EFFECT OF CORPORATE TAX ON FINANCIAL PERFORMANCE OF LISTED CONSTRUCTION FIRMS IN NIGERIA

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ABSTRACT

Over the years, corporate tax and financial performance of companies has spearheaded researchers into action. The findings both positive in some cases and negative in others arouses curiosity. This research examines effect of corporate tax on financial performance of listed construction firms in Nigeria. Secondary data were utilized in order to run an ordinary least square (OLS) regression analysis. This was obtained from reported financial statements of seven registered construction firms in Nigeria for eleven years' period from 2012-2022. The findings showed a mixed result. The company income tax has negative and insignificance relationship with financial performance while the education tax and exercise duties have positive and insignificant relationship with financial performance of listed construction firms in Nigeria. The study recommends that the tax authorities effects the punishment on tax defaulters as enshrined in the law. Standard setters, regulatory agencies of the government should work towards making guidelines and enacting laws that encourages construction firms in Nigeria to pay these taxes promptly.

Keywords: Corporate Tax, Financial Performance, Education Tax, Return on Asset, Exercise Duties.

INTRODUCTION

Financial performance measures the results of a firm's policies and operations. It is a subjective measure of how well a firm can use its assets from its primary mode of business to generate revenue. (Mwangi,2016) Construction sector of an economy is very important as it contributes to the growth of the economy. It creates job opportunities for its citizens. Financial Performance is a Firm's ability to achieve planned financial results as measured against its intended outputs as opined by Mutende, (2017). Financial performance is a term used to measure the financial health and growth of a firm over a period of time. Dsunday, *et al* (2020). Financial performance identifies the financial strengths and weaknesses of firms by establishing relationships between items on the financial position and items on the income statement. It can be used to compare similar firms on the same industry. Financial performance is usually measured using financial ratios such as return on equity(ROE), return on asset(ROA), return on capital(ROC), return on sales(ROS) and operating margin. (Dogan,2013). Financial performance is important as it helps to

determine the potential future growth, structure effectiveness performance of a firm especially the construction company.it assists the stakeholders to know the general well-being of the company. Financial performance helps the investors compare the contraction firms with other firms across the same industry or sector as opined by Will (2022).

Corporate tax refers to a tax on assessable profit of incorporated entities in Nigeria (Wooldridge 2006) The profits made by companies are taxed as their contribution to the government. Taxes forms major source of revenue to the government. Harris and Livingstone (2012) posited that tax is an involuntary fee that is levied on corporate organizations and individuals and is enforced by a government to finance government activities. One of the ways by which government finances its activities is by imposition of tax. It is a cheaper source of revenue to the government compared to other sources of revenue. Tax, apart from revenue generation serves other purposes to the government which include control the consumption of harmful goods, control inflation and other fiscal measures. Myles (2007) opines that there are valuable benefits of tax to corporate organisations, pure economic benefits which are in excess of the return to capital. Corporate tax is an outflow of funds for a company. this affects the finances of construction firms. A firm's financial performance is also affected when there is no activity. Payment of taxes indirectly affects the activities in a firm especially construction firms as the payment spurs events that creates activates for the firm. Corporate tax is a burden on the finance of an organization and so corporate tax affects financial performance of construction firms adversely.

The following hypothesis are formulated for the research:

H_{o1}: Company Income Tax does not have significant effect on Return on Asset of listed construction firms in Nigeria

H_{o2}: Education Tax has no significant effect on Return on Asset of Listed Construction Firms in Nigeria.

H_{o3}: Exercise Duties has no significant effect on Return on Asset of Listed construction firms in Nigeria.

LITERATURE REVIEW

Conceptual Framework

To provide an in-depth understanding of the effect of corporate tax on the financial p performance of listed Construction Firms in Nigeria, the basic concepts germane to the study are discussed. It provides existing body of knowledge and texts on the effect of corporate tax on financial performance of construction companies in Nigeria. The concepts fundamental to this study that are brought under close examination are: Corporate tax, Company Income Tax, Education Tax, Exercise Duties, Financial Performance and Return on Asset.

Corporate Tax

Corporate tax is a levy imposed on the income of corporations by the government. A corporation is a legal entity comprised of ownership by various shareholders (Julia, 2022) The taxes are paid from company's taxable income which is made up of revenue minus cost of goods sold, general administration expenses. Corporate tax is a compulsory payment imposed on corporate bodies as a legal entity and it generates higher revenue to the government. Rules for taxing corporations may differ significantly from rules for

taxing individuals. (Adereti *et al.* 2011) Corporate tax refers to a direct tax on the income/profits of the company, the taxes are paid on a company's taxable income which includes revenue minus cost of goods sold and other administrative expenses. The tax is charged currently at the rate of 30 percent (30%) for companies having more than one hundred million naira (N100 million) in turnover, and twenty percent (20%) for companies with a turnover ranging between twenty-five million naira (N25 million) and one hundred million naira (N100 million) (Financial Act 2021) corporate tax is an outflow from the company and affects the financial performance of the construction firms adversely.

Company Income Tax

Company Income Tax (CIT) commonly referred to as corporate tax is tax on the assessable profits of incorporated entities in Nigeria. (Wooldridge, 2006). It also includes the tax on the profits of non-resident companies carrying on business in Nigeria. The tax is paid by limited liability companies, the public limited liability companies inclusive. CIT is a compulsory payment by the company placed on the assessable profit of a firm. (Albertazzi & Gambacorta ,2006) further add that they are taxes against profits earned by businesses during a given taxable period which are generally applied to companies operating earnings after expenses such as cost of goods sold, selling expenses, general and administrative expenses and depreciation have been deducted from revenues. (Lederman, 2002) states that tax incidence must be traced to people, since corporations cannot bear the burden of a tax. If such is the case, then corporations should not be taxed. But then, there are several possible justifications. First, (Myles, 2007) opined that there are valuable benefits, such as limited liability, to incorporation. The corporate tax could be seen as simply a tax on that value. Secondly, corporations are also taxed because they may earn some pure economic profits, profits that are in excess of the return to capital. (Lederman, 2002). This does not; of course, justify taxing such profits at the corporate level rather than when the individuals owning the corporation receive them. Individuals who live in other countries cannot be taxed on their income, the company income tax is a way to get at their income from domestic assets indirectly (Myles *et al* 2007) for the personal income tax. Individuals may try to avoid the personal income tax by making it difficult for the government to observe the recipients of corporate income. In this case, it may be more efficient to tax corporations instead. Each of these rationales for the company income tax has specific implications on how an efficient company income tax will be structured. (Schwellnus & Arnold, 2008).

CIT is specifically applicable to the profits earned by companies considered separate legal entities from the individuals that own them. As separate legal entities, companies can be treated in the same way as individuals: they can acquire debt, sue and be sued. Shareholders can limit their liabilities in respect of debt or being sued and, most importantly, they are required to pay taxes on the profits they earn. Profits amount to the overall revenue earned minus the cost of allowable expenses incurred by the company. The types of expenses deducted are guided by national tax laws. CIT is levied at the national level, but it also has international implications. Currently, most countries treat every company as a separate entity for tax purposes, even if they are part of a multinational group. As a result of globalisation, the increased ease of movement of goods and services, and mobility of capital, multinational corporations have been able to establish subsidiary companies in many different countries, engaging in commercial transactions across borders. To avoid double taxation of the same profits in different countries, governments

have been responding with bilateral or multilateral policies to allocate the taxation of these profits between themselves.

There has been significant debate among economists about who really pays CIT: is it shareholders through reduced dividends, or employees through lower wages? This debate has often been used to claim that CIT is not progressive. However, there are a number of strong arguments to support CIT being progressive, including that: in order to identify the amount of profit that should be taxed, the cost of wages is deducted so higher wages would reduce the income subject to CIT; and if the incidence of CIT fell mostly on employees, corporations would not invest so much in lobbying for lower corporate tax regimes. However, when large companies can engage in tax avoidance or tax evasion, or enjoy excessive and redundant tax incentives, resulting in low effective CIT rates, the progressivity of the tax is distorted, as contributions start falling disproportionately on smaller businesses, often owned by less wealthy individuals.

Education Tax
Education Tax is a tax chargeable on all companies registered in Nigeria at chargeable profits as a contribution to the education tax fund. (Linus, 2011) This means that all registered companies in Nigeria are required to pay a percentage of their assessable profit into an education tax fund. The tax is charged at 2.5%. ("Finance Act",2021), however the finance Act of 2023 has increased it to three percent (3%) as approved by the President, Bola Ahmed Tinubu. Education tax came into being owing to deterioration in all segments of the education sector. There was poor infrastructure, poor staffing, low morale among workers, as the working condition remains grossly poor and dehumanizing, as a result, brain drain become the order of the day (Desai & Hines, 2002). Also, prevalent was absence of teaching aid and poor and irregular remuneration. Taking into account the enormity of problems with accusing fingers being directed towards poor funding, so the Federal government on first January, 1993 promulgated Education Tax Decree No 7 Nigeria and also to establish an Education Tax Fund (ETF) and a Board of Trustees to manage and administer the fund.

The Educational Tax Fund (ETF) was established under Act No. 7 of 1993 and amended by the Act No. 40 of 1988; for project management, to improve the quality of Education in Nigeria. To enable the ETF achieve the above objectives, Act No. 7 1993 as amended imposes a 2 percent (2%) Education Tax on the assessable profit of all registered companies in Nigeria but now amended to 2.5% by the Finance Act of 2021("FA"2021) and the Federal Inland Revenue Service (FIRS) empowered by the Act to assess and collect Education Tax. (Ekeocha, et al, 2012). The Tertiary education tax is payable within 60 days of assessment notice from the Federal Inland Revenue Service (FIRS). Most of the companies in practice pay their Tertiary Education Tax on self-assessment basis. It is often paid together with their companies' income tax.

Exercise Duties
Exercise duties are indirect taxes on goods produced and consumed in a country. Pomaskow (2016), an exercise tax is a tax identified as levy applied selectively on goods and services. Such levies are applied for a variety of reasons, the main one being their ability to raise substantial revenue for government at relatively low administrative or compliance cost. Exercise duties are mainly levied at relatively high rates on few commodities, which are produced by few producers. Additionally, the main characteristics

of such commodities is that they tend to have a low own-price elasticity of demand. This implies that there is minimum shifting of consumer purchases when prices change and thus very highly tax rates can be applied. This coupled with strict administrative controls by tax authorities normally result in substantial tax revenue. Exercise duties constitute an important part of fiscal policy which can be used by government for economic development. Exercise tax is an important part of fiscal policy which can be used by different government for economic development. Mashiri and Sebele (2015) opined that most of the developing countries rely on exercise duties for their economic growth and generating wealth. The effectiveness of exercise duties on various food and beverages products seen as luxurious or harmful to health and how they affect the financial performance of companies have been debated in recent years. (Preece,2013). Exercise duties reduce equilibrium output per product in the long run and induce entry. Haughton (2013) highlight that exercise duties are over shifted into prices in a wide range of cases, including under linear and concave demand conditions, and exercise taxes shift less than one-for- one into prices only when demand is highly convex. Multiproduct transactions substantively alter the efficiency of ad valorem and specific forms of exercise taxes and affect the comparison of relative tax performance over short-run and long-run time horizons.

Financial Performance
Financial performance refers to how effectively a firm can use its resources to generate revenue using their essential enterprise methods. (Anshur *et al*, 2018) Financial performance can be measured using liquidity ratio, profitability ratio, Return on equity (Christopher, 1977). Financial performance shows the achievement of a firm's financial strength for a certain period covering the collection and allocation of finance measured by capital adequacy, liquidity, solvency, efficiency, leverage and profitability. It is the company's ability to manage and control its resources. (Didin, 2018). Financial performance is a measurement over a company's financial health over a period of time. Many measures have been used in evaluating financial performance. Return on Asset (ROA), Return on investment(ROI) which measures the profits a firm generates from its invested capital. To effectively evaluate firm's performance, accounting based measures such as sales, earnings per share, growth rate of a firm can be used. Most previous studies used accounting data to measure financial performance. This entails the use of documented sources from annual reports and accounts to other statistical bulletin as they tap only historical aspect of a firm performance. The major accounting based measures of financial performance are the return on assets (ROA) which is an indicator of how profitable a company is relative to its total assets, return on equity (ROE) which is the amount of net income returned as a percentage of shareholder's equity and return on capital employed (ROCE) which is used for comparing the relative profitability of companies after taking into account the amount of capital used, Return -on-investment(ROI) which measures the profits a firm generates from its invested capital.

Financial performance identifies the financial strengths and weaknesses of a firm by establishing relationships between the items of the financial position and income statement. The term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are different ways to measure firms' performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be

used, as well as total unit sales Njeru, (2012). Quantitative measures of firm performance include profitability measures such as gross margin, net margin for example return on sales, return on equity, economic value added, return on equity less cost of equity and return on capital employed. Other measures of performance include cash flow measures such as free cash flow over sales and growth measures for example historical revenue growth. Moullin ,(2007) highlights performance measurement as one of the tools which helps firms in monitoring performance, identifying the areas that need attention, enhancing motivation, improving communication and strengthening accountability. It is widely believed that firm's growth and profit rates are related to each other Coad,*et al* (2009). There are theoretical claims that growth rates have a positive impact on profit rate. Firm growth could lead to an increase in firm size resulting to larger firms which could benefit from economies of scale and in turn enhanced profits. Sales growth shows the rate of increase in a company's sales per share, based on several periodic time periods, and is considered the best gauge of how rapidly a company's core business is growing Javed et al., (2012). Cash flow shows how much cash a business is actually generating in its earnings before depreciation, amortization, and non-cash charges. Sometimes called cash earnings, is considered a gauge of liquidity and solvency.

Return on Asset

Return on assets is a profitability ratio that provides how much profit a company generates from its assets. In other words, return on assets (ROA) measures how efficient a company's management earns profit from its economic resources or assets on its balance sheet.

The return on total assets ratio is calculated by dividing a company's earnings after tax by its total assets. Total Assets = This is made up of all tangible non-current assets, accounts receivable, inventories and other currents assets. The research is on effect of corporate tax on financial performance of listed construction firms in Nigeria. The ROA is relevant as it helps to know the firm's profitability using its assets. The profitability is relevant to firm's performance. It indicates how productively the assets of the organization are utilized to create wealth. An expanding pattern in Return on asset means that the money related execution of the organization is moving forward. Again a diminishing pattern implies that financial execution is falling apart. (Crosson,Jr *et al.*(2011). This was used by Riaty (2020) on the research 'Effect of Tax Avoidance and Financial performance on Firm Value and the result showed that ROA has positive effect on Firm Value. ROA is shown as a percentage and the higher the number of percentage the more efficient a company's management is at managing its balance sheet to generate profits. The return on total assets ratio is calculated by dividing a company's earnings after tax by its total assets. Total assets are equal to the sum of the shareholders' equity and the company's debt.

Calculation = Profit after tax/Total asset x 100.It is expressed in percentage (%).

Empirical Review

Nwaeke *et al* (2022) conducted a research on financial performance and company's income tax of listed company's firms in Nigeria', The objective is to study the effect of financial performance and company's income tax of quoted companies in Nigeria. The study adopted ex-post facto research design and the secondary data. The ordinary least square (OLS) was used. The findings revealed that company's income tax has significant effect on financial performance of listed construction firms in Nigeria. The study concludes that company's income tax has a significant effect on financial performance of listed construction firms in Nigeria. The study recommends that the management should pay adequate attention and care to their earnings. Management's attention to the firm's net

profit and earning has no effect on the tax as it is the responsibility of the government to make tax laws which the firms implements. The management is to look for ways to reduce the tax to improve the earning.

Bilal, (2022) researched on the Impact of tax on financial performance of construction firms: Evidence from Algerian companies. The study aims to investigate the impact of tax on financial performance of construction firms in Algeria. The study used the model of Sloan (1996) through 280 firm-year observations that concern 40 Algerian companies from 2013-2019. Employing persistence and predictive ability as proxies for earnings quality, the results indicated that earnings of Algerian construction companies present a high level of persistence and a weak level of predictive ability. However, in conclusion, the tax does not impact neither the persistence of earnings nor their predictive ability of financial performance. Therefore, accounting regulators in Algeria must simplify accounting for the deferred tax to encourage its application by companies and improve earnings quality of financial performance.

This study created a geographical gap as it was done in Algeria and methodological gaps since primary method of data collection was used

Onwuzurike (2020) conducted research on tax and financial performance of listed firms in Nigeria. The objective is to verify the effect of company's income Tax on financial performance of listed firms. Ex post facto research design was adopted for 2009-2018.Ordinary. Panel data analysis revealed a positive and significant effect of company income tax (CIT) on asset turnover of firms while education tax had negative but significant effect on asset turn over. The study concludes that tax should be approached with caution as excessive company income tax and education tax would take firms out of business thus shortage of fund at long-run. Its recommendation is that education and/or persuasion of firm management on the need to pay education tax should be intensified as education tax provides the money for research on firm's challenges with a view to solving them, provide firms with quality manpower needed. This study is outdated, again it has mixed findings in terms of company income tax (Negative) and education tax (Positive) both refers to the independent proxy on asset turnover instead of financial performance.

Kabajulizi, (2019) investigated effect of tax on the financial performance. The study aimed to examine the effect of tax on financial performance of small business enterprise. Descriptive survey design with qualitative technique was used for the study. Both qualitative and quantitative techniques were collected. The target population was 36 SMEs. Correlation analysis and regression analysis was used to determine the relationship between tax and financial performance. The study found that business entity is aware of the consequences of failing to pay tax obligations in time. The findings indicated that tax administration improves payer's convenience in tax assessment. The study recommended that tax payers should have more information about tax not only awareness. Primary data was used and the location was in Kampala. Periodic and geographical location gaps are created.

Daniel, (2018) study effect of tax on firms 'profitability, the study comprised all the seven construction firms listed in the Nairobi securities exchange. The data was analyzed using ordinary least square method. The objective is to study the effect of tax on profitability of firms. The study found out that the two variables had little correlation. Besides, the degree

with which tax could be used to explain long-term solvency measured in terms of total debt ratio was insignificant. It recommends that, other variables other than the ones used in this study should be considered to achieve results that are consistent with existing literature on the theoretical relationship between tax and firm performance. Tax has negative effect on profitability of firms as per the findings. The study is outdated and needs to be update. It creates periodic gap.

Omodero and Ogbonnaya, (2018), researched on the effect of company tax on profitability of construction firms in Nigeria. Secondary data for the period 2006-2016 were collected from the published financial statements of construction firms via their websites. The objective of the study is to study the effect of tax on construction firms in Nigeria. Panel data multiple regression analysis was used to analyse the data. The result reveals a positive significant effect of company income tax on financial performance of the construction firms and therefore recommends that construction firms use the provisions in the tax law to enhance their financial performance. The study is old since 2018 and needs to be up-date to 2022 hence creates periodic gap.

Chesire, (2018) investigated the effects of exercise duties on the profitability of cigarette and alcohol manufacturing firms listed in the Nairobi Securities Exchange. (NSE) The objective is to investigate the effect of exercise duties on the profitability of cigarette and alcohol manufacturing firms listed in NSE.Secondary data obtained from the company's financial statement and NSE handbook were used. Descriptive research design was adopted and the data collected and analyzed using multiple regression where exercise duties was the independent variable and net profit and liquidity used as the control variable. The result of the correlation showed a negative correlation between exercise duties and profitability. Exercise duties has negative effect on the firm's profit. The recommendation is that items which attracts exercise duties be reduced. There is periodic gap, geographical location created which this study seeks to fill.

Marion et al. (2017), investigated the effect of corporate income tax on financial performance of the companies listed on the Nairobi Securities Exchange(NSE) in Kenya. The objective of the study was to establish the effect of corporate income tax on financial performance of the companies listed on the Nairobi Securities Exchange in Kenya. The research design used was mixed research both qualitative and quantitative design. Secondary data was extracted from the NSE database, Capital Markets Authority (CMA) database, journals and other publications. A sample of fifty-nine out of a target population of sixty-nine companies publicly listed as at January, 2015 was extracted from the Nairobi Securities Exchange in Kenya. The finding is a positive relationship between company income tax and financial performance of listed companies on the NSE in Kenya. The study recommends that government be fair in charging taxes which will assist policy makers with useful input for formulating Government policies to avert poor performance and consequently bankruptcy of listed companies. The study was carried out since 2017, it is outdated and it needs to be up-date hence the periodic gap. The study was conducted in Kenya hence the geographical gap.

Kuria (2016), effect of tax on financial performance of export processing zones (EPZ) in Kenya. The objective of the study is to find out the effect of tax on financial performance of firms in EPZ in Kenya. The study adopted descriptive and explanatory research design. It was found out that tax has positive effect on the EPZ firms in Kenya and so recommends

that the firms engage the services of experts (Tax Consultants) in tax to help them on tax issues

Heitzman and Ogneva (2015), evaluated the relationship between company income tax and financial performance of construction firms in U.S. from 1988 to 2013 using panel regression analysis. The objective of the study is to evaluate the relationship between company income tax and financial performance of construction firms in U.S. The study found that large firms are less exposed to tax policy risk. It recommends that firms should demand tax incentives for possible leverage leading to financial performance of construction and also other related firms in U.S. The study is old and needs to be up-date hence it creates periodic gap. It was conducted in U.S. and therefore creates geographical gap.

Alina et al (2015), conducted a research on the relationship between tax and profitability of manufacturing firms in Tunisia. The objective is to know how tax affects the profits of manufacturing firms in Tunisia. The research used multiple regression model and concluded that tax has positive effect on the profitability of that firms. The research recommends the Directors of manufacturing firms makes use of the tax incentives as enshrined in the law to assist them in their operations

John, et al (2013) study effect of corporate income tax on financial performance of listed construction firms in Ghana.The objective of the research is to find out the effect of corporate tax on financial performance of listed construction firms in Ghana. The study used panel data methodology covering ten listed construction firms over seven years to empirically determine the effect of corporate tax on financial performance. The study revealed that there is a significant negative relation between corporate income tax and financial performance. On the other hand, Firms' size, age of the firm and growth of the firm show a significant positive relationship with financial performance. It recommends that construction firms be encouraged to pay their taxes since it has negative significance with the financial performance. Periodic and geographical location gaps are created which this study is to fill.

Theoretical Framework
Cost of Service Theory
The Cost of Service theory was propounded by Erik Lidahl in 1919 and it is similar to benefit received theory but with some criticisms. It talks of the principle of justice and equity, that in a democratic country, the policies of the government should be based on justice and equity. That as citizens pay taxes the services provided by government should be equivalent to the taxes paid if not the citizens may protest. They are other theories put forward by Economists on how justice in taxation can be achieved. Some of the criticisms include knowing the total cost of service rendered by the government and distributing the cost among the citizens. It is to be noted that the cost may depend on the efficiency of the administrator, if the administrator is efficient, the cost will be lower.

Some economists are of the opinion that if the state charges actual cost of the service rendered from the people, it will satisfy the idea of equity or justice in taxation. This theory is similar to the benefits received theory. It emphasizes the semi-commercial relationship between the state and the citizens to a greater extent. The state is being asked to give up basic protective and welfare functions. It is to carefully recover the cost of the services and

therefore this theory implies a balanced budget policy. The theory is relevant to the research as the firms obliged payment of taxes to the government while the government provide amenities, securities and other essential services. It is relevant to the study because the study is on Corporate Tax. Tax core concept is on Justice and equity. The government will not impose tax where there is no income or profit, that is justice, this theory is talking about justice and equity, hence they are related.

Expectancy Theory

Expectancy Theory was propounded by Victor Vroom in 1964. According to Armstrong (2006) valence stands for value, instrumentality is the belief that if we do one thing, it will lead to another and expectancy is the belief that action or effort will lead to an outcome. The theory holds that individuals choose between alternatives which involve uncertain outcome. The individual is not only affected by his preferences amongst these outcomes but also by the degree to which the individual believes the outcome to be possible.

Armstrong *et al* (2006) defines expectancy as a monitory belief concerning the likelihood that a particular act will be followed by a particular outcome. Tax paid is expected to be used for development, so companies pay and have the mind that roads will be constructed, this is like motivation to them. The expectancy theory contributes to motivation theory. Without the hope of a reward, it is less likely that individuals/corporations will exert the highest level of effort, as such, individual's choice will not be recognized. The elements of expectancy theory include:
Expectancy: A firm believes that high level of efforts will lead to desired outcomes or performance, if something other than the amount of effort contributes to achieving the outcome then this will cause lack of motivation. Instrumentality: To what degree is the level of performance related to the reward received? For example, lots of work may not increase the likelihood of a given result. Be sure that the indicated reward is measured and explicitly tied to the level of performance. Valence: The value of the rewards that result from the performance must be clear, it has to align with the type of reward the society requires.

Expectancy Theory is relevant to the study as the government does not provide the expected services. The provision is on quid pro quo.

Benefit Received Theory

The benefit received theory of allocation of the tax burden was propounded by Erik Lindahl in 1919. According to this principle, the amount of tax is fixed by the level of benefits each person receives from the social welfare activities of the government. The theory assumes that there is basically an exchange relationship between tax payers and the state. The state provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received (Bhartia, 2009). Anyanfo (2006) argues that taxes should be on the basis of benefits received from government expenditure. The state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government.

The theory is related to payment to the government which mostly is through taxes, hence it is relevant to the study. This study is on corporate tax; Tax is payment to government. So it's company's payment to government, the financial performance is related to the tax

paid by the company. Government activities through the tax paid can enhance the financial performance of the company especially where there is conducive business environment hence it relates to the study.

Ability to Pay Theory.

The ability to pay theory was propounded by MS Kendrick in 1939. In the theory tax is considered as a liability in its true form-compulsory payment to the state without quid pro quo. It does not assume any commercial or semi-commercial relationship between the state and the citizens. The theory postulates that a citizen is to pay taxes just because he can and his relative share in the total tax burden is to be determined by his relative paying capacity. This theory attracts the support of socialist thinkers because of its conformity with the ideas and concepts of justice and equity. The basic tenet of this theory is that the burden of taxation should be shared by the members of society on the principles of justice and equity and that these principles necessitates that the tax burden is apportioned according to their relative ability to pay. Ability to Pay Theory is relevant to this research as tax is based on income or profit. It is out of the firm's profits that taxes are paid, and also aligns with the law of equity and justice.

The research is anchored on the ability to pay theory because its emphasis on justice and equity on tax payment as contained in the core concept of embarking on effective taxation which tends to ensure that firms are not over taxed hence the study which sort to ascertain the effect of tax on financial performance of construction firms in Nigeria. More so as the payment is made, it is expected to be used for the benefit of the stake-holders especially the construction firms. When justice and equity is applied, tax will be used for development which includes construction activities. One of the most popular and acceptable principle of equity in taxation is that citizens and other taxpayers should pay taxes in accordance with their ability to pay. This appears very reasonable and just taxes have to be levied on the basis of ability I to pay by various tax pagers, If Mr. C gets more incomes than Mr. D. Mr C should be made to pay higher tax than Mr.D.

METHODOLOGY

The research adopts an ex-post facto research design to obtain background information about the study problem. The ex-post facto design is chosen as it is able to enquire to what extent a variable has taken place in the past, impacts on the occurrence of the present event over a long period.

Population is the universe of units from which the sample to be selected is chosen. (MacMillan et al (2016). It is also seen as the entire group of people, events or things of interest that the researcher wishes to investigate. The population of the study comprised of seven listed construction firms as at 31st December 2022 in Nigeria. All the seven listed construction firms are selected through the use of census sampling method due to the small size of the population We used secondary data gotten from National Bureau of Statistics (NBS) for the study.

Model specification.

Model specification defines the variables to be included in the model, determination of the mathematical form of the model and theoretical expectation about the parameters of the model So in examining effect of corporate tax on financial performance of listed construction firms in Nigeria, we capture and include some macro-economic variables in

the model to enable us model the relationship between the dependent variables and the independent variables of listed construction firms in Nigeria.

Given these factors, the model for this study is formulated as follows:

$$ROA = \beta_0 + \beta_1 CIT + \beta_2 EDT + \beta_3 ED + \varepsilon \quad\quad\quad (1)$$

Where:

ROA= Return on Asset

CIT= Company Income Tax

CED= Company Education Tax

ED= Exercise Duties

ε= Error term.

The apriori expectation is that company income tax has no significant effect on return on asset of listed construction firms in Nigeria.

RESULTS AND DISCUSSION

Descriptive Statistics.

Descriptive statistics gives a presentation of the mean, median, maximum and minimum values of variables applied together with their standard deviation obtained. The table below shows the descriptive statistics for the variables used in the study. E-view 10 software was used to analyse the variables for the period under review.

Table 1: Descriptive Analysis

	ROA	CIT	CED	ED
Mean	0.060135	17248084	5944390.	425498.5
Median	0.055990	12989081	4426094.	316149.6
Maximum	0.535204	71950567	25182698	1798764.
Minimum	-0.782194	54431.00	19050.85	1360.775
Std. Dev.	0.183894	18527651	6482485.	462941.2
Skewness	-1.227778	1.574024	1.615889	1.611385
Kurtosis	9.122629	5.071939	5.170272	5.161620
Jarque-Bera	139.6149	45.56839	48.62057	48.31379
Probability	0.000000	0.000000	0.000000	0.000000
Sum	4.630373	1.33E+09	4.58E+08	32763386
Sum Sq. Dev.	2.570882	2.61E+16	3.19E+15	1.63E+13
Observations	77	77	77	77

Source: E-View 10 Output (2023)

Table 1 revealed the summary of descriptive statistics of the variables included in the model. It shows the existence of wide variations in the variables as depicted by the mean values during the 2012 to 2022 study period. Return on Asset (ROA) as a measure of Financial Performance with a mean of 0.060135, with a standard deviation of 0.183894 as well as the minimum value of -0.782194 and maximum value of 0.535204 respectively. For the other measures of Corporate Tax, company Income Tax (CIT), Company Education Tax (CIT) and Exercise Duties (ED) shows a mean value of 17248084,5944390 and 425498.5 respectively. Standard Deviation of 18527651,6482485 and 462941.2 respectively with minimum values of 54431.00,19050.85 and1360.775 respectively. This shows that ROA witnessed increase during the period. The range between the minimum and maximum values is wide which shows stable performance for the period of study. The analysis was also fortified by the value of the skewness and kurtosis of all the variables involved in the model. All the distributions are positively skewed with the exception of Return on Asset that is negatively skewed. Variables with value of kurtosis less than three are called

platykurtic (fat or short-tailed) none of the variables qualified for this during the study period. On the other hand, variables whose kurtosis value is greater than three are called leptokurtic (slim or long tailed) and all the variables qualified for this during the study period. Jarque-Bera test shows that the residuals are not normally distributed as indicated by the probability values less than 5%. In summary, the descriptive statistics revealed that all the data sets are not normally distributed. This is so because the probability values of the variables do not exceed 5%.

Table 2: Correlation Analysis
Generally, a high correlation is expected between dependent and independent variables while a low correlation is expected among independent variables.
Correlation analysis is employed to establish the measures of relationship between the variables.

Covariance Analysis: Ordinary
Date: 07/16/23 Time: 12:58
Sample: 2012 2022
Included observations: 77

Correlation Probability	ROA	CIT	CED	ED
ROA	1.000000			

LOGCIT	-0.171593	1.000000		
	0.1357	-----		
LOGCED	-0.190213	0.598046	1.000000	
	0.1389	0.0000	-----	
LOGED	-0.280457	0.198981	0.458436	1.000000
	0.1383	0.0000	0.0000	-----

Source: E-View 10 Output (2023)

From table 2, it can be seen that all the correlation coefficients among the independent variables are below 0.80. This point to the absence of possible multicollinearity among the independent variables and the correlation between the variables shows that there is a mix of both positive and negative correlation among the dependent and independent variables According to Gujarati (2004), a correlation coefficient between two independent variables of 0.80 is considered excessive, and thus certain measures are required to correct that anomaly in the data. There exist negative and insignificant 17%, 19% and 28% correlation between return on assets and CIT, CED and ED respectively indicating that the lower the return on assets the lower the CIT, CED and ED. Furthermore, it is notable from the analysis that all the association between and within the variables of studies are weak, thus, signifies absence of possible multicollinearity.

Multicollinearity Test (VIF)
To ensure, multicollinearity tests were performed, using the Variance Inflation Factor (VIF). Multicollinearity occurs when one or more independent variables have a stronger influence on others and this condition is a violation of the linear regression model.

Multicollinearity tests are performed to test whether there is a strong correlation between independent variables that may result in misleading results. In Table 2, the coefficient for the highest correlation is 0.598046 (between LogCED and LogCIT), Therefore, the low degree of correlation between independent variables indicates that multicollinearity may not be a problem in the sample database. The results of the collinearity diagnostic test are presented in Table 3. below:

Table 3: Multicollinearity Test (VIF)
Variance Inflation Factors
Date: 07/16/23   Time: 01:05
Sample: 1 7
Included observations: 77

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	107.93678	7.93635	NA
LogCIT	13.648330	4.39438	1.909214
LogCED	15.887313	6.33672	1.910935
LogED	18.196416	9.25046	1.930161

Source: E-View 10 Output (2023)

*Decision rule: VIF less than 10 indicates the absence of multi-collinearity, while VIF over 10 is a sign of multi-collinearity. As noted above, the law of multicollinearity test rule uses a variance inflation factor that VIF below 10 indicates a lack of multi-collinearity, while VIF over 10 indicates the presence of multi-collinearity. Table 3 above shows the absence of multicollinearity between independent variables, as all independent variables (LogCIT, LogCED and LogED) have less than 10 VIF centres.

Heteroskedasticity Test
A heterokedasticity test was performed as a diagnostic check to verify the robustness of the estimates. Heteroskedasticity variance occurs when the standard error of the variable being monitored is not constant over time. Heteroskedasticity violates linear regression modelling assumptions and can affect the validity of analytical results. On the other hand, heteroskedasticity does not cause any bias in the coefficient estimates, but it reduces the precision, and less precise coefficients are more likely to be estimated. The estimates are far from the correct population values that have been removed.

Hypothesis
Ho: The Error Variances are all Equal (Homoskedastic)
H₁: The Error Variances are not Equal (Heteroskedasticity)

Table 4: Heteroskedasticity Test
The decision rule for the panel cross-section Heteroskedasticity test is stated thus:
The null hypothesis of the test states that there is no Heteroskedasticity, while the alternate hypothesis states that there is Heteroskedasticity. The null hypothesis is not to be rejected if the P value is greater than 5% level of significance.
Panel Cross-section Heteroskedasticity LR Test
Null hypothesis: Residuals are homoscedastic

Equation: UNTITLED
Specification: ROA LOGCIT LOGCED LOGED C

	Value	Df	Probability
Likelihood ratio	137.0397	7	0.0582

LR test summary:

	Value	df
Restricted LogL	29.34627	68
Unrestricted LogL	161.1062	68

Source: E-View 10 Output (2023)

From the result in table 4 above with a ratio value of 137.0397 and a corresponding probability value of 0.0582 which is greater than 5%, the study therefore posits that, there is every reason not to reject the null hypothesis. Consequently, based on the diagnostic probability 0.0582 the null hypothesis is not rejected, thus the error variances are all equal (Homoskedastic), indicating that residuals are homoskedastic and as such the samples give a true reflection of the population.

Hausman Test
Hausman test for model specification in panel data analysis is employed to choose between fixed effects model and random effects model. Fixed effects model and random effects model are run due to the panel nature of the data used in the study. Hausman test was conducted to choose the preferred model between the fixed and random effect regression model. The test basically checked if the error terms were correlated with the regressors. The decision rule for the Hausman specification test is stated thus: at 5% level of significance.
H_0: Random effect is most appropriate for the Panel Regression analysis.
H_1: Fixed effect is not appropriate for the Panel Regression analysis.

As stated above, if the P-value is greater than 0.05, the decision rule is to reject the hypothesis which states that fixed effect is most appropriate for the Panel Regression analysis (meaning that the preferred model is random effect). Similarly, if the p- value is less than 0.05 the decision rule is not to reject the null hypothesis which states that fixed effect is most appropriate for the Panel Regression analysis (meaning that the random effect model is to be rejected)

Table 5: HAUSMAN TEST
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	0.000000	3	1.0000

Source: E-View 10 Output (2023)

From table 5 above, Hausman test the chi-square statistics value is 0.000000 while the probability value is 1.0000. This implies that there is enough evidence not to reject the null

hypothesis, since the probability value (1.0000) of the test is greater than the critical value of 0.05. Therefore, the study upholds that difference in coefficients is not systematic and hence, the random effect model is the most appropriate models for the study. It thus stands that error component model (random effect) estimator is most appropriate because the random effects are well correlated with the regressors. Thus, the most consistent and efficient estimation for the study is the Random effect cross-sectional model. Consequently, the result suggests that the random effect regression model is most appropriate for the sampled data because the Hausman test statistic as represented by corresponding probability value is greater than 0.05.

Table 6: Breusch-Pagan Langranger Multiplier Test
Residual Cross-Section Dependence Test
Null hypothesis: No cross-section dependence (correlation) in residuals
Equation: Untitled
Periods included: 11
Cross-sections included: 7
Total panel observations: 77
Note: non-zero cross-section means detected in data
Cross-section means were removed during computation of correlations

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	31.24161	21	0.0397
Pesaran scaled LM	1.580315		0.0140
Pesaran CD	0.257847		0.7965

Source: E-View 10 Output (2023)

Based on the probability value of the Breusch-Pagan Langranger Multiplier Test at probability value of 0.0397, the null hypothesis is rejected, thus random effect is most appropriate when compared to pooled effect.

TEST OF RESEARCH HYPOTHESIS.

In panel regression analysis, the goal is to estimate the relationship between the dependent and independent variables. This goal can be achieved through the estimation of the coefficient of each independent variable in the model. The sign of coefficient of independent variable indicate their relationship with dependent variable, while the magnitude of the coefficients implies the responses of the dependent variables to independent variables.

Decision Rule: The decision rule for accepting or rejecting the null hypothesis for any of these tests is based on the Probability Value (PV) and the probability (F-Statistics). If the PV is less than 5% or 0.05 (That is if PV< 0.05). It implies that the regressor in question is statistically significant at 5% level; if the PV is more than 5% (that is PV> 0.05) it is categorized as not significant at that level. This implies that the level of significance for the study is at 5% (for the two tailed test). Thus, the decision rule for accepting or rejecting the null hypothesis is based on both the Probability Value (PV) and the Probability (F-Statistics)'

Table 7: Test of Research Hypotheses
Random Effect Regression Result
Dependent Variable: ROA
Method: Panel EGLS (Cross-section random effects)
Date: 07/16/23   Time: 13:24
Sample: 2012 2022
Periods included: 11
Cross-sections included: 7
Total panel (balanced) observations: 77
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.246888	0.887154	0.278292	0.7816
CIT	-0.161917	0.515458	-0.314122	0.7543
CED	0.052238	0.392241	0.133179	0.8944
ED	0.112338	0.551503	0.203695	0.0392

Effects Specification				
			S.D.	Rho
Cross-section random			0.108794	0.3145
Idiosyncratic random			0.160634	0.6855

Weighted Statistics			
R-squared	0.701429	Mean dependent var	0.024457
Adjusted R-squared	0.680609	S.D. dependent var	0.160147
S.E. of regression	0.163287	Sum squared resid	1.946383
F-statistic	13.34811	Durbin-Watson stat	1.924349
Prob(F-statistic)	0.000852		

Source: E-View 10 Output (2023)

Table 7 display and analyses the panel random regression results of the explained variable proxy by ROA as well as the explanatory variables CIT, CED and ED. Between the R^2 and the adjusted R^2, there is a range of values 70% and 68% respectively. The variation in the dependent variable (ROA) as a result of change in the independent variables is explained by the R^2 of 70%. Therefore, it can be concluded that the independent variables have a combined predictive power of influencing on the financial performance of listed construction firms in Nigeria, with the remaining 30% being explained by other factors not included in the model. Furthermore, the regression result as presented above reveals an intercept of (0.246888) which is positive. This simply implies that when other variables are held constants, the financial performance of listed manufacturing firms increases by 0.246888. The result of the constant is statistically not significant, as indicated by a P-value of 0.7816.

Table 8 described that the coefficient of the variable LogCIT was -0.161917 with a p-value of 0.7543 (>0.05). It can be deduced that company income tax has a negative and insignificant effect on the financial performance of listed construction firms which provide support for the null hypothesis.

Also the second hypothesis revealed that the coefficient of the variable LogCED was 0.052238 with a p-value of 0.8944 (>0.05). It can be deduced that education ta x has a positive and insignificant effect on the financial performance of listed construction firms which also provide support for the null hypothesis.

Finally, it can also be deduced from the third hypothesis that exercise duties has a positive and statistical significant effect on the financial performance of listed construction firms with the P-value of 0.0392 (<0.05), which provide support for the alternative hypothesis.

Discussion of Findings

The research is on effect of corporate tax on financial performance of listed construction firms in Nigeria for 11 years ranging from 2012 to 2022, where the dependent variable financial performance is proxy by return on asset (ROA) and the independent variable, corporate tax, is proxy by company income tax (CIT), company education tax(CED), and exercise duties (ED).The study findings as shown in table 7 confirms that the independent variables have a combined predictive power of influencing on the financial performance of listed construction firms in Nigeria, with the remaining 30% being explained by other factors not included in the model. Company Income Tax(CIT) has a negative and insignificant effect on the financial performance of listed construction firms. This is in agreement with the findings of Fagbemi (2019) and (Ogundayo,2016) on the research topic 'effect of corporate tax on financial performance of manufacturing firms in Nigeria. The Education Tax (CED) has a positive and insignificant effect on the financial performance of listed construction firms in Nigeria which also supports the null hypothesis and Exercise duties (ED) has a positive and statistical significant on the financial performance of listed construction firms in Nigeria with a p-value of 0.0392(<0.05), which supports the alternative hypothesis.

CONCLUSION AND RECOMMENDATIONS

This study examines the effect of corporate tax on financial performance of listed construction firms in Nigeria. The research covers the seven (7) listed construction firms in Nigeria for eleven years period 2012-2022.Financial performance is the dependent variable and it is examined with respect to return on asset as the proxy. The corporate tax is the independent variable as has company income tax (CIT), education tax and exercise duties as the proxy. Company income tax has insignificant and negative relationship with return on asset. The company education tax has positive and insignificant effect on return on asset and finally exercise duties has positive and statistically significant effect on return on asset. This study therefore concludes that corporate tax has no significant effect on financial performance of listed construction firms in Nigeria.

On the basis of the above results obtained and analysed, the following policy recommendations are made:
(i)There should be enlightenment of tax matters by tax authorities of extant laws and their administration to implement the provisions on tax defaulters.

(ii)The government may enact tax laws that may bring encouragement to construction firms to motivate them to pay taxes as and when due for instance if all taxes are remitted at the specified period, some percentage may be given as 'tax remittance allowance.'

(iii)The variables used are return on asset, exercise duties, education tax and company income tax. Further studies can be conducted using other variables on the effects of corporate tax; such variables as return on equity, return on investment, stamp duties, value added tax.

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