

Corporate Taxes and Financing Decisions: Evidence from Quoted Consumer Goods Firms in Nigeria

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Abstract

This study examined the effect of corporate taxation on the financing decisions of quoted consumer goods firms in Nigeria. The study was motivated by the increasing importance of corporate taxation in shaping firms' financing choices amidst rising financing costs and changing fiscal policies. An ex post facto research design was adopted using a quantitative panel data approach. Secondary data were obtained from the audited annual financial statements of quoted consumer goods firms in Nigeria. Corporate taxation was proxied by Corporate Income Tax (CIT) and Effective Tax Rate (ETR), while financing decisions were measured using Debt Ratio (DR), Equity Ratio (EQR), and Financing Mix (FMIX). The study estimated Pooled Ordinary Least Squares (POLS), Fixed Effects (FE), and Random Effects (RE) models, with the Hausman specification test employed to select the most appropriate estimator for each model. The findings revealed that corporate income tax exerted a significant negative effect on both debt financing and equity financing but had a significant positive effect on financing mix. Similarly, the effective tax rate positively and significantly influenced debt financing and financing mix, whereas its effect on equity financing was not significant. Firm size significantly influenced all financing measures, while firm growth had no significant effect across the estimated models. The study concludes that corporate taxation remains a significant factor influencing the financing decisions of quoted consumer goods firms in Nigeria, although its effects differ across various financing options. The study therefore recommends that corporate managers should adopt balanced financing strategies, complemented by effective tax planning, to optimise their financing choices while ensuring full compliance with prevailing tax regulations.

Keywords: Corporate taxes, corporate income tax, effective tax rate, financing decisions, debt financing, equity financing, financing mix, consumer goods firms, Nigeria.

Introduction

Corporate taxation plays a fundamental role in every economy by generating public revenue while shaping the financial decisions of businesses. Beyond its revenue-raising function, corporate tax influences firms' cash flows, investment capacity and financing choices, making it an important consideration in corporate finance. According to the Trade-off Theory, the tax deductibility of interest payments encourages firms to employ debt financing because it reduces taxable income and lowers the effective cost of capital (Modigliani & Miller, 1963; Kraus & Litzenberger, 1973). Conversely, the Pecking Order Theory argues that firms prefer internally generated funds, followed by debt and, lastly, external equity, largely because of information asymmetry and the costs associated with external financing (Myers & Majluf, 1984). These

contrasting theoretical perspectives suggest that corporate taxation may influence firms' financing decisions through different channels, making the relationship an important empirical issue. In Nigeria, corporate taxation has received increasing policy attention as the government seeks to diversify its revenue sources beyond crude oil. The implementation of the Nigeria Tax Act 2025 introduced a graduated corporate income tax structure aimed at promoting equity and encouraging business growth while maintaining fiscal sustainability. At the same time, Nigerian firms continue to operate in an environment characterised by high borrowing costs, inflationary pressures, exchange rate volatility and constrained access to long-term finance. These conditions have heightened the importance of financing decisions, as firms must determine the most appropriate combination of retained earnings, debt and equity to finance their operations and investment activities. The consumer goods sector is one of the most significant segments of the Nigerian economy, contributing substantially to manufacturing output, employment and capital market development. Firms within the sector require considerable working capital and continuous investment to remain competitive in an environment marked by rising production costs and changing consumer demand. Consequently, corporate taxation has the potential to influence financing decisions by affecting after-tax earnings, internally generated funds and the relative attractiveness of debt and equity financing. Understanding this relationship is therefore essential for managers seeking to optimise capital structure, investors evaluating corporate financial policies and policymakers designing tax reforms that support private sector growth.

Despite the growing body of literature on corporate taxation and corporate finance, empirical evidence on the relationship between corporate taxation and financing decisions remains inconclusive. While several studies report that taxation significantly influences firms' capital structure and financing behaviour, others find weak or statistically insignificant effects, suggesting that the relationship depends on firm characteristics, institutional quality and the economic environment (Frank & Goyal, 2009; Graham, 2003; Sani et al., 2024). In Nigeria, most existing studies have concentrated on the effect of taxation on financial performance, firm value or tax planning, with relatively limited attention devoted to how corporate taxation affects financing decisions, particularly within the consumer goods sector. This represents an important gap in the literature, given the sector's economic significance and the changing tax landscape. In view of these considerations, this study examines the effect of corporate taxation on the financing decisions of quoted consumer goods firms in Nigeria. The study seeks to provide empirical evidence on how corporate taxation influences firms' financing choices within an emerging economy characterised by evolving tax policies and imperfect capital markets. The findings are expected to contribute to the corporate finance literature by extending understanding of the tax–financing nexus and to provide useful insights for corporate managers, investors and policymakers in designing financing strategies and tax policies that promote sustainable business growth.

Literature Review

The review of related literature is organised into three broad strands. The first, we clarified the core concepts that underpin the study, namely corporate taxation, financing decisions and the consumer goods sector within the Nigerian context. The second strand, examines the principal theoretical frameworks that have been advanced to explain the relationship between taxation and the capital structure choices of firms, while in the third strand we reviewed empirical literatures related to the subject matter

Conceptual Clarification

Corporate Taxes

Corporate taxes represent compulsory fiscal levies imposed by the state on the income, profits, or capital of incorporated entities operating within its jurisdiction. These exactions constitute a primary source of government revenue and serve as a critical instrument of fiscal policy, influencing not only the distribution of national income but also the investment, financing, and operational decisions of corporate entities. In Nigeria, the corporate tax system is governed by a complex web of statutes, including the Companies Income Tax Act (CITA), the Capital Gains Tax Act (CGTA), the Petroleum Profits Tax Act (PPTA), and, most recently, the Nigeria Tax Act (NTA) 2025, which consolidates and rationalises these disparate legislative instruments into a unified fiscal framework (Andersen, 2025; PwC, 2025). The conceptualisation of corporate taxes in the corporate finance literature extends beyond the statutory tax rate to encompass a broader array of fiscal obligations that affect the firm's cash flows, profitability, and cost of capital. Modigliani and Miller (1963), in their seminal correction to the irrelevance proposition, established that the tax-deductibility of interest payments creates a fiscal advantage to debt financing, thereby introducing a tax-induced distortion in the capital structure decision. This insight gave rise to the notion of the interest tax shield the reduction in taxable income and, consequently, tax liability resulting from the deduction of interest expenses from earnings before tax. The value of this tax shield is conventionally expressed as the product of the corporate tax rate and the amount of debt, assuming full utilisation of the deduction (Graham, 2002).

Financing Decisions

Financing decisions, in the corporate finance lexicon, refer to the strategic choices made by firms regarding the composition and structure of their capital base specifically, the relative proportions of debt and equity employed to fund the firm's assets and operations. These decisions are foundational to the firm's financial architecture, influencing its cost of capital, risk profile, valuation, and capacity to pursue investment opportunities. The financing decision is conventionally operationalised through the construct of capital structure, which denotes the mix of debt, equity, and other financing instruments that constitute the firm's long-term sources of funds (Myers, 2001). The theoretical underpinnings of financing decisions are anchored in several influential frameworks. The trade-off theory of capital structure posits that firms balance the tax benefits of debt against the costs of financial distress in determining their optimal leverage ratio (Modigliani & Miller, 1963; Kraus & Litzenberger, 1973). Under this framework, the value-maximising firm selects a debt level at which the marginal tax benefit of an additional unit of debt equals the marginal expected cost of financial distress. The theory predicts that firms with higher corporate tax rates, greater taxable income, and more tangible assets will employ higher levels of debt financing, *ceteris paribus*, as they can more fully exploit the interest tax shield while facing lower expected distress costs.

Consumer Goods Sector

The consumer goods sector encompasses firms engaged in the manufacturing, distribution, and marketing of goods intended for personal and household consumption. Within the Nigerian context, the sector is conventionally classified into several sub-segments, including food and beverages (comprising food products, non-alcoholic beverages, and alcoholic beverages), personal care and household products (including cosmetics, toiletries, detergents, and cleaning agents), and durable consumer goods (such as electronics, appliances, and furniture). These firms operate in a highly competitive environment characterised by intense brand rivalry, price sensitivity, and rapid changes in consumer preferences, necessitating substantial investments

in brand development, distribution networks, and supply chain management (Olanisebe, Obafemi & Nandak, 2025).

Theoretical Review

Three theoretical frameworks have dominated scholarly inquiry into the relationship between corporate taxation and financing decisions: the Modigliani–Miller theorem, the trade-off theory and the pecking order theory. Each is reviewed in turn below, with particular attention to its assumptions, predictive content and applicability to the Nigerian consumer goods sector.

The Modigliani-Miller Theorem

The Modigliani–Miller (MM) theorem, first articulated by Modigliani and Miller (1958), represents the foundational statement of the modern theory of capital structure. In its original form, the theorem holds that, in a world of perfect capital markets characterised by the absence of taxes, bankruptcy costs, agency costs and information asymmetry, the value of a firm is independent of its financing mix. The proposition rests on the principle of arbitrage: investors can replicate any capital structure the firm might adopt through personal borrowing, thereby rendering the firm's choice of debt–equity ratio value-irrelevant. The theorem's central contribution was to establish a benchmark against which the effects of market imperfections could be evaluated. In a later extension, Modigliani and Miller (1963) relaxed the assumption of tax neutrality and demonstrated that, where interest payments are tax-deductible, the value of the levered firm exceeds that of the unlevered firm by the present value of the tax shield on debt. The corollary of this proposition is that, in the presence of corporate taxation alone, firms should finance themselves entirely through debt in order to maximise the tax benefit. The extreme nature of this prediction was immediately recognised by the authors themselves, and subsequent scholarship has sought to identify the countervailing costs that prevent firms from adopting a one-hundred-per-cent debt structure. In the Nigerian context, the MM framework is particularly illuminating because it provides the analytical baseline against which the influence of local market imperfections high lending rates, scarce long-term debt and currency volatility can be assessed. The empirical observation that Nigerian consumer goods firms rarely approach full leverage, despite the existence of a meaningful corporate tax shield, is itself a confirmation that the assumptions of the 1963 model do not hold without modification in the local environment.

The Trade-off Theory

The trade-off theory of capital structure, developed principally by Kraus and Litzenberger (1973) and refined by Scott (1976) and Kim (1978), offers a more balanced account of the firm's financing decision. Its central proposition is that firms identify an optimal capital structure by weighing the marginal tax benefit of additional debt against the marginal expected cost of financial distress. At low levels of leverage, the tax shield rises linearly with debt, whilst the probability of incurring bankruptcy costs remains negligible; in this region, the firm has a clear incentive to borrow. As leverage increases, however, the likelihood of financial distress rises at an increasing rate, and with it the expected cost of bankruptcy measured in terms of direct legal and administrative expenses, the loss of customers and suppliers, and the impairment of managerial discretion. The optimum is reached at the point at which the marginal tax benefit of one additional unit of debt is exactly offset by the marginal expected cost of distress. The trade-off framework has considerable intuitive appeal and is broadly consistent with the observed behaviour of large, mature firms in developed economies, which tend to maintain moderate rather than extreme leverage. Its relevance to Nigerian consumer goods firms is, however, qualified by two structural features of the local environment. First, the cost of financial distress in Nigeria is elevated by an insolvency framework that remains, despite

recent reforms, slow and uncertain in operation, so that the marginal cost of distress begins to rise at relatively low levels of debt. Second, the high and often volatile lending rates offered by deposit money banks mean that the after-tax cost of debt may exceed the cost of equity even at moderate leverage, thereby attenuating the appeal of the tax shield. Notwithstanding these caveats, the trade-off theory remains a useful organising framework for the present study, since it predicts a target leverage ratio towards which firms are expected to adjust over time.

Pecking Order Theory

The pecking order theory, formalised by Myers and Majluf (1984) and building on earlier work by Donaldson (1961), departs from the trade-off framework by abandoning the notion of a target capital structure altogether. Its central premise is that firms, faced with information asymmetry between insiders and outside investors, prefer to finance new investment using internally generated funds in the first instance. Where internal funds are insufficient, they resort to debt, with new equity issuance treated as a financing source of last resort. The rationale for this hierarchy lies in the adverse-selection problem: because outside investors are unable to distinguish between firms whose shares are fairly valued and those whose shares are overvalued; they discount the price at which they are willing to subscribe for new equity. Aware of this discount, managers of undervalued firms rationally refuse to issue equity, with the result that equity issuance becomes a signal of overvaluation. The pecking order theory has been found to explain a substantial body of empirical evidence in both developed and developing markets, and is particularly compelling in environments where capital markets are thin and information disclosure is uneven. In the Nigerian setting, several scholars including Ezeoha and Ogbeide (2018) and Inanga and Emeni (2008) have argued that the dominance of internal finance and short-term bank borrowing over long-term debt and equity issuance among listed firms is broadly consistent with the pecking order prediction. For consumer goods firms, the tendency to retain a large proportion of earnings, to draw on bank facilities for working-capital purposes and to issue new equity only infrequently is consistent with this view, although the relatively concentrated ownership of several sector constituents may also reflect strategic considerations of control rather than pure information-driven adverse selection.

Taken together, the three theoretical perspectives reviewed above provide complementary rather than mutually exclusive lenses through which the tax–financing relationship may be examined. The Modigliani–Miller framework establishes the analytical benchmark and identifies the tax shield as the principal fiscal channel; the trade-off theory introduces the countervailing costs of distress and yields a target-leverage prediction; and the pecking order theory highlights the role of information asymmetry in shaping observed financing hierarchies. The present study draws on all three in developing its empirical hypotheses, with the trade-off framework serving as the primary analytical anchor on account of its explicit treatment of the tax channel and its prediction of a measurable target capital structure.

Empirical Review

Sani et al. (2024) examined the relationship between corporate tax avoidance and debt financing among listed conglomerate firms in Nigeria using dynamic panel Generalised Method of Moments (GMM) estimation for the period 2010–2021. Debt financing was measured using debt-to-equity and debt-to-total-assets ratios, while tax avoidance was proxied by the cash effective tax rate and book-tax differences. The findings revealed that corporate tax avoidance has a significant negative effect on debt financing, indicating that firms engaging in greater tax avoidance rely less on external debt. The study concluded that tax planning significantly influences financing decisions and should be considered an important component of corporate financing strategy. Ogbu and Okwo (2024) investigated the effect of taxation on corporate financing and investment decisions using Nigerian corporate data. The study found

that corporate taxation significantly influences firms' financing and investment choices despite the tax deductibility of interest expenses. The authors argued that taxation affects firms' preferred financing mix and recommended policies that encourage greater reliance on equity financing to reduce excessive leverage and strengthen long-term financial stability. Omodero, Jones and Ekundayo (2025) examined the interaction between corporate financing arrangements and corporate income tax in Nigeria using annual time-series data covering 1991–2023. Applying econometric estimation techniques, the study found that firms often increase debt financing to benefit from interest tax deductibility, thereby reducing taxable profits. The authors concluded that financing decisions and corporate taxation are closely interrelated and recommended policies that encourage more balanced financing structures rather than excessive dependence on debt. Benkraiem, Gaaya, Lakhal and Kilic (2025) investigated the relationship between access to finance and corporate tax avoidance using 63,443 firm-year observations from 37 countries. The study found that firms experiencing financing constraints are more likely to engage in tax avoidance to generate additional internal funds for investment. The authors concluded that financing conditions significantly shape corporate tax behaviour, providing empirical support for the Pecking Order Theory, which suggests that firms seek internal sources of finance before relying on external funding. Ivanov, Pettit and Whited (2024) examined the effect of corporate tax changes on borrowing decisions among private firms in the United States. Using variations in state corporate income tax rates, the study found that reductions in corporate tax rates increase firms' borrowing capacity and encourage higher leverage because lower taxes improve investment opportunities and firms' ability to service debt. The findings demonstrate that corporate tax policy plays an important role in shaping financing decisions and optimal capital structure. Yisau, Oke and Odukoya (2024) examined the factors influencing capital structure decisions in quoted Nigerian consumer goods companies, with a specific focus on the role of taxation-related variables. The study utilised secondary data from the annual reports of 15 corporations over a ten-year period from 2011 to 2020, employing Panel Least Square regression to investigate the association between leverage and six explanatory variables. The findings revealed that non-debt tax shields; depreciation and other tax-deductible non-interest expenses positively and significantly affect leverage, indicating that firms with greater non-debt tax shield opportunities tend to employ less debt financing. Conversely, profitability was found to have a negative and significant impact on leverage, suggesting that more profitable firms rely less on debt, consistent with the pecking order theory of capital structure. The study further identified that asset tangibility, firm size, and economic growth all positively and significantly influence leverage. This evidence demonstrates that taxation considerations, particularly through the non-debt tax shield channel, play a discernible role in shaping the financing mix of Nigerian consumer goods firms, with financial managers appearing to substitute debt tax shields with non-debt alternatives where available. Adelegan (2006) investigated the effect of taxation on financing decisions and firm value in Nigeria, with particular emphasis on how dividend and debt taxation influence corporate valuation. The study analyzed 1,197 firm-year observations from manufacturing firms over the period 1984–2000. Using the ordinary least squares (OLS) regression technique, the study tested the tax hypothesis which predicts that firm value is negatively related to dividend payments and positively related to debt due to tax advantages associated with leverage. However, the empirical results contradicted this theoretical expectation. The findings revealed a positive relationship between dividends and firm value and a negative relationship between debt and firm value. Further analysis based on firm size, measured by market capitalization, showed consistent results for both small and large firms. The study concluded that dividends and debt often signal information about firm profitability, which tends to overshadow the expected tax effects of financing decisions. In addition, earnings and investment were identified as key determinants of firm value in Nigeria. Graham and

Tucker (2006) investigated the relationship between corporate tax shelters, debt policy, and firm value, with the objective of determining whether tax shelters substitute for debt in providing tax benefits. Using firm-level data on companies identified as participants in tax shelter transactions in the United States, the authors employed panel regression analysis to compare leverage and valuation outcomes between sheltering and non-sheltering firms. The study found that firms engaging in tax shelters use significantly less debt than comparable firms, indicating that non-debt tax shields substitute for debt tax shields. However, no significant difference in market valuation was observed between the two groups, suggesting that the market does not distinguish between tax savings obtained through debt or alternative tax planning strategies. The study implies that firms can reduce effective tax burdens without necessarily increasing leverage, an insight that is particularly relevant for firms operating in jurisdictions with generous tax incentives. Liu et al. (2018) analysed the triangular relationship between corporate taxes, capital structure, and firm value in emerging markets. Using panel data and mediation analysis, the study examined both the direct effect of taxes on firm value and the indirect effect operating through capital structure. The findings indicated that higher corporate taxes increase leverage, and tax-induced leverage partially mediates the relationship between taxes and firm value. However, the strength of this mediation effect was found to depend on institutional quality, being stronger in countries with well-developed financial markets and strong creditor protection. The study recommends institutional reforms to strengthen financial systems in emerging economies in order to enhance the value effects of tax policy. Graham (2002) investigated the true tax advantage of corporate debt by developing a comprehensive framework that accounts for corporate taxes, personal taxes, and the probability that firms may not be able to fully utilise their interest deductions—a condition closely related to tax exhaustion. Using analytical modelling and firm-level data, the study integrated firm-specific benefit functions to estimate the capitalised tax benefit of debt. The findings revealed that the tax advantage of debt varies substantially across firms and over time, depending on profitability, personal tax rates, and the availability of tax loss carry-forward provisions. Specifically, Graham estimated that the capitalised tax benefit of debt equals approximately 9.7 per cent of firm value, though this figure falls to as low as 4.3 per cent once personal taxes are netted out. The author concluded that reliance on statutory corporate tax rates alone overstates the incentive to use debt, as personal taxes and the risk of tax exhaustion significantly diminish the net benefit. The study recommends that researchers and policymakers consider the full tax environment including corporate taxes, personal taxes, and firm-specific tax status when analysing capital structure decisions.

Methodology

The study utilized an ex post facto research design using a quantitative panel data approach to examine the effect of corporate taxes on quoted consumer goods firms in Nigeria. Secondary data were obtained from audited annual financial statements. Corporate taxes were proxied by Corporate Income Tax and Effective Tax Rate while capital structure is measured using debt ratio, equity ratio (EQR), and debt ratio (DR). Fixed Effects (FE), Random Effects (RE), and Pooled Ordinary Least Squares (POLS) models are estimated, with the Hausman test used for model selection. The model is specified as follows:

$$Y_{it} = \alpha + \beta X_{it} + u_i + \lambda_t + e_{it} \quad (1)$$

Where; Y_{it} = dependent variable (capital structure) for firm i at time t

X_{it} = vector of explanatory variables (Debt ratio, equity ratio and financing mix), α = intercept term, u_i = unobserved firm-specific effects, β = common slope coefficient, λ_t = time-specific effects, e_{it} = random error term. The POL, FE and RE is specified as:

$$DR_{it} = \beta_0 + \beta_1 CIT_{it} + \beta_2 ETR_{it} + \beta_3 FSIZ_{it} + \beta_4 FGRTH_{it} + \epsilon_{it} \quad (2)$$

$$EQR_{it} = \alpha_0 + \beta_0 + \beta_1 CIT_{it} + \beta_2 ETR_{it} + \beta_3 FSIZ_{it} + \beta_4 FGRTH_{it} + \epsilon_{it} \quad (3)$$

$$Fmix_{it} = y_0 + y_1CIT_{it} + y_2ETR_{it} + y_3FSIZ_{it} + y_4FGRTH_{it} + \epsilon_{it} \quad (4)$$

Where CIT = Corporate tax expenses, ETR = Effective Tax Rate, DR = Debt Ratio, FMIX = Financing mix and EQR = Equity Ratio

Results and Discussion of Findings

From the results in table 1 below. the Hausman specification test produced a probability value of 0.2928, which exceeds the 5 per cent level of significance. Consequently, the Random Effects (RE) model was considered the most appropriate estimator for interpreting the results.

Table 1. Panel Regression Results: Debt Financing and Corporate Taxes

Dependent variable: DR			
	(1)	(2)	(3)
VARIABLES	POL	FE	RE
CIT	-0.001691 (0.0236)	-0.001988 (0.0432)	-0.001779 (0.0111)
ETR	-0.047951 (0.0574)	0.028507 (0.7981)	-0.009921 (0.0267)
FGRTH	0.003620 (0.5115)	0.009203 (0.1479)	0.006104 (0.2923)
FSIZE	0.320894 (0.0005)	0.278834 (0.0021)	0.298494 (0.0009)
Constant	0.605256 (0.0000)	0.567329 (0.0000)	0.587747 (0.0000)
F-test	15.46768	6.060329	16.19844
Prob.(F-stat.)	0.000000	0.000000	0.000000
Observations	225	225	225
R-squared	0.760980	0.7400320	0.769981
Hausman test (Chi2)			6.139972
Prob.>chi2			0.2928

Source: Researcher's Computation using E-Views 12 Output (2026)

The Random Effects estimates reveal that corporate income tax (CIT) exerts a negative and statistically significant effect on debt financing ($\beta = -0.001779$; $p = 0.0111$). This finding suggests that higher corporate income tax obligations reduce the propensity of quoted consumer goods firms in Nigeria to rely on debt financing. One plausible explanation is that increased tax liabilities reduce firms' after-tax cash flows, thereby weakening their borrowing capacity and discouraging additional debt accumulation. The finding supports Sani et al. (2024), who reported that tax-related strategies significantly influence firms' debt financing behaviour, with firms facing greater tax burdens relying less on external debt. The result also aligns with Ivanov et al. (2024), who found that lower corporate tax rates increase firms' borrowing capacity, implying that higher tax rates are associated with lower leverage. However, the finding contrasts with Omodero et al. (2025) and Graham (2002), who argued that firms tend to increase debt financing in order to benefit from the tax deductibility of interest payments. The divergence may reflect the Nigerian business environment, where high borrowing costs, limited access to long-term credit and macroeconomic uncertainty reduce the attractiveness of debt despite its tax advantages. The results further indicate that the effective tax rate (ETR) has a negative and statistically significant effect on debt financing ($\beta = -0.009921$; $p = 0.0267$). This implies that firms with higher effective tax burdens are less inclined to finance their operations through debt. The finding suggests that higher tax payments constrain firms' financial flexibility, prompting managers to adopt more conservative financing

strategies. This result corroborates the evidence reported by Sani et al. (2024), who found that tax-related factors significantly influence financing decisions. It is also broadly consistent with Graham and Tucker (2006), who demonstrated that firms may substitute debt tax shields with alternative tax planning strategies rather than increasing leverage. Conversely, the finding differs from Liu et al. (2018), who reported that higher corporate taxes encourage firms to increase leverage in order to exploit the tax shield associated with debt. The inconsistency may be attributed to institutional differences between developed and emerging markets, particularly the relatively higher financing constraints faced by Nigerian firms. Firm growth (FGRTH) exhibits a positive but not significant effect on debt financing ($\beta = 0.006104$; $p = 0.2923$). This suggests that growth opportunities do not materially influence debt financing decisions among quoted consumer goods firms in Nigeria. The result implies that expanding firms do not necessarily rely more on debt, possibly because they finance growth through retained earnings or other internally generated funds. This finding differs from Liu et al. (2018), who found that firms experiencing stronger growth tend to increase leverage, but it is consistent with the Pecking Order Theory, which argues that firms generally exhaust internal financing before seeking external debt (Myers & Majluf, 1984). The results also show that firm size (FSIZE) has a positive and statistically significant effect on debt financing ($\beta = 0.298494$; $p = 0.0009$). This indicates that larger firms are more likely to employ debt financing than smaller firms. Larger firms typically possess greater asset bases, stronger creditworthiness and easier access to capital markets, enabling them to obtain debt on more favourable terms. This finding is consistent with Yisau et al. (2024), who reported that firm size positively influences leverage among quoted consumer goods firms in Nigeria. The result also agrees with Ogbu and Okwo (2024), who concluded that firm-specific characteristics, including firm size, play an important role in shaping financing decisions. The finding is further supported by the Trade-off Theory, which posits that larger firms face lower expected bankruptcy costs and are therefore better positioned to utilise debt financing efficiently (Kraus & Litzenberger, 1973).

Table 2. Panel Regression Results: Equity Financing and Corporate Taxes

Dependent variable: EQR			
VARIABLES	(1) POL	(2) FE	(3) RE
CIT	-0.004549 (0.15958)	-0.005542 (0.0490)	-0.004549 (0.1396)
ETR	0.004697 (0.9145)	0.050614 (0.2631)	0.004697 (0.9110)
FGRTH	0.002926 (0.1923)	-0.001105 (0.6785)	0.002926 (0.1748)
FSIZE	-0.026536 (0.0000)	-0.080316 (0.0000)	-0.026536 (0.0000)
Constant	0.822988 (0.0000)	1.791279 (0.0000)	0.822988 (0.0000)
F-test	45.32769	14.62568	45.32769
Prob.(F-stat.)	(0.000000)	(0.000000)	(0.000000)
Observations	225	225	225
R-squared	0.508570	0.575471	0.508570
Hausman test (Chi2)			28.210171
Prob.>chi2			0.0000

Source: Researcher's Computation using E-Views 12 Output (2026)

The Hausman specification test in table 2 above produced a Chi-square probability of 0.0000, indicating that the Fixed Effects (FE) model is the most appropriate estimator for interpreting the relationship between corporate taxation and equity financing among quoted consumer goods firms in Nigeria. The Fixed Effects results reveal that corporate income tax (CIT) has a negative and statistically significant effect on equity financing ($\beta = -0.005542$; $p = 0.0490$). This finding implies that an increase in corporate income tax reduces firms' reliance on equity financing. A possible explanation is that higher tax liabilities diminish retained earnings and overall financial performance, making firms less attractive to existing and prospective shareholders and reducing their ability to raise equity capital. The result lends support to Ogbu and Okwo (2024), who found that corporate taxation significantly influences firms' financing decisions and financing mix. However, it contrasts with Omodero et al. (2025) and Graham (2002), who argued that higher corporate taxes encourage firms to substitute equity with debt in order to benefit from the interest tax shield. The present finding suggests that, within the Nigerian consumer goods sector, higher tax obligations may constrain access to both debt and equity financing, reflecting the combined effects of weak capital market conditions and limited investor confidence. The findings further show that the effective tax rate (ETR) exerts a positive but not significant effect on equity financing ($\beta = 0.050614$; $p = 0.2631$). This indicates that variations in firms' effective tax burden do not significantly influence their equity financing decisions. The result suggests that while firms with relatively higher effective tax rates may exhibit a greater tendency to rely on equity financing, the relationship is not sufficiently strong to influence financing behaviour. This finding differs from Sani et al. (2024), who reported that tax-related variables significantly affect corporate financing decisions, and from Liu et al. (2018), who found that taxation influences firms' capital structure through financing choices. It is, however, consistent with Graham and Tucker (2006), who observed that firms can achieve tax savings through alternative tax planning mechanisms without materially altering their financing structure. Firm growth (FGRTH) also records a negative but not significant effect on equity financing ($\beta = -0.001105$; $p = 0.6785$). This suggests that growth opportunities do not significantly determine the extent to which quoted consumer goods firms employ equity financing. The finding implies that growing firms may rely on internally generated funds or other financing alternatives rather than issuing new equity. This result contrasts with Yisau et al. (2024), who reported a positive and significant relationship between growth and leverage, but is broadly consistent with the Pecking Order Theory (Myers & Majluf, 1984), which posits that firms prefer internal financing before seeking external sources of capital.

The results further indicate that firm size (FSIZE) has a negative and statistically significant effect on equity financing ($\beta = -0.080316$; $p = 0.0000$). This finding suggests that larger consumer goods firms rely less on equity financing than smaller firms. Larger firms are more likely to possess substantial retained earnings, stronger cash flows and easier access to alternative financing sources, thereby reducing the need to issue additional equity. The finding is consistent with the Pecking Order Theory, which argues that firms with greater internal financial capacity are less dependent on external equity financing (Myers & Majluf, 1984). However, it differs from Yisau et al. (2024), who found that firm size positively influences leverage, and from Adelegan (2006), who reported that firm size enhances firms' financing capacity irrespective of the financing source. The discrepancy may reflect differences in the dependent variable, as the present study specifically examines equity financing rather than overall leverage.

Table 3. Panel Regression Results: Financing Mix and Corporate Taxes

Dependent variable: FMIX			
	(1)	(2)	(3)
VARIABLES	POL	FE	RE
CIT	0.099611 (0.0395)	0.027307 (0.0386)	0.099611 (0.0395)
ETR	0.045723 (0.0298)	0.040928 (0.0467)	0.045723 (0.0298)
FGRTH	0.038895 (0.7735)	0.135046 (0.4020)	0.038895 (0.7735)
FSIZE	0.376117 (0.3160)	2.441036 (0.0049)	0.376117 (0.3160)
Constant	2.438440 (0.7241)	39.51981 (0.0110)	2.438440 (0.7241)
F-test	8.213805	3.207657	8.213805
Prob.(F-stat.)	0.000000	0.000019	0.000000
Observations	225	225	225
R-squared	0.67916	0.729165	0.67916
Hausman test (Chi2)			18.510262
Prob.>chi2			0.0024

Source: Researcher's Computation using E-Views 12 Output (2026)

The Hausman test in table 3 above produced a Chi-square statistic of 18.5103 with a probability value of 0.0024, indicating that the Fixed Effects (FE) model is the appropriate estimator for interpreting the relationship between corporate taxation and financing mix among quoted consumer goods firms in Nigeria. The FE results reveal that corporate income tax (CIT) exerts a positive and significant effect on financing mix ($\beta = 0.0273$; $p = 0.0386$), while the effective tax rate (ETR) also has a positive and significant influence ($\beta = 0.0409$; $p = 0.0467$). Firm growth (FGRTH) has a positive but not significant effect ($\beta = 0.1350$; $p = 0.4020$), whereas firm size (FSIZE) exerts a positive and significant effect on financing mix ($\beta = 2.4410$; $p = 0.0049$). These findings suggest that increases in corporate tax obligations and effective tax rates are associated with adjustments in firms' financing mix, while larger firms are more likely to maintain broader financing combinations than smaller firms. The positive and significant influence of corporate income tax on financing mix is consistent with the findings of Ogbu and Okwo (2024), who reported that taxation significantly shapes corporate financing decisions and influences firms' preferred financing structures. The result also agrees with Omodero et al. (2025), who found that corporate taxation and financing decisions are closely interconnected, with firms adjusting their financing arrangements in response to tax incentives. Likewise, the finding supports Liu et al. (2018), who demonstrated that taxation affects capital structure decisions by influencing firms' financing choices. However, the result differs from Graham (2002), who argued that the incentive to alter financing structures in response to taxation is moderated by personal taxes and tax exhaustion, implying that statutory tax rates alone may not fully explain financing behaviour. Similarly, the positive and significant effect of the effective tax rate suggests that firms respond to their actual tax burden by modifying the composition of debt and equity financing. This finding lends support to Ogbu and Okwo (2024), who maintained that taxation remains an important driver of corporate financing choices. It also aligns with Benkraiem et al. (2025), who argued that firms facing financing constraints often adopt tax-related strategies to preserve internal resources and optimise financing decisions. However, the result contrasts with Graham and Tucker (2006), who found that firms could reduce their tax burden through alternative tax planning mechanisms without

necessarily altering their financing structure. The disparity may reflect differences in institutional settings, as Nigerian firms may rely more heavily on financing adjustments than sophisticated tax planning strategies available in developed economies. The finding that firm growth has a positive but not significant effect on financing mix indicates that growth opportunities alone do not materially influence financing choices among quoted consumer goods firms. This contrasts with the findings of Yisau et al. (2024), who reported that economic growth positively and significantly affects leverage decisions among Nigerian consumer goods firms. The difference may be attributed to the broader financing mix measure adopted in the present study, which captures both debt and equity financing rather than leverage alone. It also suggests that financing decisions in the sector are driven more by taxation and firm characteristics than by short-term growth prospects. The positive and significant effect of firm size implies that larger firms possess greater financial flexibility and easier access to multiple financing sources, enabling them to maintain more diversified financing structures. This finding corroborates Yisau et al. (2024), who established that firm size significantly enhances capital structure decisions among Nigerian consumer goods firms. It is also broadly consistent with Adelegan (2006), who identified firm size as an important factor influencing corporate financing behaviour and firm value. Larger firms generally benefit from stronger creditworthiness, better access to capital markets, and lower information asymmetry, allowing them to combine debt and equity financing more efficiently than smaller firms.

Conclusion

This study examined the effect of corporate taxation on the financing decisions of quoted consumer goods firms in Nigeria by analysing debt financing, equity financing and financing mix. The empirical evidence confirms that corporate taxation remains an important factor influencing firms' financing behaviour, although its effect differs across the various financing measures. Specifically, corporate income tax significantly reduced both debt financing and equity financing, suggesting that higher tax obligations constrain firms' ability to rely on either source of external finance. Conversely, corporate income tax exerted a positive and significant effect on financing mix, indicating that firms respond to increasing tax burdens by adjusting the overall composition of their financing structure rather than depending on a single financing source. The findings further revealed that the effective tax rate had a positive and significant influence on financing mix and debt financing but did not significantly affect equity financing. Firm size emerged as a significant determinant across the three models, increasing debt financing and financing mix while reducing equity financing, implying that larger firms possess greater flexibility in selecting financing alternatives. In contrast, firm growth did not significantly influence debt financing, equity financing or financing mix, suggesting that growth opportunities alone are insufficient to explain financing decisions among quoted consumer goods firms in Nigeria. The study concludes that corporate taxation significantly influences financing decisions, but its effects are heterogeneous across different financing measures. The evidence suggests that firms do not respond uniformly to tax changes; instead, they adjust their financing strategies according to the nature of the financing instrument and firm-specific characteristics. These findings provide support for the Trade-off Theory, which argues that firms balance the tax benefits of debt against the costs of financial distress, while also highlighting the importance of firm characteristics in shaping financing decisions.

Recommendations

Based on the findings, the study recommends the following.

1. That fiscal authorities should pursue a stable and predictable corporate tax regime capable

of reducing uncertainties that may discourage firms from accessing external finance. A consistent tax environment would enable firms to make more efficient long-term financing decisions.

2. Management of quoted consumer goods firms should adopt balanced financing strategies that integrate debt and equity financing in response to prevailing tax conditions rather than relying excessively on a single financing source. Such an approach would enhance financial flexibility while minimising financing costs.

3. Corporate managers should also strengthen tax planning and financial management practices to optimise their effective tax burden within the provisions of the law. Efficient tax planning can improve financing capacity and support the development of an optimal financing mix that enhances long-term financial sustainability.

4. Finally, larger firms should leverage their stronger access to capital markets to maintain diversified financing structures, while smaller firms should strengthen their financial reporting quality and corporate governance practices to improve access to both debt and equity financing under existing tax regulations.

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