ROA.

Value Added Tax (VAT) also shows a negative and significant effect on listed deposit money banks in Nigeria with coefficient of -6.182, and p-values of (0.000), indicating that an increase in VAT results in a 6.182- decline in ROA.

Education Tax (ET) shows a negative and statistically significant effect on Return on Asset of listed deposit money banks with a coefficient of -22.962 and p-values of (0.000), this means that for every increase in ET, the listed deposit money banks' ROA declines by 22.962.



Similarly, Capital Gains Tax (CGT) shows the most pronounced negative and significant effect on ROA, with a coefficient of -44.186 and p-values of (0.000). This indicates that an increase in CGT will reduce ROA by 44.186,

NITDAL also has a negative and significant effect on ROA of DMBs with coefficient of -12.534 and p-values of (0.000), implying that an increase in stamp duty will reduce profit realized on the assets invested by DMBs with 12.534 significant level.

The constant term of 3.759 is positive and statistically significant at the 1% level, indicating that in the absence of tax burdens, banks could achieve a positive return on assets of approximately 3.759. This further confirms that taxation substantially reduces profitability in the Nigerian banking sector.

## 5 Conclusion

Based on the findings, the study draw the following conclusions:

1. The study found that Corporate Income Tax (CIT) has a strong negative and statistically significant effect on the financial performance of Nigerian deposit money .This implies that higher corporate income tax obligations reduce net profits and limit funds available for reinvestment or expansion.
2. The result revealed that Value Added Tax (VAT) exerts a significant negative impact on profitability. Although VAT is primarily an indirect tax, its compliance costs and effects on service pricing negatively influence banks' earnings. Therefore, VAT burdens should be reduce on operational costs and administrative obligations to ensure efficiency and profitability by increasing transaction.
3. Education Tax (ET) showed a highly significant and negative effect on banks' profitability. This finding indicates that education levies, though designed to fund tertiary education, reduce the amount of retained earnings available for reinvestment. Consequently, ET indirectly constrains capital accumulation and reduces banks' long-term growth potential.
4. The study revealed that Capital Gains Tax (CGT) has the most severe negative effect on financial performance ( $\beta = -48.132$ ,  $p < 0.01$ ). This suggests that CGT significantly reduces profitability by discouraging asset sales, revaluations, and investment activities that could enhance returns. High CGT rates can lead banks to avoid capital transactions, thereby limiting portfolio diversification and asset optimization. CGT rates should be reviewed to encourage asset revaluation and investment reallocation. Lowering CGT can stimulate internal financing and improve liquidity among banks.
5. National Information Technology Development Agency Levy (NITDAL) also exhibited a significant and negative impact on banks' profitability ( $\beta = -12.456$ ,  $p < 0.01$ ). The findings, reveal that NITDAL, like other forms of taxation, significantly reduces the profitability of Nigerian deposit money banks. While the levy aims to promote information technology advancement, it increases the cost of doing business and reduces liquidity. Therefore, a balance should be maintained between IT development objectives and the financial sustainability of banks.



## Recommendation

Based on the findings, the study draw the following recommendations.

1. Deposit Money Banks should adopt structured and proactive tax planning frameworks that go beyond routine compliance. This involves early identification of tax exposures, forecasting tax liabilities, and aligning business decisions with tax efficiency objectives. Effective tax planning will enable banks to minimize avoidable tax costs while remaining fully compliant with Companies Income Tax Act (CITA), Finance Acts, and other relevant tax laws
2. Given the strong negative impact of Capital Gains Tax identified in this study, banks should adopt asset disposal strategies that minimize CGT exposure. This may include reinvesting proceeds from asset disposals into qualifying replacement assets within the allowable time frame, restructuring transactions to benefit from rollover reliefs, and prioritizing long-term asset holding where feasible to reduce frequent taxable disposals.
3. The adoption of advanced tax management and reporting systems will enhance accuracy in tax computation, documentation, and filing. Automation reduces compliance risks, lowers administrative costs, and improves the bank's ability to monitor tax positions in real time.
4. Listed deposit money banks should take advantage of the relevant tax incentives applicable to listed DMBs by optimizing the use of tax expertise to reduce their tax burdens on them
5. The Federal Government should consider granted partial tax credits to offset their ET liabilities to listed DMBs since demonstrated measurable contributions to educational development through scholarships, training, or CSR initiatives. This will encourage DMBs to do more also still reduce their tax burdens.

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