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IMPACT OF COMPANY INCOME TAXATION ON THE PROFITABILITY OF COMPANIES IN NIGERIA: A STUDY OF NIGERIAN BREWERIES.

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ABSTRACT: *This study ascertains the impact of taxation on the profitability of companies in Nigeria. The study used secondary sources of data and a time series econometric technique with an error correction model tested the variables most likely to impact on profitability of companies in Nigeria. The study revealed that the level of company tax has significant effect on the profitability, that company income tax (CIT) has significant effect on profitability. We conclude that the positive and significant relation between the profitability and the taxation explanatory variables indicates that policy measures to expand tax revenue through more effective tax administration will impact positively on growing the company's profitability. It is therefore recommended that Government should expand the tax yield through improved tax system administration. This is because of the positive danger of over-reliance on crude oil export receipts to drive the economy. There should be more improve in the effectiveness of taxation by ensuring proper and equitable tax assessment and timely collection.*

KEYWORDS: Tax, Income, Profitability, Economy, Breweries.

INTRODUCTION

The level of development of any nation depends on the amount of revenue generated for the provision of infrastructure. Within the last decade or so, the issue of domestic resource mobilization has attracted considerable attention in many developing countries. In the face of unabating debt difficulties, coupled with the domestic and external financial imbalances confronting them, it is not surprising that many developing nations have been forced to adopt stabilization and adjustment policies which demand better and more efficient methods of mobilizing domestic financial resources with the view to achieving financial stability and promoting economic growth (Kiabel and Nwokah, 2009).

In the olden days, government imposed taxes to generate enough revenue solely to cover the cost of administration and defense. In modern economies taxes are the important source of government revenue. They are compulsory levies that are regularly imposed and as a rule, not designated for a special purpose, they are regarded as a contribution to the general revenue pool from which most government expenditures are financed (Ogbonna and Appah, 2012).

Taxation refers to compulsory payments by individuals and organizations to the relevant inland or internal revenue authorities at Federal, State, or Local Government levels. Taxes perform fiscal or budgetary functions, economic function and social or redistribute functions. Hornby (1988) defined tax as money that has to be paid to the government. He went further to state that people pay tax according to their income and business.

Due in his contribution taxation as the process or machinery by which communities or groups of persons are made to contribute part of their income in some agreed method for the purpose of administration and development of the society. This is why it is at time referred to as a civic obligation. According to Azubike (2009) in Ogbonna and Appah (2012), tax is a major player in every society of the world. This means that tax system is an opportunity for government to collect additional revenue needed in discharging its obligations.

Nigeria breweries plc, as the name implies is a public limited company with registered head office in Lagos, Nigeria. The ownership structure consists of foreign investors and Nigerians. Nigeria brewery limited (as it is called) was established in November 1946, with the main purpose of being brewing. It became the first brewing company to be set up in the country. For logistic reason, production did not start until 2nd June, 1949 when the first bottle of star lagar rolled out of its only plant in Lagos and one product star. This was followed by the Aba brewery which was commissioned in 1957, Kaduna brewery in 1963 and that of Ibadan brewery in 1982.

Therefore this project work shall focus on evaluating the effect of taxation on profitability of Nigerian breweries.

Many researchers have argued the impact of tax administration on economic growth of any nation. Some are of the opinion that tax administration has great effect on the growth of Nigerian economy while some of the authors are of the opinion that tax administration has no effect on economic growth of the country rather the level of implementation of the revenue through government expenditure. In 2008, the Federal Government's retained revenue increased to N3,193.4 billion or 13.3 per cent of GDP, from N2,333.7 billion or 11.2 per cent of GDP in 2007. Analysis of the revenue showed that the share from the Federation Account was N1,847.0 billion (57.8%); VAT Pool Account, N58.3 billion (1.8%); Federal Government Independent Revenue, N114.0 billion (3.6%); Budget Augmentation, N385.7 billion; share of excess crude account, N106.5 billion (15.4%); and "others" accounted for the balance of N682.0 billion (21.4%) (CBN, 2008). In terms of tax efforts, measured as a ratio of Internally Generated Revenue (IGR) to total revenue (TR), overall, the consolidated IGR/TR ratio of the state governments improved from 14.8 per cent in 2007 to 15.0 per cent in 2008, indicating that state governments made appreciable efforts to shore up their internal revenue (CBN, 2008). It is obvious from the statistics above that the potential of taxation as a source of government revenue is not adequately tapped in Nigeria.

Despite the empirical evidences that found the ability of tax administration in encouraging economic growth in Nigeria, the study is faced with the challenges of determining the level of tax indicators such as petroleum profit tax, company income tax and customs and excise on economic growth in Nigeria. The motive to accelerate investment, saving and economic growth and development in Nigeria through the use of tax administration calls for the study. The main objective of this study is to determine the impact of company income taxation on the profitability of company's in Nigeria.

REVIEW OF RELATED LITERATURE

Conceptual Review

Tax is a major source of government revenue all over the world. Government use tax proceeds to render their traditional functions, such as the provision of public goods, maintenance of law and order, defense against external aggression, regulation of trade and business to ensure social and economic maintenance (Azubike, 2009). Musgrave and Musgrave (2004) also stated that the economic effects of tax include micro effects on the distribution of income and efficiency of resource use as well as macro effect on the level of capacity output, employment, prices, and growth. However, the use of tax as an instrument of fiscal policy cannot be achieved because of dwindling level of revenue generated as a result of ineffectiveness of government officials. Kiabel and Nwokah (2009) argue that the increasing cost of running government coupled with the dwindling revenue has left all tiers of government in Nigeria with formulating strategies to improve the revenue base. Tax is dynamic, so reforms are necessary to effect the required changes in the national economy (Ola, 2001). Azubike (2009) noted that tax reform is an ongoing process with tax policy makers and tax administrators continually adopting the tax systems to reflect changing economic, social and political circumstances in the economy.

Recently the Nigerian government undertook various tax law reforms to improve tax administration and to increase tax yield. The Value Added Tax (Amendment) Act, 2007; was for instance intended to widen the value added tax base and improve the machinery for its collection. Similarly the Company`s Income Tax (Amendment) Act. 2007; the Federal Inland Revenue Services (Establishment) Act, 2007 and The Personal Income tax (Amendment) Act, 2011, were all aimed at encouraging tax compliance and increasing tax yield (Aguolu, 2010).

Theories of Tax Compliance

Any strategy to prevent tax evasion should begin with a theory of why people cheat on their taxes. Naturally, much of it is unconvincing and ambiguous. There have been a lot of theories determining the impact of tax administration on economic growth in both the context of developed and developing countries which Nigeria is among. For the purpose of this study, new endogenous growth theory, economic theories, psychological theories and sociological theories were adopted.

The New Endogenous Growth Theory

Unsatisfied with previous models, the endogenous growth theorist incorporated a new concept known as human capital into their model and believe that unlike physical capital, human capital has indeed increasing rates of return and that the skills and knowledge acquired will make workers, to be more productive in an economy.

Furthermore, these theories believe that, endogenous growth is linked with improvement in productivity which results to a faster pace of innovation and extra investment in human capital, they predicted that externalities and spillovers effects from development of a high valued added knowledge economy that is able to develop and maintain a competitive advantage in growth industries in the global economy. They therefore, strongly believe the role of human capital on economic growth as opined by (Power 1986, 1990; Locas, 1988; Quah and Rauch, 1990; Grossmsam, and Helpman, 1991).

Empirical Review

The tax system in Nigeria is made up of the tax policy, the tax laws and the tax administration. All of these are expected to work together in order to achieve the economic goal of the nation. According to the Presidential Committee on National tax policy (2008), the central objective of the Nigerian tax system is to contribute to the well-being of all Nigerians directly through improved policy formulation and indirectly through appropriate utilization of tax revenue generated for the benefit of the people. In generating revenue to achieve this goal, the tax system is expected to minimize distortion in the economy (Presidential Committee on National tax policy, 2008).

In an attempt to fulfill the above expectation, the national tax policy is expected to be in compliance with the principle of taxation, the lubricant to effective tax system. The Nigerian tax system has been flawed by what is termed multiplicity of tax and collecting entities at the three tiers of government levels – federal, State and local government. This problem is inherent in her fiscal federalism (Ahunwan, 2009).

Richard and Eric (2003) conducted a research, on the induction to tax policy design and development ,using co-integration test, unit root test and ordinary least square regression in testing the variables and finds out that globalization and other factors may lead to further convergence of tax system, the evidence to date shows that the size and structure of taxation in most countries will continue to be dominated largely by domestic instead of global factors and the study further recommended that the government should take a proper account of what taxes exist around the world and as well the level and structure of taxes, also the way in which taxing patterns have changed in recent years should be reviewed with a given period of years.

Jane (2011) carried out research on the impact of tax reform on the general economy of the nation and tested the research variable with the use of ordinary least square regression method and find out that tax reform in Nigeria have not had a significant impact on the macroeconomic stability. It was observe that increase in the tax rate ultimately result in greater burden for the masses through a shift of the tax liability. As a result, tax reforms in Nigeria have created inequalities rather than bridging such. The study further recommended that citizens should wake up to their civic responsibilities in terms of tax compliance.

Saidu (2012) conducted a research study on the effect of tax audit on tax compliance in Nigeria with Bauchi state board of internal revenue as a case study. The data generated for the study was analysis with the aid of simple percentage method. The study finds out that relevant tax authority (RTA) employed tax audit towards achieving target revenue, that tax revenue reduces the problems of tax evasion and that tax payers do not usually cooperate with the tax audit personnel during the exercise. The research study further recommends that relevant tax authority (RTA) at all level should improve the standard of tax audit employed for effectiveness and efficiency.

James and Abiola (2012) on the study of the impact of tax administration on government revenue in a development economy with a case study of Nigeria economy, applied descriptive statistics method to analyse 93 usable response, the study found out among other things that increasing tax revenue is a function of effective enforcement strategy. the research study further recommended that the government should review and restructure the nation's tax policy and administrative system.

Abiola (2010) conducted a research work on the recent developments in company's income taxation in Nigeria and analysed the variables with the use of quantitative survey method and finds out that the Nigeria tax system is unduly complex, skewed low revenue yielding poorly administered anti-federalism largely inequitable and loaded with unduly large number of overlapping taxes which have more nuisance value than revenue value. The study recommended that the tax administration amending Act altered some of the penalties under CITA to reflect current realities and make them more administrable.

METHODOLOGY

In this study, impact of company income taxation on profitability of Nigerian breweries plc will be measured by using the model specification of Okafor (2012) which we will modify to be profitability model.

This model therefore estimates that:

$$\mathbf{Y_t = \beta_0 + \beta_1 x_t + \mu_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)}$$

Where Y_t is the earning per share (EPS), β_0 is the intercept term, β is the regression coefficient, X_t is a set of baseline explanatory variables that have been shown to be robust determinants of government taxation and μ_t is the error term.

According to Osuala (1992), the analysis and interpretation of raw data of an investigation are the means which by the research problem is answered and the stated hypothesis tested. It consists of statistical calculations performed on data collected to provide answers to the questions initiating the research.

Having specified the model above, it is hereby estimated and presented. In all the models structured, the variables used are annual time series data spinning from 2000-2012.

Unit Root Test

The Augmented Dickey-Fuller (ADF) unit-root test were employed to test for stationarity or the existence of unit roots in the data. The result of the tests judging by the Augmented Dickey-Fuller (ADF) test statistic, R-Squared and Durbin-Watson statistic at 1%, 5% and 10% critical values reveals that all the variables are non-stationary at more than one level but stationary at first differencing. The results of the unit-root tests are presented below:

Augmented Dickey Fuller Unit Root Test

Trend and Intercept

EPS = f (PPT, CIT, CUS&EXC, INFL)………Model 5

Series	ADF Test Statistic	5% critical values	10% critical values	Order	Remarks
EPS	-7.742111	-2.969322	-2.622989	1(1)	Stationary
CIT	-7.347669	-2.998064	-2.638752	1(1)	Stationary

Source: Authors calculation 2014 using E-View 7.0

The above empirical test shows that EPS and IT are integrated of order one. They are integrated of the same order; 1(1). While customs and excise duty is integrated of order two 1(2). From the above tables 1, it was discovered that ADF with trend and intercept indicated that time series are integrated of the same order. Considering the ADF test statistics at 5% and 10% critical values, it was observed that test statistics are greater than the critical values. Thus, the series are said to be stationary at that first difference.

Co-integration Test

Co-integration test is used to test for the long run relationship between dependent and independent variables. From the table (2) below, there is a long run relationship between the profitability (EPS) and the explanatory variable (CIT) in Nigerian within the period under study 2000-2012. Firstly, the summary of the Johansen Co-integration test indicates that the explanatory variable, company income tax (CIT) are co-integrated of order one. The test below indicates five (5) co-integrating equation at 5% level of significance. The model with lag 1 was chosen with the linear deterministic test assumption. The variables can therefore be said to have reliable long-run relationship among them with dependent variable coefficient of co-integration of 0.739996.

Table 2: CO-INTEGRATION RESULT

EPS = f (CIT)

Eigenvalue	Trace Statistic	0.05	Prob.**	Hypothesized
0.739996	116.8551	88.80380	0.0001	None*
0.633646	76.44331	63.87610	0.0031	At most 1 *

*(*) denotes rejection of the hypothesis at 5% significance level. L.R test indicates 5 co-integrating equation(s) at 5% level of significance. Normalized Co-integrating Coefficients: 1 co-integrating Equation(s)

D (EPS,1)(1.000000) CIT= -47.10229
(72.6523) (11.3308)

Under the Johansen co-integration test, it is observed that there are four co-integrating equations. In Johansen's method, the eigenvalue statistic is used to determine whether co-integrated variables exist. Co-integration is said to exist if the values of computed statistics are significant and different from zero. The Likelihood ratio is higher than 5% critical value and the eigenvalue are found as (0.739996, 0.633646,). The Likelihood Ratio of EPS and CIT are greater than the critical value at both 5% level of significance. Also, the Eigenvalues of EPS and CIT are significantly greater than zero. In other words, the null hypothesis of no co-integration among the variables is rejected in at least five equations. The test result shows the existence of a long-run equilibrium relationship in four co-integrating equations at 5% significance level.

The figure in parenthesis under the estimated coefficients are the asymptotic standard errors. The values in this relationship were extracted from the Johansen's co-integration test under the 'Normalized Co-integration Coefficients: 5 Co-integrating Equation' sub-section. They are coefficients showing the direction and strength of the relationship between the explanatory variables and dependent variable in the long-run.

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Regression Result on the effect of Company Income Tax on Company's profitability (EPS)

The general aim of this study is to identify the effect of tax administration on the company's profitability in Nigeria proxied as Earning Per Share (EPS). Therefore the empirical data associated with this regression results are as stated below;

EPS = f (CIT)

TABLE 2: REGRESSION OF LOG(EPS) ON LOG(CIT)

Dependent Variable: LOG(EPS)

Method: Least Squares

Sample: 2000-2012

No of observation 13

Variable	Coefficient	St.Error	t-Statistic	Prob.
C	4.444566	0.166083	26.76113	0.0000
LOG(CIT)	1.002606	0.016546	60.59446	0.0000

R^2 = 0.991896

Source: E-views 7.0

The equation in the second model regressed LOG(EPS) on LOG(CIT). The coefficient of the constant term is 4.444566. The sign borne by the regression coefficient of constant is positive. This implies that holding the independent variable, the EPS increases. The regression coefficient of LOG(CIT) carries positive sign and its t-value (60.59446) is statistically significant at 5% level. This implies that CIT affects the EPS significantly. The t-value for the regression coefficient of LOG(CIT) is significant as confirmed by the t-probability (0.0000). It is estimated from the result that 1% increase in LOG(CIT), on the average, will lead to 0.30% increase in LOG(EPS). The computed value of R^2 = 0.991896 shows that 99.19% of the total variation in the company's profitability (EPS) is accounted for by the explanatory variable (CIT) while 0.81% of the total variation in EPS is attributable to influence of other variables which are not included in the regression model.

Hypothesis

H_0: Companies income tax has not significantly effected on profitability of Nigeria Breweries.

H_1: Companies income tax has significantly effected on profitability of Nigeria Breweries.

Hypothesis Testing

The regression coefficient of LOG(CIT) is 1.002606 and its P-value is 0.0000. Since the P-value (0.0000) < 0.05 (5% level of significance), we reject the null hypothesis and conclude that the companies income tax has significantly effected on profitability of Nigeria Breweries.

From the above, it was found that company income tax (CIT) has significant effect on the profitability of Nigeria breweries (EPS). In this case, CIT is a true parameter of measuring economic growth. The findings made is confirmed by the p-value of the regression coefficient of LOG(CIT) which is 0.0000. Obviously, this value is less than the 0.05 (5%) level of significance. It is found from the result that 1% increase in company income tax (CIT), will bring about an approximate increase by 0.3% increase in EPS. It is observed from this result that when government increases their level of revenue through company income tax, human skills will be enhanced and this will eventually lead to economic growth in Nigeria. It is also found that company income tax (CIT) accounts for 99.19% of the total variation in the dependent variable (EPS).

CONCLUSION

Nigeria has the potential to build a prosperous economy, reduce poverty significantly, and provide the health, education, and infrastructure services to its population needs. However, available evidence indicates that these resources have not been judiciously used to meet the need of the population in terms of human capital development. Nigeria generated about 23 trillion naira (191 billion US dollars) from oil between 1981 and 2006, which is about 83% of total government revenue. However, tax revenue constitutes a major component of national income in a modern economy. It is the main source of government recurrent revenue in most developed countries. The impact of taxes may not be as significant in developing countries most of which are fueled by commodity export earnings. Nigerian economy is heavily dependent in crude oil export receipts. The immense potentials of taxes as a major engine room for fueling the economy through profitability of Nigeria breweries have not been exploited. We conclude that the positive and significant relation between the profitability of Nigeria breweries (EPS) and the tax explanatory variables indicates that policy measures to expand tax revenue through more effective taxation will impact positively in the profitability of Nigeria breweriesb.

RECOMMENDATION

In the light of the researcher's findings, the following recommendations are presented;

1. Government should expand the tax yield through improved tax system administration. This is because of the positive danger of over-reliance on crude oil export receipts to drive the economy.

2. There should be more improve in the effectiveness of tax administration by ensuring proper and equitable tax assessment and timely collection.

3. The tax execution agencies should forge good relationship with the professional associations involved in tax matters so as to increase their support in reducing tax malpractices perpetrated by tax payers with the connivance and often active support of external auditors and tax consultants.

4. There should be accountability and transparency on the part of government officials in the management of tax revenues for the benefit of the citizens and the growth of Nigerian economy.

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