

Corporate Tax and Revenue Generation: Evidence from Nigeria

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Abstract

The study, corporate tax and revenue generation: Evidence from Nigeria is designed to examine the impact of petroleum tax income and companies' income tax on total consolidated revenue of the government. It is expected that the study will be of immense use to both the Government and general public. The study tested the relationship between Petroleum Tax Income (PTI) on Total Consolidated Revenue (TCR) and the relationship between Companies Income Tax (CIT) on Total Consolidated Revenue. Pearson correlation and simple regression was used to analyze the data gotten from Central Bank of Nigeria Annual Statistical Bulletin of various years. The result of the correlation showed a positive significant relationship between Petroleum Tax Income and TCR. Also it showed a positive significant relationship between Companies' Income Tax (CIT) and Total Consolidated Revenue (TCR). The regression result revealed a negative significant relationship between Petroleum Tax Income and Total Consolidated Revenue and Companies Income Tax and TCR. We recommend that federal government should reduce the tax incentives granted to petroleum companies in Nigeria as well as non petroleum companies as this will increase the amount of tax revenue generated through corporate taxes in Nigeria. Also, the tax rate of non-petroleum companies should be increase as this will create room for more revenue from such source.

Keywords: corporate tax, petroleum tax, companies income tax, consolidated revenue

INTRODUCTION

The need for the government to provide social amenities, engage in developmental projects is a compulsory one for the improvement of the standard of living of the citizenry. But the government has often lamented of lack of fund to embark on these projects, hence the necessity for urgent intensified revenue generation effort by the government through taxation.

Tax can be defined as compulsory levies impose by the government on the income, profit and properties of both individuals and corporate bodies for the sole administration of that government which has no compensatory benefits. Whereas taxation is a gamut of activity which result in payment of taxes. Obviously, there are two major types of taxes, that is the direct and indirect taxes. Direct tax as its name suggest is levied or imposed on the income, profits and properties of individual and corporate bodies (Okpe, 1998). Examples of direct taxes include personal income tax, companies income tax, petroleum profit tax, capital gains tax, education tax etc. indirect tax on the other hand is defined as taxes levied on goods and service rendered which are shifted in part or in full to the final consumer who does not even know either when he pays or the exact amount he pays (Okpe, 1998). Examples of Indirect tax include value added tax, import duties, excise duties, export duties etc. The focus of this study

is on direct taxes as a means of income generation in Nigeria.

In Nigeria base on the three tier system, there are three major relevant tax authorities that is, Federal Inland Revenue Service which collects taxes on behalf of the federal government, State Inland Revenue Service which collect taxes on behalf of the state government and the Local Government Revenue Committee which collect taxes on behalf of the local government. (Rotimi, Udu & Abdul-Azeez, 2013, Aransiola, 2013, Madugba, Laeyira & Ebere, 2013)

Corporations in Nigeria pay tax to federal Inland Revenue Service irrespective of their residence (Okpe, 1998, Ani & Ugbor, 2010, Kiabel & Nkikpasi, 2009, Ojo, 2008). Corporate tax is a tax paid by corporations based on the amount of profit generated (Arusiola, 2013). Tax is assessed on total profits in pursuance to audited accounts which are subjected to adjustments.

This study sets to identify the means corporate taxes have been utilized to promote fiscal redistribution of income, point out challenges if any that hinders the use of corporate taxation as revenue generation in Nigeria.

STATEMENT OF THE PROBLEM

Over the years, revenue derive from taxes has been very low and no physical development has actually take place (Afueroh & okoye, 2014). The incessant lamentation of the people of poor and inadequate infrastructure has been in the increase and the government has often complained of inadequate fund to attend to provisions of these amenities. The downward movements of Nigerian economy are traceable to inabilities of the government to achieve its potential tax capacity (Madugba, et al 2013).

However, unqualified, inadequate tax personnel and fraudulent activities of tax collectors also poses a greater challenges to revenue generation, as these tax collectors forge receipts thereby diverting government revenue into their personnel pockets.

In addition, the serious decline in the price of oil in the world market, has contributed immensely to decrease in the fund available, hence the urgent need for government to generate adequate revenue through taxes especially corporate tax has therefore become a matter of urgency and importance Kiabel (2009).

In literature, there exist various studies on taxation and revenue generation in Nigeria as evidenced by (Afueroh and Okoye,2014, Rotimi el al, 2013, Samuel and Iyokoso, 2014).However, the area of corporate tax contribution to total consolidated revenue of the government of Nigeria is yet to be explored.

In view of the challenges as identified above, this study sets to find out (if any) the impact of companies income tax and petroleum profit tax on revenue generation in Nigeria.

OBJECTIVE OF THE STUDY

The main objective of this study is to find out the impact of corporate tax on revenue generation in Nigeria with the following specific objective.

- To investigate the relationship between companies income tax and total revenue of the federal government of Nigeria
- To appraise the contributions of petroleum profit tax to total revenue of the federal government of Nigeria.

RESEARCH QUESTIONS

- What is the relationship between companies' income tax and total consolidated revenue of the federal government?
- What is the relationship between petroleum profit tax and total consolidated revenue of the federal government?

RESEARCH HYPOTHESIS

Ho₁: There is no significance relationship between companies income tax and total consolidated revenue of the federal government.

Ho₂: There is no significance relationship between petroleum profit tax and total consolidated revenue of the federal government.

LIMITATION OF THE STUDY

One major limitation or constraint confronting the study is accessing and collecting information regarding the amount of revenue generated through petroleum tax income and companies income tax and the total consolidated revenue of the federal government. However, the researchers were able to overcome this challenge through the annual statistical bulletin published by Central Bank of Nigeria of various years.

LITERATURE REVIEW

Conceptual Framework

Taxation is seen as a burden which every citizen must bear to sustain his or her government because the government has certain responsibilities to perform for the benefit of those it governs (Afueroh and Okoye, 2014). Taxation is the most important source of revenue to the government (Adams, 2011). Two categories of tax payers exist in every economy, the Individual and Corporate tax payers. This study is concerned with corporate tax payers that is companies or corporations involved or engaged in petroleum operations and those engaged in non petroleum operations.

Corporations whose activities are concerned with petroleum operation in Nigeria is assessed to tax with petroleum profit tax Act cap 354 of 1990, while those in non-petroleum operations are subjected to tax with companies income tax Act cap 60 of 1990 as amended.

❖ *Petroleum profit Tax Act Cap 354 1990.*

Petroleum profit tax law in Nigeria dates bank to the discovery of petroleum in commercial quantities in 1956 at Oloibiri Soku and Afam in Rivers, Bayelsa and Delta States. The actual export of crude oil was in 1958 and this law was made in 1959 to capture the first disposal of crude oil in 1958, Therefore, the law is a retroactive law (Okpe, 2003, Ani, Ugbor and Victor AD 2012, Ojo, 2009, Kiabel and Nwikipisi, 2009). Petroleum profit tax is levied on current year basis (Section two of the act).

Section 9 to 18 of petroleum profit tax Act deal exclusively with the procedures to be followed in ascertaining the chargeable profit and these sections can be grouped into four stages:

- **Determination of Sales Proceeds:**

Sales proceeds consist of the sales of all chargeable oil sold by the company in the period and all incomes of the company of that period incidental to and arising from any one or more of its petroleum operations.

- **Determination Adjusted Profit:**

Adjusted profit of an accounting period is the profit of that period after deductions specified and after exclusion of any profit attributable to the transportation of crude oil by tankers. The Act provides that in computing adjusted profit from a company's petroleum operations there shall be deducted all out goings or expenses, wholly, exclusively and necessarily incurred whether within or outside Nigeria during that period by the company. (Section 10 and 11 of the Act).

- **Determination of Assessable Profit (Section 14 PPTA):**

In relation to petroleum operations, assessable profit is the adjusted profit less any allowable loss whether that of the immediate proceeding year or that deferred in an earlier period, which is being utilized (Okpe, 2013).

- **Chargeable Profit:**

In relation to companies in petroleum operation, the chargeable profit of an accounting period is the amount of the assessable profit of that period after the deduction of any capital allowance (Okpe, 2003). Chargeable profit is assessable profit less capital allowances relievable to the tax year subject to the provisions of Section 15 of the Act, which with effect from 1995 is capital allowance claimable or 85% of assessable profit whichever is lower (Kiabel, 2009, Okpe, 2003)

The chargeable tax is 85% of the chargeable profit for the period under review, where tax offsets are involved; it should be 85% of chargeable profit less tax offset (Memorandum of understanding).

❖ **Companies Income Tax Act Cap 60 LFN 1990.**

A company income tax law in Nigeria is federally operates under the auspice of Federal Inland Revenue Service. The law deals with assessment and collection of tax from all Limited Liability Companies in Nigeria with the exception of those engaged in petroleum operations. The law is made up of 85 sections, arranged in 13 parts and 5 schedules. (Ani and Ugbor, 2010).

Currently in Nigeria, companies' tax rate is 30% of chargeable profit with 2% Education tax on assessable profit. Small business rate of 20% is applicable to companies with turnover of N1,000,000 and below for the first five (5) years of assessment and must be either in the business of manufacturing or agricultural

production or mining of solid minerals or wholly export trade (Kiabel et al, 2009)

❖ **Nigeria's Major Taxes**

According to Samuel et al (2014) the major sources of Nigerian tax can be classified as defined by Joint Tax Board (JTB)

1. Federal Taxes: This consist of companies' income tax, custom and excise duties, valued added tax, education tax, personal income tax in respect of armed forces police, non-resident individuals and companies, staff of Nigeria foreign service and individuals resident in federal capital territory.
2. State Taxes: This include personal income tax, road taxes, pools betting and lotteries, business premises registration, development levy, naming of street registration in state capitals, right of occupancy on land owned by state, market taxes on state financed taxes.
3. Local Government Taxes: Shops and kiosks rates, tenement rates, on and off liquor license fee, slaughter slab fees, marriage, birth and death registration fees (rural areas) right of occupancy on land in rural areas, market taxes and levies, motor part levies, domestic annual license fees, bicycle, truck, canoe, wheel barrow and cart fees, cattle tax payable by cattle farmers only. Merriment and road closure buy, radio and television license fees (other than radio and television transmitter), vehicle radio license (local government registrations of the vehicle). Wrong parking charges, public convenience and refuse disposal, customary burial grounds permit fees, religious place establishments permit fees and signboard and advertisement permit fees.

❖ **Challenges of Tax Administration in Nigeria**

Sayode and Kajola (2006) as cited in Samuel et al (2014) opined that major challenges facing tax administration in Nigeria include the following:

- a. **Tax Evasion:** This is a contravention of tax law whereby a taxable person blatantly refuses to pay tax. The tax payer achieve this either by reducing tax liability by making fraudulent or untrue claims on the income tax form. The various methods of tax evasion includes:
 - (i) Refusal to register with relevant tax authority.
 - (ii) Failure to furnish a return, statement or information or keep record so required.
 - (iii) Making an incorrect return by omitting or understating an income liable to tax.
 - (iv) Refusing or neglecting to pay tax.

- (v) Overstating of expenses so as to reduce taxable profit or income, which will also lead to payment of less tax than otherwise have been paid (Madugba, et al 2013).
- b. **Tax Avoidance:** This implies an arrangement of tax payers' affairs using the tax shelters in the tax law, and avoiding tax traps in the tax laws to enable him pay less than he ought to pay. The tax payer takes advantages of loopholes in tax laws and reduces the normal tax he supposes to pay. Tax avoidance can take any of the following forms:
 - (i) Incorporating the tax payer's sole proprietor or partnership into a limited liability company
 - (ii) The ability to claim allowances and reliefs that are available in tax laws in other to reduce the amount of income or profit to be subjected to tax
 - (iii) Minimizing the incidence of high taxation by acquiring a business which has sustained heavy loss and set off the loss against future profit
 - (iv) Investing in capital assets (through new form of corporate financing by equipment leasing). Also through capital allowances as it minimizes tax liability
 - (v) Sheltering part of the company's taxable income from income tax by capitalizing profit through the issue of bonus shares to the existing members at the (deductible) expenses to the company.
 - (vi) Creation of a trust settlement for the benefit of children or other relation in order to manipulate the martinet tax rate such that a high income bracket tax payer reduces his tax liability
 - (vii) Buying an article manufactured in Nigeria thereby avoiding import duty on importation articles.

EMPIRICAL REVIEW

In 2014, Afuberoh and okoye investigated the impact of Taxation on Revenue Generation in Nigeria: A study of federal capital territory and selected states. The major challenge of the study was to determining the Impact of Revenue derived from taxes and identifying the means taxation has been utilized to promote fiscal redistribution of income, identifying problems that militate against the use of taxation as revenue generation in federal capital territory and some states in Nigeria. The study adopted both primary and secondary

source of data and regression analysis was employed with the aid of SPSS version 17.0. The finding of the study was that taxation has a significant contribution to revenue generation and has also a significant contribution on Gross Domestic Product. The researchers however recommended that well equipped data base on all tax payers should be established by federal, state and local governments with the aim of identifying all possible resources of income of tax payers for the purpose of tax collection process and must be free from corruption.

Rotimi et al, (2013). Investigated Revenue Generation and Engagement of Tax Consultants in Lagos State, Nigeria. The challenge was to examine revenue generation of Lagos state with emphasis on use of Tax Monitory Agents (TAMA) in the light of tax evasion as well as activities of some unscrupulous tax officials. The study concluded by stating that tax evasion and avoidance is imminent and of course has significant relationship with revenue generation of Lagos State; hence the researchers state that tax evasion and avoidance reduce revenue inflow. The study recommended that use of tax consultants in Lagos State yield positive result but their activities should be monitored, commissions on collections should be paid promptly as well. The study also recommends for continuous tax education right from early education as well as in religious gathering in Lagos State.

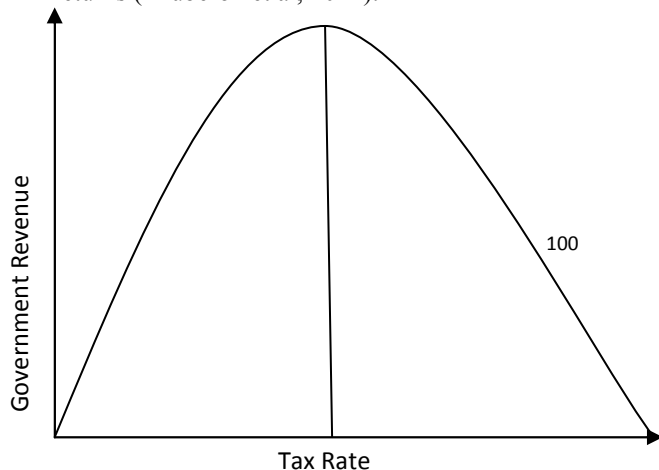
In 2014, Samuel and Iyokoso investigated taxation and revenue generation: An empirical investigation of selected states in Nigeria. The challenge of the study was to examine the contribution of taxation on revenue generation, and to ascertain the extent at which tax evasion and avoidance has affected negatively on revenue generation, and the extent to which taxation has contributed to the steady growth in Gross Domestic Product in Nigeria. The study adopted both primary and secondary source of data, simple regression was employed in analyzing the data with the aid of SPSS version 17.0. The result of the study showed that taxation has a significant contribution on revenue generation and also has a significant contribution on Gross Domestic Product (GDP). More so, that tax evasion and avoidance have a significant effect on revenue generation in Nigeria. The study recommended among other things that well equipped database on tax payers should be established by the federal, state and local government with the aim of identifying all possible source of income of tax payers for tax purposes. From the empirical review above, various studies has explored the impact and contributions of taxation to revenue generation and economic development in Nigeria but there exist no study on corporate tax and its

contribution to revenue generation Nigeria and such need to fill the gap necessities this study.

THEORETICAL FRAMEWORK

Laffer Curve:

According to the theorist (Prof. Arthur Laffer), the Laffer curve shows the relationship between government revenue raised by taxation and all possible rate of taxation. It considers the amount of tax revenue raised at the extreme tax rates of 0% and 100%. This theory is of the opinion that a 100% tax rate raises no revenue in the same way that 0% tax rate raises no revenue. This is because at 100% rate, there is no longer incentive for a rational tax payer to earn any income, thus the revenue raised will be 100% of nothing. It therefore follows that there must exist at least one rate in between where tax revenue would be a maximum. This theory is one the opinion that increasing tax rate beyond a certain point will become counterproductive for raising further tax revenue because of diminishing returns (Afuero et al, 2014).



Laffer Curve (2004, www.heritage.org)

MATERIALS AND METHOD

The sample of this study in the Federal Inland Revenue Service (FIRS) which collect tax in Nigeria on behalf of the federal government of Nigeria. The data used for this study is secondary data sourced from the Central Bank of Nigeria annual statistical bulletins covering from 1981 – 2014, with the intention to ascertain the contributions of corporate tax to total government revenue in Nigeria.

To attain the purpose of this study, the following functional and explicit models were formulated:

$$P_{TI} = f(T_{CR})$$

$$C_{IT} = f(T_{CR})$$

$$P_{TI} = \beta_0 + \beta_1 T_{CR} + \mu_1$$

$$C_{IT} = \beta_2 + \beta_3 T_{CR} + \mu_2$$

Where P_{TI} = Petroleum Tax Income

C_{IT} = Companies Income Tax

T_{CR} = Total Consolidated Revenue

$B_0 \beta_2$ = Constant

$B_1 \beta_3$ = Co-efficient

DISCUSSION OF FINDINGS

Table 1. Regression result

Model	Coefficients ^a				
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std Error	Beta	t	sig
Constant	1.186E6	2.559E6		.456	.651
PTI	.4005	2619	.2511	.529	.136
CIT	11.959	4150	.473	2.881	.007

a Dependent variable TCR

Ho₁ There is no significant relationship between petroleum profit tax revenue and total consolidated revenue.

greater than the computed t-statistic, thus we accept the null hypothesis and conclude that there is no significant relationship between petroleum profit tax revenue and total consolidated revenue.

The computed t-statistic for coefficient of petroleum tax revenue shows a value of 1.529 while the critical t-statistic is 2.04 at five percent level of significance. From the above, it is clear that the critical t-statistic is

Ho₂ There is no significant relationship between company income tax revenue and total consolidated revenue.

The computed t-statistic for coefficient of company income tax showed a value of 2.881, while the critical t-statistic is 2.04 at five percent level of significance. From the above, it is clear that the critical t-statistic is less than the computed t-statistic, thus we reject the null

hypothesis and conclude that there is indeed a positive significant relationship between company income tax revenue and total consolidated revenue.

Table 2. Pearson correlation result

Correlations		TCR	PTI	CIT
Pearson Correlation	TCR	1.00	.512	.612
	PTI	.512	1.00	.552
	CIT	.612	.552	1.00
sig (1-tailed)	TCR		.001	.000
	PTI	.001		.000
	CIT	.000	.000	
N.	TCR	34	34	34
	PTI	34	34	34
	CIT	34	34	34

The result from the correlation analyses indicated that there is a positive correlation between total consolidated revenue (TCR) and petroleum tax income (PTI) of 51.2% with the implication that as revenue is also predicted to increase.

We also observed from our analysis that there is a positive correlation between total consolidated revenue (TCR) and company income tax (CIT) of 61.2% which also implies that as company income tax increases, total consolidated revenue is also expected to increase and vice versa.

CONCLUSION AND RECOMMENDATION

In this study, tremendous effort has been made to analyze impact corporate taxes on revenue generation. This study considers two major corporate taxes that is Petroleum Profit Tax and Company Income Tax as both are collected by the federal Inland Revenue Service. The correlation analysis showed that both taxes have a positive significant relationship on Total Consolidated Revenue (TCR). This finding is in line with Samuel et al (2014).

Regression analysis showed that corporate taxes have no significant relationship with Total Consolidated Revenue; this finding is a different opinion from the empirical reviews. The study established that both petroleum tax income and companies’ income tax contributes little to the total consolidated revenue of the federal government.

RECOMMENDATIONS

Based on the findings of this study, the researcher makes the following recommendations:

1. Federal Government should as a matter of urgency reduce tax incentives granted to corporations in Nigeria as this will increase their taxable income or

profit hence increase their tax liability and lead to increase in Government revenue generated through taxation.

2. The tax rate for corporate taxes in Nigeria should be increased as it will lead to additional revenue to the government when applied to tax object
3. Federal Government should embark in continuous intensive training for all tax officials to enable them identify what tax evasion and avoidance is all about as their ignorance of this will affect drastically the amount of revenue that suppose to accrue to the government as revenue from taxes.
4. There should stringent penalties for people who evade and avoid tax payments as this will discourage corporate tax evasion and avoidance.

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APPENDIX

Table 3 total consolidated Revenue, petroleum tax income and companies' income tax from 1981-2014

YEAR	Total Consolidated Revenue (millions Naira)	PTI N,000000(million Naira)	CIT N,000000(million Naira)
1981	13 290	6,326	403
1982	11 433	4 847	550
1983	10 508	3 747	562
1984	11 440	4 762	787
1985	13 297	6 711	1 004
1986	14 222	4 811	1, 103
1987	12 516	12 504	1 235
1988	13 850	6 815	1 551
1989	13 990	10 598	1 914
1990	14 775	26 909	2 997
1991	100 991	38 616	3 828
1992	190 453	51 477	5 417
1993	192 769	59 208	9 554
1994	201 910	42 803	12 275
1995	459 987	42 858	21 878
1996	523 597	76 667	22 000
1997	582 811	68 574	26 000
1998	463 668	68 000	33, 300
1999	949 187	164 300	46, 200
2000	989 187	525, 100	51, 100
2001	190 6159	639, 200	68 700
2002	232 16000	393, 20	89, 100
2003	1, 731 837	683 500	114 800
2004	257 5095	1 183 600	113 000
2005	3, 92205	1, 904, 900	140 300
2006	5 965101	3 038 300	244 900
2007	5 715500	1, 600, 600	275, 300
2008	7 866590	1, 809, 612	290, 666
2009	4 8445925	1, 924, 016	295 717
2010	7 3036671	1, 999 008	2, 028, 700
2011	11116900	2, 011 988	297 516
2012	10657724	2, 113, 614	298 460
2013	16602015	2 120 018	299 010
2014	187 21586	2, 456, 010	2 999 006

Source: central bank of Nigeria statistical bulletin of various years.