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DOES TAXATION AFFECT BANKS' PROFITABILITY: EVIDENCE FROM NIGERIA

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Abstract

Taxation and tax policy of any economy has a major implication on the growth “and performance of businesses in every economy. fiscal policy instrument should not be rigid for the taxpayers. This is because a flexible and viable taxation system has the capacity to stimulate economic activities. The paper examines how taxation impact the profitability of commercial banks in Nigeria. To test the hypothesis, the paper applied the panel regression on published information from fifteen banks from 2011-2022. The findings reveal that the marginal tax rate, effective tax rate and the average tax rate have strong positive and significant effects on return on asset. The outcome offers corporations useful insights on tax planning strategies properly and show how their tax avoidance skills could be used without practicing tax evasion. Amongst others, the recommends that regulators should grant tax incentives and reforms to reduce the tax burden on companies. Moreso, governments should formulate unequivocal tax policies that would aid tax law and administration that would encourage business growth.

Keyword: Commercial bank, return on asset, return on equity, tax rate,

1.0 Introduction

Taxation and tax policy of any economy has a major implication on the growth and performance of businesses in every economy (Gallemore et al., 2017; Olanreaju & Olayiwola, 2019). Fiscal policy instrument should not be rigid for the taxpayers. This is because a flexible and viable taxation system has the capacity to stimulate economic activities, promote capital formation and investment and reduce unemployment. All these are germane for achieving long term economic growth (Olanreaju & Olayiwola, 2019). Taxation of corporate profits is an important component of a country's fiscal policy. By imposing taxes, the state seeks to collect financial resources to the budget. Thus, the taxes represent a transfer of financial resources from the entities paying the tax to the disposal of the state (Otwani et al., 2017).

Taxation policies are the rules and regulations that govern how the government collects revenue from individuals and businesses (Sobiech et al., 2021). Taxation policies can have various effects on the economy, such as influencing the allocation of resources, the distribution of income, the level of economic activity, and the stability of the financial system (Van Apeldoorn, 2018). Deposit money banks (DMBs) are financial institutions that accept deposits from customers, lend money to borrowers, and provide other services such as payment systems, foreign exchange, and wealth management (Mishkin & Eakins, 2018). DMBs are subject to taxation policies that affect their profitability, risk-taking behaviour, and contribution to the public sector. Taxation has different implications on the investment, financing and performance of a firm (Omesi & Appah, 2021). High tax burden impedes investment and productive capacity of a firm through restriction on financial resources availability (Adelegan, 2003; Fagbemi, Olaniyi & Ogundipe, 2019). Also, the financing of investments opportunity with debt has tax relief on interest payments while financing through equity results in taxation being paid from dividend; thus, creating shortage of financial resources for an organization (Gabriel & Gimenez, 2015; Nekasa et al., 2017). This process determines the investments and future growth prospects of an organization. Because corporate profits represent a corporation's income, they are one of the most important things to look

at when investing. Increasing profits means either increased corporate spending, growth in retained earnings or increased dividend payments to shareholders (Doménech et al., 2023 & European Central Bank, 2022).

The literature identifies some effects of higher bank taxes on bank operations and the economy. The effects of bank taxes on bank risk-taking are ambiguous: some studies suggest that taxes may reduce risk-taking (Belucci et al., 2023) while others present evidence for increased bank risk-taking (Devereux et al., 2019; Borsuk et al., 2023). Some evidence confirm that loan rates increase, and loan volumes decline (Buch et al., 2016; Célérier et al., 2017; Borsuk et al., 2023; Doménech et al., 2023). Higher bank taxes also penalize bank shareholders, and tend to induce a negative stock market response, leading to a loss of banks' market value (Chronopoulos et al., 2019). Lower lending, in turn, induces a decrease in corporate investment (Sobiech et al., 2021) and suppresses banks' financial market activities including interbank lending and market-making (Hryckiewicz et al., 2018; Célérier et al., 2020). Bank taxes may result in lower interest rates and higher fees for depositors (Banerji et al., 2018). In fact, the cost of bank taxes may be particularly likely to fall on households as their demand for bank services is less price-sensitive compared to other bank customers (Capelle-Blancard & Havrylchuk, 2017). These effects may be especially pronounced in concentrated markets, where banks have more ability to pass on higher costs to customers (Kogler, 2018). However, in cases when taxes are imposed specifically on bank liabilities excluding deposits, deposit rates may on the contrary increase (Buch et al., 2016).

In Nigeria, the Central Bank of Nigeria has regulatory guidelines that affect the tax obligations of DMBs. Also, the tax laws governing the operations of DMBs include the Personal Income Tax Act (PITA), Companies Income Tax Act (CITA), and the Value Added Tax Act (VATA). The laws prescribe the tax rates, exemptions, deductions, and rules for the computation of taxable income (Agbonika & Agbonika, 2021). The profitability of the banks is a crucial indicator of their financial health, efficiency, and ability to generate returns for shareholders. Understanding the impact of taxation policies on the profitability of the DMBs is important for banking expansion and to provide adequate returns to investors (Hassan & Oyedele, 2022). Despite this, there is a noticeable inconsistency and gap in the existing body of knowledge. There is a lack of specific research that delves into the intricacies of how different taxation affect the financial performance of DMBs, particularly within the Nigerian context.

The study investigates the impact of taxation on the profitability of banks in Nigeria. First, we determine the effect of marginal tax rate on profitability of banks in Nigeria. Second, we intend to Investigate the effect of effective tax rate on profitability of banks in Nigeria. Third, we intend to find the effect of average tax rate on profitability of Nigerian business organizations. The paper tests three hypotheses, each based on the published Nigerian data.

- H1: There is no significant impact of marginal tax rate on profitability of banks.
- H2: There is no significant impact of an effective tax rate on profitability of banks.
- H3: There is no significant impact of the average tax rate on profitability of bank.

To test the hypothesis, the paper applied the panel regression on published information from fifteen banks from 2011-2022. The findings reveal that the marginal tax rate, effective tax rate and the average tax rate have strong positive and significant effects on return on asset. This

offers useful insights to corporate bodies as it will help them manage their tax planning strategies properly and show how their tax avoidance skills could be used without practicing tax evasion. Hence, amongst others, we recommend that governments should use the outcome to formulate unequivocal tax policies that would aid tax law and administration. The reminder of the paper follows - section two presents literature, section three offers methodology. Section four discloses the results and section five concludes.

2.0 Empirical Review

Several studies have tried to identify the link between the overall level of taxes and profitability (King & Rebelo, 1990; Levine & Renelt, 1992; Mendoza et al., 1997; Agell et al., 2006). Romer (1986) finds that agriculture tends to be taxed implicitly. Where inputs to agriculture include commodities that are traded in the foreign sector and thus other taxes such as excise duty apply. Implicit taxes therefore means that the cost of production to farmers increases and raising these taxes would have adverse effects on agriculture. King and Rebelo (1990) introduced a endogenous growth model which addresses the relative distortedness of different taxes. They used different measures of marginal tax rates to explain growth but find no significant or robust correlation between tax rates and growth and conclude that the link is fragile. They conclude that taxes on income are more distortionary than taxes on consumption. Levine and Renelt (1992) fail to find any cross-country relationship between a diverse collection of fiscal policy indicator and growth. Barro and Sala-I-Martin (1992) provide a comprehensive survey on the role of fiscal policy in endogenous growth models. Kneller et al. (1999) argue that this allows them to separate the effects of policy variables on the transition from those on the steady state. Bleaney et al. (2001) find that this period averaging does not appear to isolate long-run effects fully. Besides, it is generally found that the initial level of income per capita is negatively related to the current growth rate.

Mendoza et al. (1997) find that their tax variables become insignificant once they control for the initial level of GDP. Kneller et al. (1999) make a distinction between distortionary taxes, which they define as taxes on income and property, and the non-distortionary taxes, which include consumption taxes. They conclude that while the former reduce growth, the latter do not. They find that productive government expenditure is beneficial for growth while non-productive public expenditure is not. Folster and Henrekson (2001) find a negative relationship between total public expenditure as a share of GDP and growth. Agell et al. (2006) find an unstable and insignificant link between the expenditure ratio and growth.

Some few studies analyzed the link between growth and tax structures rather than tax levels provide (Leed & Gordon, 2005; Gemell et al., 2006; Widmalm, 2001; Schwellnus & Arnold, 2008; Vartia, 2008;). Widmalm (2001) finds that the proportion of tax revenues raised from taxing personal incomes is negatively correlated with growth. Vartia (2008), Schwellnus and Arnold (2008), reports on the negative effect of corporate taxes on the productivity of firms and industries across OECD countries. Lee and Gordon (2005) find a significant negative correlation between statutory corporate tax rates and growth for 70 countries during 1970-1997.

Arnold et al. (2011) investigated the effect of the tax structure on long-run GDP for 21 OECD countries over the years 1971- 004. They suggest a growth- friendliness ranking for tax instruments, which is led by property taxes, followed by consumption taxes. The personal income taxes were observed to be inferior, having the most negative effects on GDP per capita. Xing (2012) argued that the used Pooled Mean Group (PMG) estimator's assumptions might

not be valid. Challenging the validity of the homogeneity assumption, Xing (2012) first replicates the estimations by Johansson et al. (2008) using slightly different specifications and performing robustness tests and concludes that income taxes and consumption taxes are worse than property taxes. Hossain (1995) explores the income distributional impact of an alternative policy package, consisting of a basic rate of VAT with exemptions and excise taxes for certain commodity groups, in Bangladesh, and find that a revenue-neutral uniform VAT is regressive in its impact on the income of different households.

Cullen and Gordon (2002) show that there are several possible routes through which taxes can affect the amount of entrepreneurial risk-taking. As suggested by Arnold et al. (2011), one possible solution is to focus on the growth effects of revenue neutral changes in tax structure, which avoids the complication that changes in total tax revenue are reacted in changes in public spending. Lanaspá et al. (2008) find that the price elasticity of demand for tobacco is low. Therefore, an increase in price from increases in taxes on tobacco products is unlikely to reduce demand by so much, while instead increasing government revenue.

Several studies have been conducted by some scholars on the contribution of tax administration on economic growth. D'Archy (2011) analyzed the theoretical model of comparative treatment on tax compliance in several African countries. The result of the study revealed a considerable support for comparative treatment in tax compliance and found that to earn the right to collect tax, the state must fulfill its adjudicatory role by providing a judicial system that the citizens trust and in addition the state must be responsive to address the needs of the citizens through the delivery of services. Lee and Gordon (2004) show that tax rate are significantly negatively correlated with economic growth rate while other standard variables and other determinants of economic growth are put under control. They show that in fixed-effect regression increase in corporate tax rate led to lower future growth rate within countries.

Yahaya (2009) revealed that corruption, ignorance of tax procedure and tax evasion are the major societal factors hindering effective taxation. The study also revealed that ineffective utilization of collected taxes, improper record keeping, non-enforcement of tax policies and inadequate facilities to monitor tax payment amongst others were expressed as the major administrative factors retarding effective and efficient taxation in Kwara State. Ebeke and Ehrhart (2010) found that tax revenue instability in Sub Saharan Africa is leading to public investment and government consumption instability which in turn generate lower public investment ration and therefore detrimental to the long run economic growth. They show that fluctuation in tax revenue in any nation can lead to fluctuation in economic growth and infrastructural provision for the citizen. Ogbonna and Ebimobowei (2012) show that tax reforms improve revenue generating machinery of government to undertake socially desirable expenditures that will transform to economic growth in real output and per capita basis.

Adereti et al. (2011) revealed that a positive and significant correlation exists between VAT revenue and GDP. This shows that VAT is an essential component of government income generated. Unegbu and Irefin (2011) revealed that VAT allocations have a very significant impact on expenditure pattern. They find that the perception by the citizens across the administration areas of the state suggests that VAT has minimum impact level on the economic and human development of Adamawa State from 2001 to 2009. Although their study has shown the fact that VAT revenue is significant to economic growth, it also showed people's perception about VAT and its enforcement is generally low in Nigeria. Ogbonna and Appah (2012) finds that petroleum revenue effects gross domestic product and per capita income of Nigeria

positively. Abdu-Rahomoh et al. (2013) adopted the use of multiple regressions to analyze the data on variables such as gross domestic product petroleum profit tax; inflation and exchange rate were all found to have significant effects on economic growth. This also agrees with Jubrin et al. (2012) that the abundance of petroleum in Nigeria is an opportunity for more revenue generated to the economy. This is done via petroleum profit tax if it is adequately administered.

Boscá et al. (2019) examined the macroeconomic effects on banking in a small open economy under a currency union of three tax alternatives. The three tax choices produced comparable results on macroeconomic factors. In response to rising taxation, banks raised their markups and increased lending interest rates, which transferred some of the fiscal burden to individuals and companies. Despite raising government income, the tax policies resulted in longer-term GDP declines, higher loan interest rates, and lower credit volume, deposits, and bank capital. Adejumo and Sanyaolu (2020) analyzed corporate tax planning and the profitability of banks in Nigeria, using data from 2012-2018. They find that tax planning, measured had a significant negative effect on profitability. The capital adequacy ratio positively influenced profitability, while bank age and size had no significant effect.

Sobiech et al. (2021) found that taxing banks' gross profits increased bank leverage, reduced risk, and decreased credit supply. This impacted company's financing as firms with banks subject to profit tax showed lower leverage and shifted to more costly bond financing. Greater tax exposure also negatively affected corporate investments, highlighting the importance of bank taxation in shaping corporate strategies. Omarkhanlen et al. (2021) find a negative relationship with interest rates, and a positive relationship with broad money.

Akeem et al. (2022) revealed that open market operations had no significant positive effect on profitability, while cash reserve ratios had a significant positive effect. They offer that monetary policies significantly influence profitability when combined. Adefunke and Usiomon (2022) found that company income tax had a positive and significant effect on profit after tax and return while change in shareholders' funds had a negative yet significant effect. Adewole (2023) showed that company income tax and education tax had a negative significant impact on dividend per share, while profit after tax had a positive impact. A bidirectional causal relationship was found between dividend policy, company income tax, and education tax, while profit after tax showed a unidirectional relationship. Obubohebieri (2023) revealed that the cash reserve ratio and liquidity ratio had no significant effect on performance, while maximum lending rate and monetary policy rate had a significant effect. Habila et al. (2024) found that company income tax had a positive and significant effect on financial performance, while tertiary education tax and capital gains tax had a negative and significant effect. Value-added tax had a positive but insignificant effect. The study concluded that these taxes reduced the financial performance of the banks and recommended strategic tax planning and a review of fiscal policies to introduce tax incentives and reliefs.

Theoretical framework

The paper follows the economic deterrence theory, from Allingham and Sandmo (1972). The "theory is otherwise known as AS model of tax compliance. This theory is based on tax evasion compliance behaviour by taxpayers. The theory is of the assumption that taxpayer's behaviour towards taxation is determined or influenced by tax audit, detection of evasion and the extent of the severity of penalties that is melted on tax evaders. In other words when severe penalties are melted on tax evaded there is the tendency that few people will evade tax. On the other hand, more people will evade tax if the penalties are relaxed thereby giving room to

noncompliance. (Andreoni et al., 1998), posited that the model relies upon a wide range of major assumptions that are generally unrealistic for determining taxpayer's behaviour.

Focusing on the use of coercion on compliance rather than the use of consensual method led to more criticism of the model. However, despite the criticism of the model, it is widely used in tax administration especially when enforcement strategies involving the use of penalties and tax audit is to be adopted as people become indifferent when it comes to taxation. There are some evidences to support the relevance of deterrence theory in addressing taxpayer's noncompliance (Mckerchar & Evans 2009). Due to the fear of tax audit, the detection of evasion and the penalties that follows, it is seen as an effective strategy to induce taxpayer's behaviour towards compliance. It can be therefore said that when a situation demands that coercive measures be adopted for tax compliance and penalties on defaulters these will make people to comply with the resultant effect of increase in tax revenue generation.

3.0 Model and Method

The study investigates the impact of taxation on the profitability of banks in Nigeria. According to the theoretical framework, we estimate the model below:

$$ROA_{i,t} = \beta_0 + \beta_1 MGTR_{i,t} + \beta_2 EFTR_{i,t} + \beta_3 AVTR_{i,t} + \mu_{i,t} \quad (1)$$

ROA is return on assets and indicates a company's profitability in relation to its total assets. MGTR is marginal tax rate, which shows the amount of tax paid on an additional dollar of income. The marginal tax rate for an individual will increase as income rises. This method of taxation aims to fairly tax individuals based upon their earnings, with low-income earners being taxed at a lower rate than higher income earners. EFTR is an effective tax rate, which is the average rate at which an individual or corporation is taxed. The effective tax rate for individuals is the average rate at which their earned income is taxed, and the effective tax rate for corporation is the average rate at which its pre-tax profit is taxed. An individual effective tax rate is calculated by dividing total tax expenses by his taxable income. The effective tax rate is computed by dividing total tax expenses by the firm's earnings before taxes. AVTR is average tax rate, measured by the total amount of taxes paid by an individual or business divided by taxable income. This rate vary based on income received during the taxable period.

To demonstrate the robustness of the estimation, we estimate equation (2).

$$ROE_{i,t} = \beta_0 + \beta_1 MGTR_{i,t} + \beta_2 EFTR_{i,t} + \beta_3 AVTR_{i,t} + \mu_{i,t} \quad (2)$$

Where ROE is return on equity and represents the measure of a company's net income divided by its shareholders' equity. ROE is a gauge of a corporation's profitability and how efficiently it generates those profits. In both equation (1) and (2), β_0 is the model's constant or intercept, $\beta_1 - \beta_3$ are the coefficient of explanatory variables, and μ is the error term.

To estimate (1) and (2), the paper used published information from 2011-2022 of fifteen banks on Nigerian Exchange Group (NXG). All the banks used have audited financial statements for the period under consideration. We adopted a panel regression method. The method was adopted because its computational procedure is simple and the estimates obtained from this procedure have optimal properties of linearity, unbiasedness, minimum variance and mean square error estimation.

4.0 Results

Table 1 presents the pre-estimations, showing both descriptive statistics (Panel A) and correlation (Panel B). Table 1 above shows the mean (average) for each variable, their maximum values, minimum values, standard deviation. The outcome positive average return on asset of 0.0138, while the mean of return on equity is 0.0766, this means that the selected banks have a positive return on asset and equity. The table also reveals that a positive average value of 116.3 for marginal tax rate, 0.1550 for effective tax rate and 0.1575 for average tax rate for the selected banks used in the study. These values mean that within the period under review, quoted banks meet up 76% on the average within the period under review. The maximum value of marginal tax rate is -57.637 and its minimum value is 1177.4, maximum value for effective tax rate is -0.2334 and its minimum value is 0.7195; that of average tax rate is -0.2334, the minimum is 0.7195. The large differences between the maximum and minimum value shows that the banks data used for the study are homogeneous.

The correlation matrix is to check for multicollinearity and to explore the association between each explanatory variable and the dependent variable. Return on asset (ROA) has a positive association with return on equity (ROE). This justifies the use of both measures as proxy for firm profitability. The table shows that return on asset has a negatively associated with marginal tax rate and average tax rate and positively associated with effective tax rate. Return on equity has a strong positive association with effective tax rate and average tax rate but weak association with marginal tax rate. Marginal tax rate is strongly associated with effective tax rate and average tax rate. Effective tax rate is positively associated with average tax rate. In checking for multicollinearity, the study observed that no two explanatory variables were perfectly correlated.

The regression analysis result shows an R-sq (adj) value off 65%. This indicates that about 65% of the variation in firm performance can be attributable to the firm corporate tax rate quoted firms. Thus, 65% of the outcome of the dependent variable can be explained jointly by all the independent variables. The F- statistics shows a value of 11.389 and F-start probability value of 0.0275, this shows the appropriateness of the model used for the analysis while the probability value means that model is statistically significant and valid in explaining the outcome of the dependent variable. The Durbin Watson statistic which tests from the presence of autocorrelation has a value of 1.7898 which is approximated as 2. This reveals the absence of autocorrelation in the model used for the analysis.

The regression analysis result shows an R-sq (adj) value of 60%. This indicates that about 60% of the variation in firm performance can be attributable to the firm corporate tax rate quoted firms in Nigeria. Thus, 60% of the outcome of the dependent variable can be explained jointly by all the independent variables. The F-statistics shows a value of 10.398 and F-start probability value of 0.0939, this shows the appropriateness of the model used for the analysis while the probability value means that model is statistically significant and valid in explaining the outcome of the dependent variable. The Durbin Watson statistic which tests for the presence of autocorrelation has a value of 1.7409 which is approximated as 2. This reveals the absence of autocorrelation in the model used for the analysis.

The finding is consistent with past studies including Adefunke and Usiomon (2022) and Adewole (2023), but inconsistent with some others, including Adejumo and Sanyaolu (2020), Omankhanlen et al. (2021), Sobiech et al. (2021) and Habila et al. (2024). Adejumo and Sanyaolu (2020) show that tax planning, measured had a significant negative effect on profitability. Sobiech et al. (2021) found that taxing banks' gross profits increased bank

leverage, reduced risk, and decreased credit supply. Greater tax exposure also negatively affected corporate investments, highlighting the importance of bank taxation in shaping corporate strategies. Omankhanlen et al. (2021) find a negative relationship with interest rates, and a positive relationship with broad money. Habila et al. (2024) found that company income tax had a positive and significant effect on financial performance, while tertiary education tax and capital gains tax had a negative and significant effect. Adefunke and Usiomon (2022) found that company income tax had a positive and significant effect on profit after tax and return. Adewole (2023) showed that profit after tax had a positive impact on dividend per share. He shows a unidirectional causal relationship between dividend policy and profit after tax”.

Table 1: Pre-Estimation Information

| Variables | ROA | ROE | MGTR | EFTR | AVTR |
|---------------------------------|--------|--------|----------|--------|--------|
| Panel A: Descriptive statistics | | | | | |
| Mean | 0.014 | 0.077 | 116.300 | 0.155 | 0.158 |
| Max | 0.079 | 1.180 | 1177.400 | 0.720 | 0.720 |
| Min | -0.021 | -3.943 | -57.637 | -0.233 | -0.233 |
| St. Dev | 0.018 | 0.861 | 234.200 | 0.185 | 0.186 |
| Panel B: Correlation | | | | | |
| ROA | 1 | | | | |
| ROE | 0.404 | 1 | | | |
| MGTR | -0.223 | 0.096 | 1 | | |
| EFTR | 0.413 | 0.117 | 0.665 | 1 | |
| AVTR | -0.398 | 0.125 | 0.663 | 0.198 | 1 |

Source: Author (2024)

Table 2: Result of Estimated Models

| Variables | Coeff | Estimates | S.E. | t | p-value |
|---|----------------|-----------|--------|---------|---------|
| Panel A: Return on assets (ROA) model: | | | | | |
| Model: $ROA_{i,t} = \beta_0 + \beta_1 MGTR_{i,t} + \beta_2 EFTR_{i,t} + \beta_3 AVTR_{i,t} + \mu_{i,t}$ | | | | | |
| Const. | B ₀ | 6.3691 | 0.7247 | 8.7891 | 0.0000 |
| MGTR | β_1 | 10.6792 | 5.5592 | 1.9210 | 0.0750 |
| EFTR | B ₂ | 14.0658 | 4.5199 | 3.1120 | 0.0062 |
| AVTR | β_3 | 10.0205 | 5.2988 | 1.8911 | 0.0879 |
| Statistics | | | | | |
| Adj R2 | | | | | 64.8255 |
| F-stat | | | | | 11.3980 |
| Prob. (F-stat) | | | | | 0.0275 |
| DW | | | | | 1.7898 |
| Panel B: Return on equity (ROE) model: | | | | | |
| Model: $ROE_{i,t} = \beta_0 + \beta_1 MGTR_{i,t} + \beta_2 EFTR_{i,t} + \beta_3 AVTR_{i,t} + \mu_{i,t}$ | | | | | |
| Const | B ₀ | 8.2368 | 0.6834 | 12.0533 | 0.0000 |
| MGTR | β_1 | 12.1060 | 6.6714 | 1.8146 | 0.0924 |
| EFTR | B ₂ | 13.9010 | 7.0847 | 1.9621 | 0.0785 |
| AVTR | β_3 | 12.4020 | 2.3201 | 5.3455 | 0.0033 |
| Statistics | | | | | |
| R.Sq (Adj) | | | | | 60.0166 |
| F-stat | | | | | 10.1360 |
| Prob. (F-stat) | | | | | 0.0939 |
| DW | | | | | 1.7409 |

Source: Author (2024)

5.0 Conclusions

The importance of the banking sector in the economic growth and development of “any nation cannot be overemphasized. Banks facilitate the exchange of goods and services, creating a network of payment services, mobilizing and pooling the savings of some investors. They provide specialized financial services, which reduce the cost of obtaining information about both savings and borrowing opportunities. These financial services help to make the overall economy more efficient. The study investigates the impact of taxation on the profitability of banks in Nigeria. The increased incidence of reduction in profitability due to heavy a heavy tax burden in Nigerian banks generated the current literature on quality of banks profitability. Though there have been reforms in the banking industry to ensure effective financial institutions, the banks’ shareholders’ funds are affected by the reduction in profitability.

The findings reveal that three explanatory variables have a positive significant effect on both return on assets and return on equity. The marginal tax rate has a strong positive effect on profitability, which was significant at the 10% level. Moreso, the more the effective tax rate increases the better the profitability of quoted banks. The effect of corporate tax, the findings will assist in establishing financial policy guidelines that will mitigate financial risk in their various firms. Similarly, given the outcome of this study, the model used in this study could be used as a basis for formulating corporate tax policy in Nigeria that will indicate its effect on the firm’s profitability. The findings should be of policy relevance to tax authority in issuing out guidelines for taxation which would boost the economic activities in the market and economy in general. According to the findings, we offer some recommendations. First, the

government should engage in a complete re-organization of the tax administrative machineries in order to reduce tolerable problems of tax evasion and avoidance. Second, the government should endeavour to provide social amenities to all nooks and crannies of the country as this will boost the level of tax compliance in Nigeria. Third, to indicate its effect on the firm's profitability, the model used in this study should be adopted as a basis for formulating corporate tax policy in Nigeria. Third, to enhance the tax base of government, employment opportunities should be created and a good environment for entrepreneurship and innovation to thrive made using tax proceeds. Lastly, the government should be establishing financial policy guidelines that will mitigate financial risk in the various firms in Nigeria.

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