Effect of Corporate Tax on Financing Decision of Selected Manufacturing Firms in Nigeria

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ABSTRACT
The main aim of the study is to examine the effects of corporate tax on financing decisions of manufacturing firms, using selected manufacturing firms listed on the Nigerian Stock Exchange (NSE). Ex post facto research design was employed and data were extracted from the annual reports and accounts of three selected manufacturing firms and data were analyzed using the linear regression model. The results of our findings showed that there is no significant relationship between corporate tax and dividend paid by Nigerian Breweries Plc, Dangote Cement Plc and PZ Cussons Plc and issuance of new ordinary shares, retained earnings and long term debt. Based on this, the study recommends among other things that manufacturing firms can finance most of their growth internally since corporate tax does not have a significant effect on retained earnings.

Keywords: Corporate Tax, Financing Decision, dividend policy and manufacturing firms.

INTRODUCTION
The appropriation of a company’s profit is a sensitive function of financial management, most especially because of the need to maintain optimality in the allocation of profit between the shareholders (i.e. dividend) and the company itself (retained earnings) (Uwuigbe, Jafaru, Ajayi, 2012). Meanwhile, dividend policy remains the most indispensible element in financial policies not only from the viewpoint of the company, but also from that of the shareholders, the consumers, employees, regulatory bodies and the government (Uwuigbe et al, 2012).

Manufacturing firms the world over play a veritable role in the economic development of any country by creating employment and a source of income for various suppliers. Their major objectives are profitability and solvency. Profitability is the ability of a business to make profit, while solvency is the ability of a business to pay debts as they come due (Hermanson, 1992). Considering that tax can affect the success of an organization, it is necessary for financial managers and accountants to apply efficient legal tax avoidance techniques as tax liability reduction is similar to reducing expenses.

Multiple taxation, overregulation, government bureaucracy and unnecessary taxes are the major reasons businesses in Nigeria are suffering (Ibemere, 2017). Tax liabilities is just another business expense and an increase in tax has the same effect as would a rise in cost of goods or the electricity bill so a firm must do
all it can to reduce it. Tax effects dominate financial distress at low leverage, while financial distress and bankruptcy dominate tax effect at high leverage. When companies do not have too much debt in their capital structure, the main consideration as regards payment of tax is how to minimize the tax payable by the firm, hence a consideration to increase leverage. However, when a firm is highly levered it pays less tax as compared to another company of equal income level but has less debt in its capital structure. Despite this tax advantage of debt financing over equity financing, the commitment to pay interest along with the principal affects the company’s cash inflows which may lead to financial distress. In considering the prior studies uncertainty, the problems associated with income tax of manufacturing firms in Nigeria, following the arises of the significant relationship between company income tax and financing decisions of Nigerian manufacturing companies. It is in view of the above that this study set out to determine the significant relationship between corporate tax and financing decision of manufacturing firms in Nigeria.

REVIEW OF RELATED LITERATURE
Conceptual Framework
Taxation
Ola (2005) defined taxation as the demand made by the government of a country for a compulsory payment of money by the citizens of the country. For Thomas coolly in ICAN study pack (2006), taxes are defined as “enforced proportional contribution from person property, levied by the state by virtue of its sovereignty, for the support of government and for all public needs”. Nightingale (2007) described tax as a compulsory contribution imposed by the government and concluded that even though tax payers may receive nothing identifiable in the return for their contributions, they nevertheless have the benefit of living in a relatively educated, healthy and safe society.

There are different types of taxation. These include the personal income tax, petroleum profit tax, company income tax, value added tax, capital gains tax. Recently, the issue of capital gains tax in the Nigerian capital market has come to the fore. Government, from time to time, has the responsibility of reviewing the tax position as a component of the subsisting fiscal policy for the purpose of meeting its objectives (Adeyemi & Babington-Ashaye, 2016).

The corporate income tax is the tax on the corporate profits of a firm. Corporate profit is simply the income minus the costs that is associated with generating that income. Business expenses that may be deducted from income include employee compensation; the decline in value of machines, equipment, and structures (that is, depreciation); general supplies and materials; advertising; and interest payments (Keightley & Sherlock, 2014).

The corporate tax system has a variety of incentives designed to encourage and assist certain businesses. These incentives are formally known as corporate tax expenditures and include special credits, deductions, exemptions, exclusions, and tax rates that result in revenue loss for the government (Keightley & Sherlock, 2014).

Dividend
Dividend is a payment made to shareholders out of the profit of a company that is proportional to the number of shares owned. It is usually authorized by the board of directors of a company. Companies issue dividends in order to attract investments from investors, who are looking for a steady source of income, and which can be reliable to long term holders of company shares.

A dividend is the money that a company pays out to its shareholders from the profits it has made (Doughty, 2000). Such payments can be made in cash or by issuing of additional shares as in script dividend. Davies & Pain (2002) however defined it as the amount payable to shareholders from profit or distributable reserves. Companies that are listed in the stock exchange are usually obligated to pay out dividends on a quarterly or semiannual basis. The semiannual or quarterly payment is referred to as the interim dividend. The final payment, which is usually made at the end of the financial year of the company, is known as the final dividend. Dividends are normally paid after the corporate tax has been deducted. Dividend policy is primarily concerned with the decisions regarding dividend payout and
retention. It is a decision that considers the amount of profits to be retained by the company and that to be distributed to the shareholders of the company (Watson & Head, 2004).

**Financing Decision**
One of the most important decisions which a finance manager has to take is deciding on source of finance. A company can raise fund from various sources such as by retaining earnings, issue of shares, debentures or by taking loan and advances (Olatundun, 2007). Deciding how much to rise from which source is the concern of financing decision. Sources of finance can be divided into two broad categories:

- Owner’s fund: Share capital and retained earnings constitute owners’ fund
- Borrowed fund: debentures, loans, bonds, etc. constitute borrowed fund.

The main worry of a finance manager is to decide how much to raise from owners’ fund and how much to rise from borrowed fund.

While taking this decision the finance manager compares the advantages and disadvantages of different sources of finance. The borrowed funds have to be paid back and involve some degree of risk whereas in owners’ fund there is no fix commitment of repayment and there is no risk involved.

**Retained Earnings**
The retained earnings of a corporation is the accumulated net income of the corporation that is retained by the corporation at a particular point of time, such as at the end of the reporting period. At the end of that period, the net income (or net loss) at that point is transferred from the Profit and Loss Account to the retained earnings account. If the balance of the retained earnings account is negative it may be called accumulated losses, retained losses or accumulated deficit, or similar terminology. Whenever company requires more capital it can either arrange it by issue of shares or debentures in the stock market or by using its retained earnings (Adelegan, 2007).

**Ordinary shares**
Ordinary shares, a synonym of common shares, represent the basic voting shares of a corporation. Holders of ordinary shares are typically entitled to one vote per share, and do not have any predetermined dividend amounts. An ordinary share represents equity ownership in a company proportionally with all other ordinary shareholders, according to their percentage ownership in the company. All other shares of a company's stock are, by definition, preferred shares. Most companies only ever have one type of share (or class of share). The shares are commonly called ordinary shares and will be the ones the company was incorporated with (Catchpole, 2015).

**Long Term Borrowings**
Long Term Borrowing refers to amount borrowed for a period exceeding 12 months from the date of the balance sheet. It could be in the form of a bank loan, mortgage bonds, debenture, or other obligations not due for one year. A firm must disclose its long-term debt in its balance sheet with its interest rate and date of maturity. Amount of long-term debt is a measure of a firm's leverage, and is distinguished from long term liabilities which may include supply of services already paid for. When companies take long term loan then financier may put some restrictions or constraints on distribution of dividend and companies have to abide by these constraints (Olatundun, 2007).

**Company Taxation in Nigeria**
Company income tax is one of the major sources of revenue to all governments. In Nigeria it is a factor to reckon with in federal government budgets (Ola, 1999). The taxes so collected come back to the taxpayer in the form of social amenities. Income tax has over the years encouraged’ or discouraged some activities in the private sector; though this depends on whether the policy in the government is towards discouraging or encouraging companies (Udoayang, 2008). The Federal Government of Nigeria embarked on tax reduction as part of incentives to encourage indigenous companies.
Empirical Review
Amahalu and Abiahu (2016) in their study examined the effect of taxation on the dividend policy of banks in Nigeria and used Ordinary Least Square (OLS) regression and Pearson coefficient of correlation. The study discovered that there is a negative significant relationship between tax and dividend policy.
Adefila, Oladapo and Adeoti (2013) conclude that Nigerian firms do have a dividend policy that is dependent on earnings though the trend is not very consistent and proportionate. This is in agreement with the assertion made by Uwuigbe, et al (2012) that while several prior empirical studies from developed economies have shed light on the relationship between firm performance and dividend payout, the same is not true in developing economies like Nigeria. Zakaria (2012) also stressed the fact that investments made by firms” influence the future earnings and future dividends potential. In their research on 50 listed firms operating in high profile industries in the Nigerian Stock Exchange.
Charles (2012) determined the performance of monetary policy on manufacturing sector in Nigeria. The study used econometrics test procedure and found that money supply positively affect manufacturing index performance while company lending rate, income tax rate, inflation rate and exchange rate negatively affect the performance of manufacturing sector.
Ademola and Emeka (2012) ascertained the effects of tax incentives on manufacturing investment in Nigeria. Panel data was employed and the study found that tax incentive instruments used to motivate investment in real sector of the Nigerian economy was successful in terms of enhancing demand for industrial assets.
Sangosanya (2011) determined firm’s growth dynamics in Nigerian manufacturing industry using panel regression analysis model and gibrat’s law of proportionate. The study revealed that the manufacturing firms finance mix, abundance of funds reserve, utilization of assets to generate more sales and government policies are significant determinants of manufacturing industry growth in Nigeria.
Ajayi (2011) assessed the collapse of Nigeria’s manufacturing sector on economic growth. The study employed cross-sectional research design and discovered that the main cause of collapse in the Nigerian manufacturing sector is low implementation of Nigerian budget especially in area of infrastructure.
Eneojo and Inyada (2010) on the effect of company income tax on dividend policy of financial institutions in Nigeria using regression analytical techniques it was discovered that there is significant relationship between corporate income tax and dividend policy of the financial institutions in Nigeria.
Dickson (2010) examined the effect of recent trends and patterns in Nigeria’s industrial development. Using descriptive study, the study indicates that the level of manufacturing industry in Nigeria is concentrated in the southern part of the country and that the spatial pattern could change if industrialists adopt the strategy of industrial linkage. This finding did not support any school of thought as it suggests that policy on privatization of industry in Nigeria should be enhanced.
Rasheed (2010) examined the productivity in the Nigerian manufacturing subsector using co-integration and an error correction model. The study discovered the presence of a long-run equilibrium relationship index for manufacturing production, determinants of productivity, economic growth, bank credit and interest rate spread to the manufacturing subsector, inflation rates, foreign direct investment, exchange rate and quantity of graduate employment. This finding has research gap on the area of factors that affect manufacturing sector in Nigeria.
Matundura (2009) assessed the impact of taxes on financing decisions and firm value in Nigerian companies quoted on the NSE. The study employed correlation and linear regression analysis and revealed that the relationship between dividend and value is positive conveying the message that future dividends have an impact on the value of a firm.
In considering the prior studies uncertainty, the problems associated with income tax of Manufacturing firms in Nigeria, problems statements like the following arises is there a significant relationship between company income tax and dividend policy as well the financing decisions of Nigerian manufacturing companies.
METHODOLOGY

Research Design
For the purpose of this study Ex post facto research design was adopted as the research starts after the fact has occurred without interference from the researcher. The primary purpose of the research is to determine if significant relationship exist between dividend policy, financing decision and corporate income tax of Manufacturing Firms.

The Population and Sample Size of the study
The population of this study consists of selected manufacturing firms quoted on the Nigerian stock exchange, namely; Nigerian Breweries Plc, Dangote Cement Plc and PZ Cussons Plc were selected as the samples. The adoption of these companies in this study is because the market capitalization of these manufacturing firms quoted on the Nigerian Stock Exchange.

Method of Data Analysis
The statistical method used in this study is the Ordinary Least Squares (OLS) which is a tool used by researchers to establish the cause and effect relationship between dependent and independent variable (Nnadi 2008). In this research corporate tax is regarded as the independent variable while ordinary share, retained earnings, dividend and debt are the dependent variables.

The regression model upon which this study is based is of the form

\[ Y = \beta_0 + \beta_1 X + e \]  

Where:  
- \( Y \) is the dependent variable (dividend, ordinary shares, Retained earnings, and long term borrowings).  
- \( X \) is the independent variable (tax)  
- \( \beta_0 \) is a constant  
- \( \beta_1 \) is a coefficient of \( X \)  
- \( e \) is the random error term that accounts for the variability in dependent variable which cannot be explained by the independent.

The OLS model for this research will take the following form

\[ \text{TAX} = f \beta_0 + \beta_1 \text{ORDissue} + \beta_2 \text{RET} + \beta_3 \text{DIV} + \beta_4 \text{DEBT} + e \]

Where:
- \( \text{ORDissue} \) = financing by issuing of new shares (dependent variable).  
- \( \text{RET} \) = financing by retained earnings (dependent variable)  
- \( \text{DIV} \) = cash dividend paid (dependent variable)  
- \( \text{TAX} \) = income tax paid (independent variable)  
- \( \text{DEBT} \) = long-term debt issued by the Nigerian Breweries Plc, Dangote Cement Plc and PZ Cussons Plc (dependent variable)

Decision rule
Accept null hypothesis where P-Value calculated is greater than P-Value tabulated at 0.05 level of significance and vice versa.

PRESENTATION AND ANALYSIS DATA

Presentation of Data
This section presents data collected and utilized for the analysis of the research objectives and testing of the hypothesis of the study. Raw financial data collected for the research were presented in the table below.
Table 1: Nigerian Breweries Plc

<table>
<thead>
<tr>
<th>YEAR</th>
<th>CORPORATE TAX (000)</th>
<th>DIVIDEND PAID (000)</th>
<th>LONG TERM DEBT (000)</th>
<th>RETAINED EARNINGS (000)</th>
<th>ORDINARY SHARES (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>12,522,833.00</td>
<td>9,904,407.00</td>
<td>38,000,000.00</td>
<td>62,611,393.00</td>
<td>-</td>
</tr>
<tr>
<td>2012</td>
<td>17,626,681.00</td>
<td>21,664,981.00</td>
<td>15,000,000.00</td>
<td>84,946,036.00</td>
<td>71,046.00</td>
</tr>
<tr>
<td>2013</td>
<td>14,443,534.00</td>
<td>21,756,348.00</td>
<td>-</td>
<td>103,959,751.00</td>
<td>-</td>
</tr>
<tr>
<td>2014</td>
<td>20,154,277.00</td>
<td>42,263,111.00</td>
<td>15,670,000.00</td>
<td>102,726,500.00</td>
<td>-</td>
</tr>
<tr>
<td>2015</td>
<td>18,922,736.00</td>
<td>32,148,978.00</td>
<td>-</td>
<td>102,959,007.00</td>
<td>183,198,228.00</td>
</tr>
</tbody>
</table>


Table 2: Dangote Cement Plc

<table>
<thead>
<tr>
<th>YEAR</th>
<th>CORPORATE TAX (000)</th>
<th>DIVIDEND PAID (000)</th>
<th>LONG TERM DEBT (000)</th>
<th>RETAINED EARNINGS (000)</th>
<th>ORDINARY SHARES (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1,158,065.00</td>
<td>34,861,544.00</td>
<td>118,036,845.00</td>
<td>247,153,746.00</td>
<td>-</td>
</tr>
<tr>
<td>2012</td>
<td>2,538,919.00</td>
<td>19,364,214.00</td>
<td>112,462,464.00</td>
<td>361,130,672.00</td>
<td>774,569.00</td>
</tr>
<tr>
<td>2013</td>
<td>1,935,748.00</td>
<td>51,121,522.00</td>
<td>124,850,394.00</td>
<td>496,455,952.00</td>
<td>-</td>
</tr>
<tr>
<td>2014</td>
<td>225,936.00</td>
<td>119,283,552.00</td>
<td>131,941,708.00</td>
<td>537,750,794.00</td>
<td>-</td>
</tr>
<tr>
<td>2015</td>
<td>2,234,000.00</td>
<td>102,243,000.00</td>
<td>208,329,000.00</td>
<td>620,501,000.00</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Extracted from Dangote Cement Plc Annual Reports and Accounts (2011 - 2015)

Table 3: PZ Cussons Nigeria Plc

<table>
<thead>
<tr>
<th>YEAR</th>
<th>CORPORATE TAX (000)</th>
<th>DIVIDEND PAID (000)</th>
<th>LONG TERM DEBT (000)</th>
<th>RETAINED EARNINGS (000)</th>
<th>ORDINARY SHARES (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1,905,376.00</td>
<td>2,859,284.00</td>
<td>-</td>
<td>25,212,728.00</td>
<td>-</td>
</tr>
<tr>
<td>2012</td>
<td>1,992,698.00</td>
<td>2,896,504.00</td>
<td>-</td>
<td>24,551,457.00</td>
<td>397,048.00</td>
</tr>
<tr>
<td>2013</td>
<td>1,137,120.00</td>
<td>1,771,581.00</td>
<td>-</td>
<td>35,252,554.00</td>
<td>-</td>
</tr>
<tr>
<td>2014</td>
<td>2,330,643.00</td>
<td>9,004,660.00</td>
<td>-</td>
<td>31,711,254.00</td>
<td>-</td>
</tr>
<tr>
<td>2015</td>
<td>2,640,549.00</td>
<td>3,461,761.00</td>
<td>-</td>
<td>32,573,287.00</td>
<td>-</td>
</tr>
</tbody>
</table>


To get a clear relationship between the independent variable (tax) and the dependent variables (dividend paid, issued shares, retained earnings, and long-term debt), I employed a more sophisticated statistical model which was specified in chapter 3 of this research work that is simple linear regression analysis to test the hypothesis with the aid of Minitab version 16 (see appendix).
Test of hypotheses

Descriptive Statistics

Descriptive Statistics: CIT, DIVPD, LTD, RE, OSC

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SE Mean</th>
<th>St Dev</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIT</td>
<td>20353823</td>
<td>1603896</td>
<td>3586420</td>
<td>15586274</td>
<td>23797285</td>
</tr>
<tr>
<td>DIVPD</td>
<td>101460606</td>
<td>28700527</td>
<td>64176330</td>
<td>43925699</td>
<td>170551323</td>
</tr>
<tr>
<td>LTD</td>
<td>152858082</td>
<td>15073188</td>
<td>33704672</td>
<td>124850394</td>
<td>208329000</td>
</tr>
<tr>
<td>RE</td>
<td>573899226</td>
<td>75629806</td>
<td>169113387</td>
<td>334977867</td>
<td>756033294</td>
</tr>
<tr>
<td>OSC</td>
<td>36888178</td>
<td>36578304</td>
<td>81791574</td>
<td>0</td>
<td>183198228</td>
</tr>
</tbody>
</table>

Source: Researchers Fieldwork (2017) using Minitab version 16

The above table explains the descriptive statistics of both dependent and independent variable. It reveals the mean, standard deviation, minimum and maximum values of each variables.

Correlation Analysis

Correlations: CIT, DIVPD, LTD, RE, OSC

<table>
<thead>
<tr>
<th></th>
<th>CIT</th>
<th>DIVPD</th>
<th>LTD</th>
<th>RE</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIVPD</td>
<td>0.684</td>
<td>0.203</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTD</td>
<td>0.408</td>
<td>0.637</td>
<td>0.496</td>
<td>0.248</td>
</tr>
<tr>
<td>RE</td>
<td>0.674</td>
<td>0.841</td>
<td>0.426</td>
<td></td>
</tr>
<tr>
<td>OSC</td>
<td>0.540</td>
<td>0.599</td>
<td>0.919</td>
<td>0.601</td>
</tr>
<tr>
<td></td>
<td>0.348</td>
<td>0.285</td>
<td>0.027</td>
<td>0.284</td>
</tr>
</tbody>
</table>

The Table above shows the relationship between corporate income tax (CIT) and dividend paid (DIVPD), long term debt (LTD), retained earnings (RE) and ordinary share capital (OSC)

Hypothesis one

H₀: There is no significant relationship between corporate tax and dividends paid by Nigerian manufacturing firms.
Regression Analysis: DIVPD versus CIT

The regression equation is:

\[ \text{DIVPD} = -1.48E+08 + 12.2 \times \text{CIT} \]

<table>
<thead>
<tr>
<th>Predicator</th>
<th>Coef</th>
<th>SE Coef</th>
<th>T</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-147643953</td>
<td>155299925</td>
<td>-0.95</td>
<td>0.412</td>
</tr>
<tr>
<td>CIT</td>
<td>12.239</td>
<td>7.537</td>
<td>1.62</td>
<td>0.203</td>
</tr>
</tbody>
</table>

\[ S = 54061588 \quad \text{R- Sq} = 46.8\% \quad \text{R-Sq(adj)} = 29.0\% \]

Analysis of Variance

<table>
<thead>
<tr>
<th>Source</th>
<th>DF</th>
<th>SS</th>
<th>MS</th>
<th>F</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>1</td>
<td>7.70644E+15</td>
<td>7.70644E+15</td>
<td>2.64</td>
<td>0.203</td>
</tr>
<tr>
<td>Residual Error</td>
<td>3</td>
<td>8.76797E+15</td>
<td>2.92266E+15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>1.64744E+16</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The data obtained in the tables above was analyzed using the simple regression and the following results were obtained, P-value calculated is 0.203 which is greater than 0.05 level of significance. This implies that there is no significant variation between the dependent variable (tax) and the independent variable (dividend paid). That is to say that the change in the amount of tax paid does not substantially affect the amount of cash dividend paid to the shareholders. This is further justified by using co-efficient correlation where \( R^2 \) is 46.8\% meaning that a change in corporate income tax (CIT) brings 46.8\% change in dividend paid. Therefore we accept the null hypothesis which states that there is no significant relationship between corporate tax and dividends paid by Nigerian manufacturing firms.

Hypothesis Two

\( H_0: \) There is no significant relationship between corporate tax paid by Nigerian manufacturing firms and the issue of new ordinary shares.

Regression Analysis: OSC versus CIT

The regression equation is:

\[ \text{RE} = -2.14E+08 + 12.3 \times \text{CIT} \]

<table>
<thead>
<tr>
<th>Predicator</th>
<th>Coef</th>
<th>SE Coef</th>
<th>T</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-213561891</td>
<td>228428415</td>
<td>-0.93</td>
<td>0.419</td>
</tr>
<tr>
<td>CIT</td>
<td>12.30</td>
<td>11.09</td>
<td>1.11</td>
<td>0.348</td>
</tr>
</tbody>
</table>

\[ S = 79518408 \quad \text{R- Sq} = 29.1\% \quad \text{R-Sq(adj)} = 5.5\% \]

Analysis of Variance

<table>
<thead>
<tr>
<th>Source</th>
<th>DF</th>
<th>SS</th>
<th>MS</th>
<th>F</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>1</td>
<td>7.78992E+15</td>
<td>7.78992E+15</td>
<td>1.23</td>
<td>0.348</td>
</tr>
<tr>
<td>Residual Error</td>
<td>3</td>
<td>1.89695E+16</td>
<td>6.32318E+15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>2.67594E+16</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The data obtained in the tables above was analyzed using the simple regression and the following results were obtained, P-value calculated is 0.348 which is greater than 0.05 level of significance. Since the calculated P-value is greater than 0.05 level of significance we accept the null hypothesis which states that, there is no significant relationship between corporate tax paid by Nigerian manufacturing firms and the issue of new ordinary shares. This is further justified by using co-efficient correlation where $R^2$ is 29.1% meaning that a change in corporate income tax (CIT) brings 29.1% change in new ordinary shares issued.

**Hypothesis Three**

$H_0$: There is no significant relationship between corporate tax and retained earnings of Nigerian manufacturing firms.

**Regression Analysis: Retained Earnings versus CIT**

The regression equation is:

$$RE = -73430933 + 31.8\text{ CIT}$$

<table>
<thead>
<tr>
<th>Predicator</th>
<th>Coef</th>
<th>SE Coef</th>
<th>T</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-73430933</td>
<td>414155704</td>
<td>-0.18</td>
<td>0.871</td>
</tr>
<tr>
<td>CIT</td>
<td>31.80</td>
<td>20.10</td>
<td>1.58</td>
<td>0.212</td>
</tr>
</tbody>
</table>

$s = 144172091 \quad R^2 = 45.5\% \quad R^2(adj) = 27.3\%$

Analysis of Variance

<table>
<thead>
<tr>
<th>Source</th>
<th>DF</th>
<th>SS</th>
<th>MS</th>
<th>F</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>1</td>
<td>5.20406E+16</td>
<td>5.20406E+16</td>
<td>2.50</td>
<td>0.212</td>
</tr>
<tr>
<td>Residual</td>
<td>3</td>
<td>6.23568E+16</td>
<td>2.07856E+16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>1.14397E+17</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The data obtained in the tables above was analyzed using the simple regression and the following results were obtained, P-value calculated is 0.212 which is greater than 0.05 level of significance. Since the calculated P-value is greater than 0.05 level of significance. The study accepts the null hypothesis which states that, there is no significant relationship between corporate tax and retained earnings of Nigerian manufacturing firms. This is further justified by using co-efficient correlation where $R^2$ is 45.5% meaning that a change in Corporate income tax (CIT) brings 45.5% change in financing through retained earnings.
Hypothesis four

$H_0$: There is no significant relationship between corporate tax and long term debt of Nigerian manufacturing firms.

**Regression Analysis: LTD versus CIT**

The regression equation is:

$$LTD = 74870140 + 3.83 \text{ CIT}$$

<table>
<thead>
<tr>
<th>Predicator</th>
<th>Coef</th>
<th>SE Coef</th>
<th>T</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>74870140</td>
<td>102085835</td>
<td>0.73</td>
<td>0.516</td>
</tr>
<tr>
<td>CIT</td>
<td>3.832</td>
<td>4.954</td>
<td>0.77</td>
<td>0.496</td>
</tr>
</tbody>
</table>

$S = 35537186$  

$R^2 = 16.6\%$, $R^2(\text{adj}) = 0.0\%$

Analysis of Variance

<table>
<thead>
<tr>
<th>Source</th>
<th>DF</th>
<th>SS</th>
<th>MS</th>
<th>F</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>1</td>
<td>7.55345E+14</td>
<td>7.55345E+14</td>
<td>0.60</td>
<td>0.496</td>
</tr>
<tr>
<td>Residual Error</td>
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<td>1.26289E+15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>4.54402E+15</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The data obtained in the tables above was analyzed using the simple regression and the following results were obtained, P-value calculated is 0.496 which is greater than 0.05 level of significance. Since the calculated P-value is greater than 0.05 level of significance we accept the null hypothesis which states that, there is no significant relationship between corporate tax and long term debt of Nigerian manufacturing firms. This is further justified by using coefficient correlation where $R^2$ is 16.6% meaning that a change in Corporate income tax (CIT) brings 16.6% change in financing through long term borrowing.

**DISCUSSION OF FINDINGS**

From the result, corporate tax paid by these manufacturing firms is not so significant as to discourage the firms from paying dividend. This result might likely be different if other forms of dividend such as bonus issue and rights issue was used other than cash dividend.

It was also showed that tax does not have significant impact on issue of new ordinary shares.

In the same vein, when we tested hypothesis three, the result implies that there is no significant relationship between tax and retained earnings.

Finally, the hypothesis four also implies that there is no significant relationship between tax and long term debt.

This is result is not in line with some findings regarding taxes and financing through ordinary shares (Govi, Hahn, Ofer, and Sang, 1992; Graham, 1992; and Udoayang, and Suquo, 2008) which find evidence that corporate income tax affect financing through issue of shares.

**SUMMARY OF FINDINGS**

The study summary the findings as itemized below:

1) There is no significant effect between company income tax dividends paid by Nigerian manufacturing firms.
2) There is no significant effect between company income tax and issue of new ordinary shares in Nigerian manufacturing firms.
3) There is no significant effect between company income tax and retained earnings in Nigerian manufacturing firms.
4) There is no significant effect between company income tax and long term debt in Nigerian manufacturing firms.
CONCLUSIONS
The study showed that there is no significant relationship between corporate tax and financial decision of manufacturing firms, it can be summarized that the corporate tax advantage of debt gives the firm a big advantage to increase leverage. This study however argues that the connection between company income tax and financing decisions is complicated as evidenced from the findings in relation to the effect of corporate tax on financing through issue of ordinary shares, long term debts and retained earnings. Ordinarily it expect a strong relationship between corporate income tax and ordinary shares, retained earnings and long term debt financing, but this is not always the case. Conclusively, the tax paid does not significantly reduce the amount of money available for distribution to shareholders in form of dividend given the high payment of cash dividend. This means that the Nigerian tax system does not significantly distorts economic activities.

RECOMMENDATIONS
Based on the findings, the following recommendations are proffered:
1. Conscious effort is required in the area of developing the capital market in order to absorb the likely demand for equity funds in the Nigerian manufacturing sector.
2. Government can increase its revenue generation by increasing marginally the amount of corporate tax collected from the manufacturing firms since this will not affect the distribution of dividend to shareholders.
3. The current tax regime should be maintained to motivate investors so as to invest in the manufacturing sector.
4. Manufacturing firms can finance most of their growth internally since corporate tax does not have a significant effect on retained earnings.

REFERENCES


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