INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN ACCOUNTING, FINANCE AND MANAGEMENT SCIENCES

www.hrmars.com
ISSN: 2225-8329

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To Link this Article: http://dx.doi.org/10.6007/IJARAFMS/v11-i2/9894 DOI:10.6007/IJARAFMS /v11-i2/9894

Received: *15* March 2021, ***Revised:*** *10* April 2021, ***Accepted:*** *02* May 2021

Published Online: 26 May 2021

In-Text Citation: (Timah & Chukwu, 2021)

To Cite this Article: Timah, B. P., & Chukwu, G. J. (2021). Corporate Taxation and Stakeholders' Welfare of Selected Manufacturing Companies in Nigeria. *International Journal of Academic Research in Business and Social Sciences*, *11*(2), 13–26.

Vol. 11, No. 2, 2021, Pg. 13 - 26

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www.hrmars.com

ISSN: 2225-8329

Corporate Taxation and Stakeholders' Welfare of Selected Manufacturing Companies in Nigeria

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Abstract

This study investigated the relationship between corporate taxation and the welfare of stakeholders such as employees, investors and host communities. Specifically, the study investigated the relationship between corporate tax and employees' wages, dividend, and corporate social responsibility. Descriptive research design was adopted, and data on selected manufacturing companies were obtained from the published annual financial statements of the companies. Data analysis was conducted using Ordinary Least Square, with the aid of E-views software. The findings revealed that there was a significant relationship between corporate tax and employee wages, and also between corporate tax and dividend payment. Further, there was a significant, positive relationship between corporate tax and the corporate social responsibility engagements of the selected companies. The implication of these consistent findings is that tax payment motivates greater hard work, which translates into better amount of wages, more dividends, and more investment in corporate social responsibility.

Keywords: Corporate Tax, Stakeholders' Welfare, Manufacturing Companies, Corporate Performance.

Introduction

Corporate taxation is an important fiscal instrument utilized by government to achieve economic growth and development. The administrative mechanism of taxation in an economy influences how corporate organizations attend to stakeholders needs. Any government which does not operate a good tax regime, but places premium on high tax rate, will definitely deplete the reported after-tax profits of taxation entities. This could in turn, lead to reduction in welfare packages accruing to stakeholders. According to Timah (2009), virtually all taxpayers see the imposition of taxation as a burden. Therefore, the imposition of multiple taxes will create an unfavourable tax environment that is likely to affect stakeholders' welfare. This is consistent with the view of Okolo, Okpalaojiego and

Okolo (2016), who observed that tax has dual functions which include incentive and disincentive to investment desire of firms.

There are a number of studies on corporate taxation and financial performance. However, the studies that relate corporate income tax to stakeholders' welfare (employee wages, dividend, and corporate social responsibility) are scanty, justifying the need for this study.
In the light of the foregoing, the following hypotheses would form the basis of the study, as follows:

1. Corporate income tax imposed on manufacturing companies is not associated with employee wages.
2. Corporate income tax imposed on manufacturing companies is not related to the amount of dividend payable to shareholders.
3. There is no significant relationship between corporate income tax imposed on manufacturing companies and corporate social responsibility offered host communities.

Review of Related Literature

Conceptual Review

Taxation is an important strategic tool for revenue generation which every economy employs for national development. Anyaduba (2004) stated that taxation is the cash-cow that produces revenue for governments to function. In agreement with Anyaduba's viewpoint, Ola (2001) remarked that the introduction of taxation is basically aimed at addressing the socio-economic and political needs of a nation. Therefore, taxation serves as means of redistribution of wealth to achieve social justice. Despite the goals of corporate taxes, taxation can be used to address the welfare needs of the citizenry. Osundina and Olanrewaju (2013) argued that the welfare needs of Nigerians must be the utmost concern to all, as it is an avenue wherein the standard of living of the people can be imparted positively.

Corporate taxation is a formal means of subjecting entities to direct payment of taxes. Sovereign economies use corporate tax as a lifeline to derive income from business activities of organizations (Sheriff & Agrawwal, 2017). In Nigeria, as in other economies, taxes serve various needs. Ofoegbu, Akwu and Oliver (2016) opined that various taxes can be used to achieve various objectives of the Nigerian government. In Nigeria, there are different legislations that allow the government to tax its citizens and to increase the tax revenue. Some of the legislations are the personal income tax amendment Act 2011 and Companies Income Tax Amendment Act 2004. Others include capital gains tax amendment Act 2004 and the value added tax amendment Act 2004.

Company income tax is a charge on business profits of companies except such companies are clearly exempted under the Act. Companies in Nigeria were subjected to taxation at a rate of 30 percent on their taxable profits; however, the Finance Act 2019 introduced a progressive form of company income tax, exempting companies with annual turnover of less than N25m from company tax and minimum tax; and reducing the tax rate of medium sized companies (with annual turnover of N25m to N100m) to 20 per cent. Thus, only companies with annual turnover in excess of N100m will pay tax at the rate of 30%. Nigerian companies are also subject to withholding tax on dividend, interest, or royalties received by Nigerian companies or paid to non-Nigerian companies with economic presence in Nigeria. For companies subject to company income tax, tax represents a sacrifice based on the profits of companies for the purpose of creating revenue for the government (Doki & Sule, 2015).

Another tax payable by companies in Nigeria is the Education Tax, introduced in 1993 for the purpose of sustaining the educational system by supporting research and infrastructural development. Education Tax was viewed as a social obligation placed on all operating entities in ensuring that they contribute towards developing educational facilities in Nigeria. An education tax rate of 2 percent is imposed on the assessable profit of all companies incorporated in Nigeria (Ekeocha, Ekeocha, Malaou & Oduh, 2012).

Though corporation tax is a source of revenue generation for development, its application should not impose unnecessary burden on the payers. Thus the profitability, solvency, efficiency, dividends and earnings per share of corporate entities and investors in Nigeria should not be so adversely affected that businesses will be suffocated. An organization reflects diverse grouping of stakeholders and the purpose of such organization is targeted at managing the stakeholders' interests, needs and viewpoints. The common types of stakeholders are customer, employees, local communities, suppliers/distributors, and shareholders. Timah and Chukwu (2018) have documented that addressing the interest of stakeholders has a positive effect on the performance of corporate entities.

A study conducted by Owusu (2012) revealed that management can make use of different methods, techniques, and policy directive to motivate employees in the banking environment towards improved productive capacity with the instrument of better emolument. Employees are interested in enhanced salaries, fringed benefits, promotion, and car loans which are motivating factors that are sufficient to push employees of banks to give out their best. In corroboration with Owusu's viewpoint, Philips (2003) identified a firm's legitimate (or normative) stakeholders as any of such persons or corporate organizations to whom the firm owes a duty to contribute in making that organization a going-concern. They include customers, communities in which the firm operates, suppliers of capital, equipment, materials, and labor.

Harrison and Wicks (2013) observed that financiers introduce capital into the businesses and wait to face uncertainty, hoping to receive returns on their investment, afterwards. Employees expend their time, effort, and other resources in exchange for wages and other firm-specific tangible benefits.

An important group of stakeholders are shareholders, who laboriously contribute their funds towards building up the capital base meant to run the organization from which they can earn return on invested capital. Shareholders are very strategic players who have a stake in the business by virtue of their funds contributed to run the business (Kaler, 2002)

Key stakeholders of a business are shareholders, employees, customers, and the general public (Dodd, 1932). It is from the use of shareholders' contribution that a firm generates profits, a part of which is sent to shareholders as dividend, being a compensation for their financial participation in the business organization. Amplifying further on shareholders as part of stakeholders, Mitchell, Angle and Wood (1997) described stakeholders as those having some measure of claim on the services of the business entity or command some influence over the business entity; hence, shareholders with their various contributions towards management of entity's resources qualify as significant stakeholders. Shareholders are rewarded through the payment of dividends.

Another important stakeholder group is the host community. Corporate entities engage in various forms of activities to assist their host communities in appreciation of their corporation. Engagements in corporate social responsibility bring the community and business closer. Kassinis and Vafeas (2006) reveal that community stakeholders are made up of geographic communities at large as well as community groups that may appear like political or social interest groups, which must be satisfied to achieve smooth operations for the organization. Wood and Jones (1995) conducted a broad study of the financial effect of corporate institutions especially with the involvement of community welfare, and the results showed that corporate philanthropy is a promotional tool for organizational efficiency and profitability. It is therefore imperative for corporate organizations to take up corporate social responsibility in their business domains, in order to increase productive performance that will result from the favorable and friendly environment that would be prevalent.

Theoretical Framework
The following theories will be used to explain the relationship between corporate taxation and stakeholders' welfare.

The Sacrifice Theory: A look at Makinya (2000) attempts to specify the economic burden that a taxpayer suffers in relation to payment of taxes and what in virtue of his payment of taxes and how much of his remains in the aftermath for purpose of his own subsistence. This theory supports the fact are taxes borne by taxpayers and it is a clear demonstration of philanthropy to the nation.

The Optimal Taxation Theory: According to Mankiw, Weinzieri and Yagan (2009), the standard theory of optimal taxation posits that a tax system is selected to satisfy the social welfare need in comparison to a set of constraints. The work of Mirrlees (1971) produced the second wave of optimal tax models by designing an approach wherein the expected formal planner's anxiety is resolved sufficiently with the unseen heterogeneity of taxpayers. The interpretation from Mirrlees' framework is that an imperfect information exists between the taxpayer and social planner. Babatunde, Ibukun and Oyeyemi (2017) discussed the optimum taxation rate where tax proceeds are maximized for socio-economic development had been the focus of the various theories advancing the course of taxation.

The Functional Theory of Labour: In the words of Waititu, Kihara and Senaji (2017), according to this theory, it is obligatory upon the employers to render welfare care to the employees. Emphasizing further on this theory, Waititu et al. (2017) remarked that a better training given to the human personality is the necessary goal for industrial welfare, which, according to this principle, has the intention to reserve the negative effects of the industrial system.

Stakeholder Theory. The popularity of this theory is attributed to Freeman (1984), who suggested that each firm have stakeholders who they should pay attention to attention to if they desire to succeed in the ever turbulent business environment. Chukwu and Timah (2018) showed that taking care of stakeholders' welfare can positively impact the fortunes of the business.

Empirical Review

i. Empirical Review

A study conducted by Thomas and Chaido (2005) in Greece, investigated the effect of aggressive tax imposition and the impact on economic growth (with special attention to welfare). It was found by the scholars that there was a causally positive relationship between tax revenue and economic growth. Apart from revenue generation, taxation is often utilized to create both incentive and disincentive effects. It is usually employed to enhance desirable production activities through lower tax rates and discourage socially undesirable activities through high tax rates (Oriakhi & Ahuru, 2014). Taxation is therefore an instrument that can be used to either increase the wealth of stakeholders or impoverish them, by decreasing or increasing the taxable amount to be paid by corporate entities.

A similar research finding collaborating with the position established by Oriakhi and Ahuru is Bonu and Pedro (2009), who found that low income tax rates boosted the economic growth in Botswana. Using the Scully approach and quadratic regression models, Keho (2010) examined how stakeholders' welfare is affected by taxation, and concluded that higher taxes are strongly correlated with reduced economic growth in Cote d' Ivoire.

Adebayo (2007 also investigated the nexus between corporate taxes and stakeholders' welfare and argued that government must make deliberate effort to mitigate the poverty effect on the citizenry, which in a way, can be achieved by lowering the tax burden on corporations, which will in turn, create more money in the pockets of the stakeholders who will receive dividends, enhanced wages and provide more community projects.

An earlier study by Anyanwu, Oyefesu and Aikhenan (1997) on the effect of taxes on Nigeria's economic growth, in the period 1981 to 1996, revealed that companies' income tax positively and significantly affects Nigeria's economic growth. Thus, if corporate taxes are not well implemented to reflect the good intentions of government towards ensuring transparency, fairness, and justice in the administration of Nigeria's tax regime, stakeholders' welfare might be eroded, thereby robbing off negatively on the overall development and growth of the Nigerian economy.

Osundina and Olanrewaju (2013) documented that 1% increase in total federally collected revenue in Nigeria will reduce total consumption expenditure by 63%. This result is consistent with the fact that high tax burden on companies reduces the economic or purchasing power of the stakeholders, because the wealth created that resulted to the profitability of the company would have been drained due to high taxes, leaving the stakeholders with just a little to jostle over.

Since the welfare of the company's stakeholders is paramount, the tax burden on the company should not undermine the social objective of governance, because both employees and shareholders are entitled to have access to healthy life, good education and of course better living standard, which can come through the application of wages and dividend earned by workers and capital providers, respectively. This claim is supported by United Nations Development Programme (UNDP). UNDP (2014) focused on Human Development Index measures dealing with long-term progress in three basic areas of human development namely: access to safe and healthy life, access to education, and a decent living standard. Heavy corporate tax burdens will impede the human development measures in the country.

Priti (2009) cited in Waititu, et al. (2017) argued that the role of welfare activities is to promote economic development by increasing efficiency and productivity with the underlying principle of making workers give their loyal services ungrudgingly in genuine spirit of co-operation and the general wellbeing of the employees.

From the empirical review above, significant efforts have been made in obtaining some empirical studies related to the effect of taxation on economic growth or revenue generation or other related chosen areas; but only a few studies have been carried out on taxation and welfare of Nigerian Economy. In view of the foregoing, the intention of this study is to ascertain the possible relationship between corporate taxes and stakeholders' welfare of the tax paying company, as there is scanty empirical evidence in this regard. Doki and Sule (2015) opined that there are few literatures on corporate taxation and revenue generation in Nigeria.

Methodology

The study was aimed at investigating the relationship between corporate income taxes and stakeholders' welfare of selected manufacturing companies using empirical analysis approach. The study used the ex post facto design as it relied on facts that occurred before the research was conducted.

Data Source and Analytical Technique

Secondary data for a period of five years (2012-2016) of Dangote Group of companies were obtained from the Nigerian Stock Exchange (NSE) branch in Port Harcourt, Nigeria. These companies are: Dangote Cement, Dangote Sugar, Dangote Salt and Dangote Flour Mills.

The study made used simple linear regression in the analyses of data collected. E-views software version 10.0 was the statistical package employed in processing the data for the study. The regression results were used to test the study's hypotheses.

Variables Specification

Corporate taxation is the independent (predictor) variable and stakeholders' welfare is the dependent (criterion) variable.

Proxies Specification:

1. Corporate taxation was measured using company income tax as the proxy.
2. Stakeholders welfare was measured using the following proxies:
    i. Employees' Wages
    ii. Shareholders' Dividend
    iii. Corporate Social Responsibility Expenditures

Data Analysis Technique and Model Specification

This study investigated how corporate taxes affect various proxies of stakeholders' welfare. Therefore, corporate tax (proxied by company income tax) was regressed on the various dimensions of stakeholder welfare, by taking each dependent in a separate model. Thus, the three models for this study are:

Therefore, translating into a regression model, the equation is given as:

EMB = $\propto + \beta_1\, CIT + \varepsilon$ ……………… ………. Eqn 1
DIVD = $\propto + \beta_1\, CIT + \varepsilon$ ……………….. ……… Eqn 2
CSR = $\propto + \beta_1\, CIT + \varepsilon$ ……………… ……….. Eqn 3

Where:
CIT = Company Income Tax
$\propto$ = Constant
$\beta_1, \beta_2, \beta_3$ = Parameters to be estimated
EMB = Employee Benefits
DIVD = Dividend
CSR = Corporate Social Responsibility Expenditures
ε = Stochastic Disturbance Error Term

Empirical Result and Analysis
Test of Hypothesis one

Ho_1: Corporate income tax imposed on manufacturing companies is not associated with employee wages.

Table 1: Regression output of Ho1: $EMB_{It} = \alpha_{it} + \alpha_1 CIT_{it} + \varepsilon it$

Linear regression				Number of obs	=	20
				F(1, 18)	=	41.77
				Prob > F	=	0.000
				R-squared	=	0.8346
				Root MSE	=	1246.7
EMB	Coef.	Robust Std. Err.	t stat	P>|t|	[95% Conf. Interval]	
CIT	.1192045	.018444	6.46	0.000	.080455	.1579539
Cons	1567.15	238.3896	6.57	0.000	1066.312	2067.988

Note: EMB = Employees benefits; CIT = Company Income Tax.

Table 1 gives the indication that the model has an excellent fit as indicated by the F statistic ($p < .001$). The R^2 shows that 84% of the employees' wages is explained by the company income tax as shown in table 1 above.

From the above result, the company income tax has a positive coefficient (α_1, 0.1192045), suggesting that a N1 change in company income tax results in a 12% increase in employees' wages; and this is highly significant ($p < .001$). Overall, corporate taxation has a positive and significant relationship with employee wages (t = 6.46, $p < .001$). In other words, firms that pay higher taxes are also those that pay higher wages. This is inconsistent with the expectation that increase in taxation degrades the entitlements of employees.

Test of Hypothesis Two

Ho_2: Corporate income tax imposed on manufacturing companies is not related to the amount of dividend payable to shareholders.

Table 2. Regression output of Ho2: $DIVD_{It} = \alpha_{it} + \alpha_1 CIT_{it} + \varepsilon it$

Linear Regression				Number of obs	=	20
				F(1, 18)	=	20.96
				Prob > F	=	0.0002
				R-squared	=	0.7493
				Root MSE	=	22107
DIVD	Coef.	Robust Std. Err.	t stat	P>|t|	[95% Conf. Interval]	
CIT	1.62677	.3553019	4.58	0.000	.8803085	2.373231
Cons	-2033.507	2068.15	-0.98	0.339	-6378.53	2311.516

Note: DIVD = Dividend, CIT = Company Income Tax

Table 2 also indicates that the model has an excellent fit as shown by the F statistic (p = 0.0002). The R^2 shows that 75% of the dividend is explained by the company income tax as in table 2 above. The coefficient for dividend (α_2, 1.62677) suggests that company income tax increases by N1 as shareholders' welfare measured by dividend increases by 163%. Overall, corporate taxation has a positive and significant relationship with dividend payment (t = 4.58, $p < .001$), indicating that companies with higher tax values also paid more dividends. This contradicts the evidence that taxation affects shareholders negatively, but supports the view that firms that pay more corporate taxes are also more interested in the welfare of capital providers.

Test of Hypothesis three

Ho_3: There is no significant relationship between corporate income tax imposed on manufacturing companies and corporate social responsibility offered host communities.

Table 3. Regression output of Ho3: $CSR_{It} = \alpha_{it} + \alpha_1 CIT_{it} + \varepsilon it$

Linear regression				Number of obs	=	20
				F(1, 18)	=	13.28
				Prob > F	=	0.0019
				R-squared	=	0.5749
				Root MSE	=	707.55
CSR	Coef.	Robust Std. Err.	t stat	P>|t|	[95% Conf. Interval]	
CIT	.0350187	.0096094	3.64	0.002	.0148301	.0552072
Cons	-71.40834	41.71837	-1.71	0.104	-159.0554	16.2387

Table three above shows the F statistic (p < 0.0019). R^2 shows that 57% of corporate social responsibility is explained by the company income tax as represented in Table 3 above. Similarly, the company income tax has a positive coefficient (B_3, 0.0350187), suggesting that a N1 change in company income tax will result to 4% increase activity of corporate social responsibility. The coefficient of tax (CIT) and the t statistic suggest a positive relationship between the variables ($t = 3.64$, $p = .002$). This implies that the relationship between company income tax and corporate social responsibility was positive and highly significant.

Discussion of Findings

The study revealed a positive and significant relationship between company income tax and employees' wages. This finding agrees with Thomas and Chaido (2005) who remarked that a strong positive causality existed between corporate tax activity and each of the measures of welfare. This position clearly signifies that increase in taxation brings about increase in corporation performance that eventually leads to welfare of employees. It could imply that taxation helps in making employees put in more in productive activity which in turn will produce more welfare packages for all stakeholders.

Conclusion and recommendation

A large number of studies conducted prior to this research reported that higher taxes are associated negatively with welfare measures (Bonu & Pedro, 2009; Keho, 2010). This study has documented a positive relationship between corporation tax and stakeholders' welfare, indicating that tax payment constrains management to seek for efficiency in the use of resources and as well as motivate employees to greater performance to justify improved employee welfare even in the circumstance of increasing tax amount. The results may also be explained by the fact that tax payment is proportional to performance and larger firms usually pay higher taxes and in many cases offer better remuneration. Corporate entities should set up machinery to monitor the welfare packages of various stakeholders, and reduction in corporation tax rate should be pursued to reduce corporate burden and free up more funds to satisfy various welfare needs.

The paper has contributed to literature by examining how tax imposition is associated with stakeholders' welfare. As noted earlier, prior studies in Nigeria have concentrated on how tax revenue affects the GDP and other variables of economic development. This study therefore fills gap in literature. The consistent, positive relationship between corporate tax payment and the proxies for stakeholders' welfare suggests that firms with receptive tax payment behaviour are also careful in seeking to satisfy other corporate stakeholders.

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Appendix

Corporate taxation and stakeholders welfare

1. Descriptive Statistics

The study displays the descriptive statistics used in the regressions in Table 2.

Table 2: Descriptive Statistics.

S/N	Variable	Obs	Mean	Std. Dev.	Min	Max
1	Cit	20	16120.2	22869.64	213	60406
2	Emb	20	3488.75	2984.038	773	11338
3	Divd	20	24190.35	42977.79	0	136324
4	Csr	20	493.1	1056.25	0	4033

Note: CIT = Company Income Tax; EMB = Employees benefits; DIVD = Dividend, CSR = Corporate Social Responsibility. All the figures are in millions of Naira.

REGRESSION DIAGNOSTICS

Appendix 1a for Ho1

1) Check of Outliers.

list emb cit d if d>4/20

```
     +--------------------------+
     |  emb    cit         d |
     |--------------------------|
  5. |  7483   60406   .2318786 |
  9. |  5896   55406   .5416358 |
 17. | 11338   54279   1.066793 |
```

Decision: Observations within bound. No outliers.

2). Checking Normality of Residuals

swilk r

```
                Shapiro-Wilk W test for normal data

    Variable |    Obs       W         V        z      Prob>z
-------------+------------------------------------------------
           r |     20   0.92656     1.738    1.114   0.13255
```

Decision: Residuals normally distributed (z= 1.114), Not significant

3. Checking for Multicollinearity

. vif

```
    Variable |       VIF       1/VIF
```

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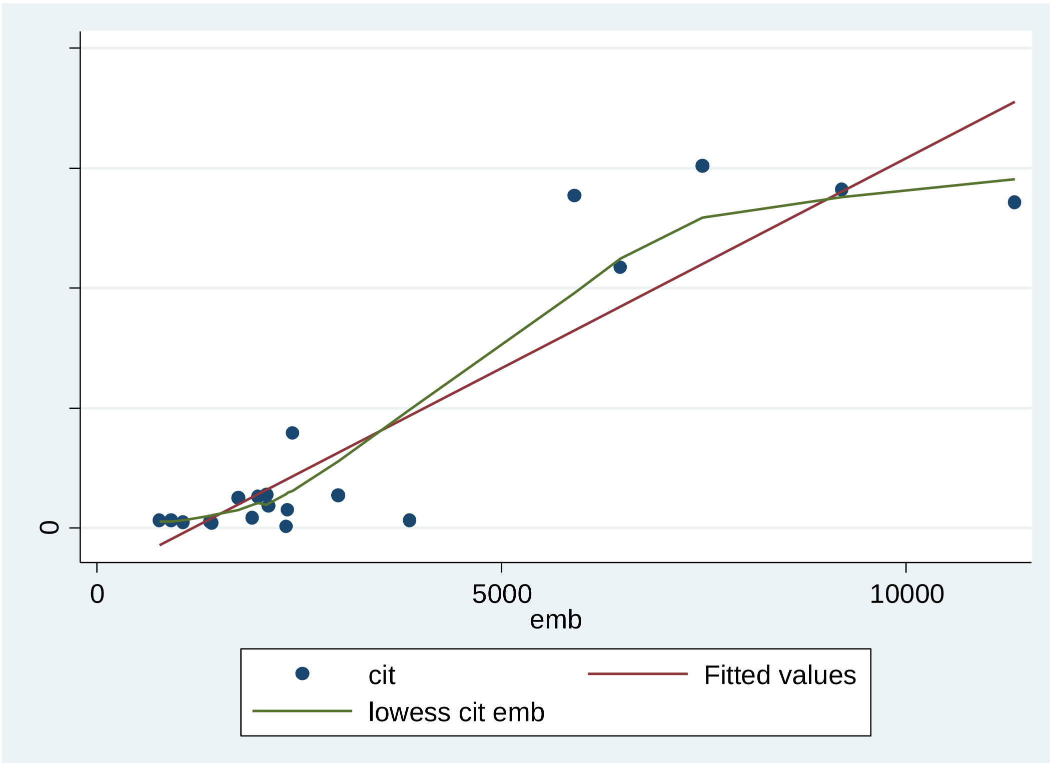
```
-------------+----------------------
         cit |      1.00    1.000000
-------------+----------------------
    Mean VIF |      1.00
```

Decision: No multicollinearity

4) Checking Linearity



Decision: Violation not severe.

5). Checking serial correlation
. dwstat

Durbin-Watson d-statistic(2, 20) = 2.149354
Decision: No serial correlation.