# ASSESSMENT OF THE REVENUE PERFORMANCE OF COMPANIES INCOME TAX IN NIGERIA (1994 – 2003)

***BY***

**SALAWU MOHAMMED OMOTOSHO**
**MSC/ADM/35378/02 – 03**

**A THESIS SUBMITTED TO THE POSTGRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE**

**MAY, 2006.**

## DECLARATION

I SALAWU MOHAMMED OMOTOSHO, hereby declare that this research was carried out by me in fulfillment of the requirements of the postgraduate school for the award of the degree of Master of Science (Accounting and Finance). To the best of my knowledge and believe, this work has never been previously presented in any submission for an award of a higher degree.

An assessment of the revenue performance of Companies Income Tax in Nigeria (1994 – 2003) as shown in this study represents my honest findings. I assume full responsibility for any limitations contained in this research work.

**SALAWU MOHAMMED OMOTOSHO** **DATE**

## CERTIFICATION

This thesis entitled “An Assessment of the Revenue Performance of Companies Income Tax in Nigeria (1994 -2003)” by **SALAWU, MOHAMMED OMOTOSHO,** meets the regulations governing the award of the degree of Master of Science (Accounting and Finance) of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

| | |
|---|---|
| **Chairman, Supervisory Committee** | **Date** |
| **Member, Supervisory Committee** | **Date** |
| **Head of Department** | **Date** |
| **Dean, Postgraduate School** | **Date** |

## DEDICATION

This work is dedicated to Almighty Allah, my late Parents and my beloved wife.

**SALAWU, MOHAMMED OMOTOSHO**

## ACKNOWLEDGEMENT

It is an injustice not to appreciate the efforts of those that contributed in one way or the other to the successful completion of this research work. I must start with thanks and appreciation to my able supervisor, Mr. C.V. Chandra for taking his time to go through the study thoroughly and ensure that my thesis meets the required standards. His efforts toward the success of this work can not be – overemphasized. Again, I say thank you and hope the Almighty God will rewards you to the maximum.

Besides, I wish to express my profound appreciation to A. C. Dikki (Mrs) and Mr. Oladipo A. Usman for their valuable advice and support throughout the study. The same appreciation goes to Mr. Mailafia Luka, Dr. Mainoma M. A, Mr. Akanet .S, Mr. Silva .A, the incumbent Head of Department Dr. M. S. Bello and all other academic and non academic Staff of the department of Accounting numerous to mention for their contributions.

I wish also to use this channel to thank all my M.SC classmates, wishing all of us good luck in our individual endeavour.

My special thanks go to Mr. Oladele .K. Gbenga for his personal sacrifice, efforts and moral support for successful completion of this research study. Mention is also made of my Head of Department, Accounting and Finance, Kaduna Polytechnic in the person of Mr. Abuh Adah for his unrelenting efforts in quick completion of this study. Thanks also go to Mr. Adedokun L. A and all my academic colleagues for their assistance.

I must be grateful to the management and entire Staff of the North – West Zonal office of the Federal Inland Revenue Service, Central Bank of Nigeria, Kaduna Branch Office, especially Mr. J. Thomas for their cooperation and contribution to the success of this work. I also wish to acknowledge and express my sincere gratitude to Mr. Daniel .G. I of the office of Auditor – General for the Federation for his inspiration, moral and various other assistances in getting the required information. I wish to express my humble gratitude and sincere appreciation to Alhaji and Alhaja Tajudeen Adedeji for their logistic and moral support during the course work and thereafter, May Almighty Allah protect the family.

I am indeed very grateful to the members of my family especially my dear wife and children for their understanding, cooperation, patience and support at all times toward successful completion of this study.

Finally, I give all the glory to Almighty Allah who made it possible for me to achieve the set objectives.

## ABSTRACT

The major objective of this research is to assess the trends of revenue generated via the companies' income tax and by implication to evaluate the performance of the Federal Inland Revenue Service with respect to the administration and collections of companies' income tax in Nigeria.

The researcher proposed two hypotheses towards addressing the study's objectives and both primary and secondary sources of data are used in generating the necessary data for that purpose. These data are presented and analyzed by the use of tables, chi-square and regression model of analysis.

It is discovered that companies' income tax revenue generated has been improving significantly from year to year. The estimates produced by the regression analysis show that the variance between actual companies' income tax and expected are wide and that companies' income tax generation and administration had a significant impact on the development of the Nigerian economy between 1994 and 2003. This study has also identified factors militating against effective assessment and collection of companies' income tax in Nigeria.

In furtherance to the above findings, the researcher recommends that government should provide condusive business environment for the revamping of businesses in the various industries of the economy to further increase companies' income tax revenue generation.

Government should also articulate macro-economic measures designed to stimulate growth and stability in order to forestall any negative variation that might affect the companies' income tax revenue generation in any year.

## TABLE OF CONTENT


| | | Page |
|---|---|---|
| Title page | | i |
| Declaration | | ii |
| Certification | | iii |
| Dedication | | iv |
| Acknowledgement | | v |
| Abstract | | vii |
| Table of Content | | viii |
| List of Tables | | xi |
| List of Appendices | | xii |
| **CHAPTER ONE – GENERAL INTRODUCTION** | | |
| 1.1 | Background of the Study | 1 |
| 1.2 | Statement of the Problem | 4 |
| 1.3 | Objectives of the Study | 6 |
| 1.4 | Research Questions | 7 |
| 1.5 | Statement of Hypothesis | 7 |
| 1.6 | Significance of the study | 9 |
| 1.7 | Scope of the Study | 10 |
| 1.8 | Limitations of the study | 11 |
| 1.9 | Historical Background of the Federal Inland Revenue Service | 12 |

**CHAPTER TWO – THEORETICAL FRAMEWORK AND LITERATURE REVIEW**

2.1 Introduction 20

2.2 Objectives of Taxation 24

2.3 Features of a Good Tax System 27

2.4 Principles of Taxation 28

2.5 Companies Income Tax Returns 30

2.6 Payment of Companies Income Tax 41

2.7 Companies Tax Incentives 45

2.8 Pioneer Status Company 53

2.9 Federation Account 56

**CHAPTER THREE – RESEARCH METHODOLOGY.**

3.1 Introduction 60

3.2 Population of the study 60

3.3 Sample size 61

3.4 Sampling Technique 62

3.5 Data Collection Methods 63

3.6 Methods of Data Analysis 64

**CHAPTER FOUR – DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

4.1 Data Presentation and Analysis 74

4.2 Hypothesis Testing 86

4.3 The Federal Inland Revenue Service – A Performance Analysis 94

4.4 Summary of Findings 100

**Chapter Five – Summary, Conclusions and Recommendations**

5.1 Summary 102

5.2 Conclusions 103

5.3 Recommendations 105

5.4 Proposed Areas of Further Research 106

**Appendices** 107

**References** 121

# LIST OF TABLES


| | PAGE |
|---|---|
| Actual Revenue Generated from Companies Income Tax | 94 |
| Companies Income Tax Variance Analysis | 95 |
| Analysis of Companies' Income Tax Revenue Generated to the Federation Account. | 96 |

# LIST OF APPENDICES


| | PAGE |
|---|---|
| FIRS Organizational Structure | 107 |

**Companies Income Tax Approved Revenue Estimate** **108**

**Companies Income Tax Actual Revenue Collected** **113**

# CHAPTER ONE

# GENERAL INTRODUCTION

## 1.1 BACKGROUND OF THE STUDY

History shows that man has to pay tax in one form or the other, that is, either in cash or kind, initially in the olden days to the chieftains and later on to a form of organized government. Before the oil boom in Nigeria, income from taxation was the major source of revenue to all level of governments. Therefore, no system can be effective whether that of the federal, state or local government unless it enjoys some degree of financial independence. This financial independence can be achieved by direct taxations, collection of levies, fines and fees, among others.

Aji (1997) in his contribution defines taxation as “compulsory contribution to support government, levied on persons, property, income, commodity and transaction mostly proportional to the amount on which the contribution is levied”. Ishola (1999) also defines taxation as “compulsory payment made by the individuals and companies to the government coffer as a percentage of their annual income primarily with the aim of raising revenue and secondly with the aim of directing the factors of production towards government objective for that period”.

Taxation, therefore, is an imposition of levies by government on persons, companies and property for the purpose of raising funds for economic growth

and development of any country. Government on its own cannot function or perform without funds. Government needs a lot of money, which can only be obtained through taxation and other sources. The general public on its part expects services especially social services to be provided by the government through its agencies. As a result, the citizens and companies are made to be suppliers of these funds through various tax laws, acts, legislations, edicts and decrees. The existence of an efficient tax system is a necessity for every economy because it provides the necessary revenue for economic growth and development.

Public financing is the responsibility of the government and it has to encourage or develop sources of internal revenue to enable it provide the necessary social amenities to the growing population of the nation or state.

Taxes have been used as economic policy instruments of government to either reduce or increase investment in the economy in general. Hence, tax can be used as a source of stimulating investment in a desired sector of the economy.

It can also be used as a means of encouraging foreign investors to come and invest in the country. It is through taxation that the government of third world countries could finance the various government agencies and parastatals with direct government involvement. It, therefore, follows that

government development projects will depend almost entirely on the level of revenue that it can generate from her citizens.

Aji (1997) emphasizes that irrespective of the ideological background on which a nation's economy is based, taxation in its various forms have always been the major sources of revenue to the government. Enough revenue is needed for a nation to develop economically, socially and politically. Therefore, taxation becomes more important when the issue of developing countries with crude oil is considered.

Company income tax is a compulsory levy by government on the profits made by the registered companies in Nigeria. This type of tax is a sub-set of direct taxes because the incidence of payment and burden of companies income tax are borne by the companies and not transferable to third parties. The relevant tax authority charged with responsibility of assessing and collection of companies income tax among others is the Federal Inland Revenue Services (FIRS) under the supervision of a board called the Federal Board of Inland Revenue (FBIR).

The Companies Income Tax Act is a federal law operated by the Federal Inland Revenue Service. In view of the tremendous contribution of the companies income tax to the federal common pool account called the Federation Account over the years, there is need to assess its contributions further. This study is an assessment of the revenue performance of companies' income tax in Nigeria for a period of ten (10) years from 1994 to 2003. Presently, the three tiers of government rely heavily on the allocation from

the federation account to finance the personnel costs, overhead expenditures and to embark on developmental projects. It is against this background that the study is focused on finding out whether there is positive or negative trend in the revenue being generated from the companies' income tax as well as its contributions to the economic development of Nigeria during the period under review.

## 1.2 STATEMENT OF THE PROBLEM

The major source of government revenue in Nigeria today is the proceeds from the sale of crude oil and gas in both local and international markets. As a matter of fact, this has been the situations in Nigeria for a long time.

Unfortunately, the incomes generated by the federal government from other sources have not been in any way comparable to the oil revenue. This development has impacted negatively on the ability of the government to perform it constitutional, social and economic responsibilities.

The dependence on the oil revenue is so much that other sources of revenue, like agriculture, manufacturing, exports and others have been neglected. At various times in the life of the country, there have been calls on the government to diversify the revenue base of the economy by exploiting other sources of revenue in order to promote economic development and reduce dependence on oil.

In the last one decade, the Nigerian economy has witnessed a number of reforms as a result of inadequacy of funds. For example, since the inception of the Obasanjo's administration (1999 – date), there have been more moves to downsize the public service than any other administration in Nigeria. The Babangida's administration (1985-1993) began the efforts towards the privatization of public utilities. This trend has continued under successive administrations with objective of reducing the financial burden on the federal government and repositioning the economy.

In addition, basic infrastructure like roads, basic health care, portable water, electricity and basic education are seriously lacking in many places. And where they exist, most of the times, they are nothing to write home about. Inadequacy of funds has been blamed by the Federal, state and local governments for their inability to discharge the duties in a very satisfactory manner.

The problems are explained, in part by:

(a) The incessant embezzlement of revenue generated from companies income tax by some staff of the Federal Inland Revenue Service through diversion of tax cheques into private individual bank account.

(b) Collusion by government tax officials with some companies to issue under assessment of tax in order to pay less tax.

(c) Outright abandonment to pursue vigorously the collection of taxes after initial issuance of notice of assessment.

(d) The collapse of many companies as a result of unfavourable economic situations and social infrastructure especially the issue of energy.

It is against these backgrounds that the study is being carried out so as to determine whether there is positive or negative trends in revenue generation from companies income tax in the country during the period under review as a result of these problems.

## 1.3 OBJECTIVES OF THE STUDY

The objectives of this study are:

a. To evaluate the performance of the Federal Inland Revenue Service with respect to the administration and collection of companies income tax in Nigeria;
b. To determine the trend of revenue generated via the companies income tax in Nigeria;
c. To determine the contributions of the companies income tax to the economic development of Nigeria based on (a) and (b) above;
d. To determine the factors which facilitate or militate against the administration and the collection of companies income tax in Nigeria;
e. To make appropriate recommendations based on the findings of the study.

## 1.4 RESEARCH QUESTIONS.

Based on the foregoing, the research questions of this study can be posed as follows:

a. How efficient and effective has the Federal Inland Revenue Services been in the administration and collection of the companies' income tax in Nigeria?

b. What was the trend of the revenue generated via companies' income tax in Nigeria between 1994 and 2003; was it on the increase or on the decrease?

c. What were the real contributions of the companies' income tax to the economic development of Nigeria in the period under review?

d. What factors encouraged or hindered the efficient administration and collection of companies' income tax in Nigeria during the period under review?

## 1.5 STATEMENT OF HYPOTHESIS

The hypothesis of this study can be stated thus:

**Hypothesis 1:**

Ho: There were no significant improvements in the revenue generated through the companies' income tax by the Federal Inland Revenue Service between 1994 - 2003.

H1: There were significant improvements in the revenue generated through the companies' income tax by the Federal Inland Revenue Service between 1994- 2003.

**Justification:**

This hypothesis will help the researcher to determine whether the revenue generated by the Federal Inland Revenue Service actually increased or reduced in real terms in the period under review. This will then be the basis for evaluating the performance of the Federal Inland Revenue Service with respect to companies' income tax administration and collection.

**Hypothesis 2:**

Ho: Companies income tax administration and its revenue generation did not have any significant impact on the development of the Nigerian economy between 1994 and 2003.

H1: Companies income tax administration and its revenue generation had a significant impact on the development of the Nigerian economy between 1994 and 2003.

**Justification:**

The aim of this hypothesis is to measure the extent to which the companies' income tax contributed to the economic development of Nigeria. Consequently, the outcome will be used as a basis for measuring its impacts on the economic development of the country.

Each hypothesis will be tested at 95% level of confidence. In addition, it will be two-tailed tested in both cases. Therefore, the percentage of error ($\alpha$) allowed in both cases will be 0.05.

That is:

$P = \pm$

$\alpha = 0.05$

## 1.6 SIGNIFICANCE OF THE STUDY

The need to reduce the country's over dependence on the oil and gas revenue and the need to diversify the federal government revenue generation have made this research study unique. The relevance of this study therefore, stems from the fact that it is directed towards providing solutions to the problems identified earlier thus:

The study will enables the federal government to know the present trend of revenue generated from companies' income tax into the Federation Account, and how such performance can further be improved upon to enhance both economic and social growth. It will also pinpoint the aspect of the Companies' Income Tax Act that needs amendment and how to formulate the necessary policies towards creating conducive environment for our limited liability companies in Nigeria. It shall further determine how the pursuits of government monetary and fiscal policies affect the companies' performance whether positively or negatively.

The study will in no doubt be a working document to the Federal Inland Revenue Service in identifying the various loopholes and ways of improving the assessment, collection and effective administration of the various taxes collected from registered companies. It shall also enable the registered companies to appreciate their roles in the country's economic development through their prompt and efficient remittance of their taxes to the government.

Finally, the study shall encourage future researcher to carry out more studies in the same area.

## 1.7 SCOPE OF STUDY

This study aims at assessing the companies' income tax in Nigeria for a 10 year period (1994 – 2003), with a view to measuring the contributions of the companies' income tax to economic development of Nigeria in terms of revenue generation.

The study will also focus on the trends of revenue generated through the companies' income tax over the period under study in order to determine whether there have been improvements or not in the revenue generated via the companies' income tax.

Finally, the study will cover the activities of the Federal Inland Revenue Service as the relevant tax authority in charge of the companies income tax in Nigeria. This will help the researcher to evaluate the performance of the Federal Inland Revenue Service in the period under study.

## 1.8 LIMITATIONS OF THE STUDY

There is no research study that is free from set back or weakness. The limitations that were encountered by the researcher during the course of the study include the following:

(a) The relevant tax authority's secret syndrome which regarded some information as official secret is a limiting factor. As a result the researcher has no option than to make use of the information contained in the Central Bank of Nigeria published Annual Report and Statement of Accounts as secondary source. So the validity of the inference depends on the reliability of the data extracted.

(b) Distance to Abuja where the Headquarters of the Central Bank of Nigeria, Federal Inland Revenue Service and Federal Ministry of Finance are situated is far for the required information. The information the researcher was able to collect after several visits were used for the purpose of the study.

This distance is also coupled with shortage of funds on the part of researcher. Despite these shortcomings stated above, the researcher was able to collect the major information needed to achieve the stated objectives of the study.

## 1.9 HISTORICAL BACKGROUND OF FEDERAL INLAND REVENUE SERVICE

The companies Income Tax Act (No. 28) 1979 as amended by Finance (Miscellaneous Provisions) Amendment Decree No. 3 of 1993 established the Federal Board of Inland Revenue (FBIR) and created the Federal Inland Revenue Service (FIRS) as its operational arm to assess and collect various taxes at federal level on behalf of the federal government in Nigeria.

### 1.9.1 COMPOSITION OF THE BOARD

The Federal Board of Inland Revenue is made up of the following members:

a. The Board is headed by an Executive Chairman who shall be a person within the service experienced in taxation to be appointed by the President of the Federal Republic of Nigeria;
b. The Directors and Heads of Departments of the service;
c. The officer from time to time holding or acting in the post of Director with responsibility for planning, research and statistics matters in the Federal Ministry of Finance.
d. A commissioner of the Revenue Mobilization Allocation and Fiscal Commission;
e. A member from the Nigeria National Petroleum Corporation not lower in rank than an Executive Director.
f. A Director from the National Planning Commission;
g. A Director from the Department of Customs and Excise,
h. The Registrar – General of the Corporate Affairs Commission;
i. The Legal adviser to the service;

j. The Secretary (who shall be an ex-officio member of the Board) shall be nominated by the board from within the service.

Any seven members of the Board of whom one shall be the Chairman or a Director of a department within the service shall constitute a quorum before the commencement of any meeting and deliberations.

### 1.9.2 Powers And Duties Of The Board

Section 2 of the Act contains provisions with regards to the powers and duties of the Board as follows:

(i) The due administration of the Act and the tax is under the care and management of the Board;

(ii) The Board may do all such things as may be deemed necessary and expedient for the assessment and collections of the tax;

(iii) It shall account for all amounts collected in a manner to be prescribed by the Minister of Finance;

(iv) The Board may acquire, hold and dispose off any property taken as security for or in satisfaction of any tax or penalty or of any judgment debt due to it. It shall account for any such property and the proceeds of sale thereof in a manner to be prescribed by the Minister;

(v) The Board may sue and be sued in its official name;

(vi) The Board may by notice in the Federal Gazette or in writing:

(a) Authorize any person to perform or exercise on its behalf, any power or duty conferred on the Board other than the powers or duties specified in the first schedule to the Act;

(b) With the consent of the Minister, authorize the Joint Tax Board to perform or exercise on behalf of the Board, any power or duty conferred on the Board including the powers or duties specified in the first schedule to the Act.

(vii) Every claim, objectives, appeal, representation made by any person under the provisions of this Act shall be made in accordance with this Act;

(viii) Any act, matter or thing done by or with the authority of the Board, in pursuance of any provisions of this Act shall not be subject to challenge on the ground that such act, matter or thing was not or proved to be in accordance with any direction, order or instruction given by the Minister;

(ix) Anything required to be done by the Board, in relation to the powers or duties specified in the first schedule, may be signified under the hand of the Chairman or of the Secretary.

### 1.9.3 Technical Committee of the Board

The Finance (Miscellaneous Provisions) Amendment Decree of 1993 established a technical committee of the Federal Inland Revenue Service whose membership comprises of:

(a) The Executive Chairman of the Board as Chairman;

(b) All the Directors and Head of Departments of the service;

(c) The Legal Adviser in the Federal Inland Revenue Service;

(d) The Secretary to the Board.

The Technical committee may co-opt from the service such staff as it may require for the discharge of its functions. The functions of the Technical Committee shall be to:

(i) Consider all tax matters that require professional and technical expertise and make recommendations to the Board;

(ii) Advice the Board on all its powers and duties specifically listed in Section 2 of the Act and in the First Schedule of the Act.

(iii) Attend to such other matters as may from time to time be referred to it by the Board.

### 1.9.4 Management of FIRS

The Management of the Federal Inland Revenue Service (FIRS) as part of its mission statements to achieve corporate vision and value is out to:

(i) Collect taxes according to law by as cheap as possible through actively encouraging voluntary compliance;

(ii) Prosecute the tax law very vigorously thereby deterring tax evasion and avoidance;

(iii) Maximize tax collections through effective and extensive coverage of the whole country;

(iv) Maintain public confidence in the integrity of the tax system by

administering the tax laws and regulations fairly, uniformly and courteously, and

(v) Recognize the tax officials as important human assets in the achievement of the set objectives.

In order to achieve the above stated mission statements, the organization place high premiums on:

a. Human resources development;
b. Staff motivation,
c. Professionalism,
d. Dedication and loyalty,
e. Accountability and transparency;
f. Information technology and
g. Effective communication.

There are four (4) levels of management within the Federal Inland Revenue Service. This arrangement is put in place to promote regular supervision and monitoring of the entire system thereby facilitating performance evaluations. The four levels of managements include the headquarters, the Regional coordinating offices, the large tax offices and the Integrated Tax Offices.

(i) **The Headquarters**.

The Headquarters is made up of the Chairman-in-council with the seven Directors. The Headquarters is located in Abuja with a liaison office in Lagos.

There are seven Directors who are in charge of the following departments at the Headquarters.

(a) Large Tax payer Department.

(b) Audit Department

(c) Process Operations Department

(d) Tax policy, Research and Development Department

(e) Regional Coordination Department

(f) Administration and Supplies Department

(g) Finance and Accounts Department

In addition there are some service divisions, branches and units which are headed by Head of Departments who report directly to the Executive Chairman. They are part and parcel of the Headquarters with their functions spanning throughout the entire service. These are:

(a) Internal Audit

(b) Legal Service

(c ) Corporate Communications, Tax Payer Education and Services.

(d) Investigations and Intelligence.

(e) Quality Assurance and change project coordination

(f) Staff Discipline

(g) Board Secretariat

(h) Special Assistant to the Chairman FIRS.

The current Federal Inland Revenue Service Organizational Structure at the Headquarters is shown in appendix 1.

(ii) **The Regional Coordinating Offices**

There are seven Regional Coordinating Offices which replaced the former zonal offices namely, Lagos, Western, North West, South South, Eastern, North East and North Central Regions. The Regional Co-ordinators and located in Lagos, Ibadan, Kaduna, Port-Harcourt, Enugu, Maiduguri and Jos respectively.

(iii) **The Large Tax Offices**

There are five (5) large tax offices spread across the country with two offices designated for non oil and oil and gas located in Lagos while one office each in Kano, Port-Harcourt and Abuja. These offices are headed by Tax Controllers.

(iv) **Integrated Tax Offices**

There are Ninety-one (91) integrated tax offices created across the seven regional offices as a way of decentralizing the administration of federal tax system and ensuring efficient and effective assessment and collections of taxes being collected by the Federal Inland Revenue Service. The numbers of integrated tax offices in each regional office are as follows:

(a) Lagos Region - 16, integrated tax offices

(b) Western Region - 13 integrated tax offices

( c) North West Region - 13 integrated tax offices

(d) South - South Region- 12 integrated tax offices

(e) Eastern Region - 12 integrated tax offices

(f) North-East Region - 9 integrated tax offices

(g) North-Central Region - 16 integrated tax offices.

# CHAPTER TWO

# THEORETICAL FRAMEWORK AND LITERATURE REVEIW

## 2.1 INTRODUCTION

A company is defined by Section 93 (1) of the Companies Income Tax Act CAP 60 Laws of the Federation of Nigeria (LFN), 1990 as “any company or corporation other than a corporation sole, established by or under any law in force in Nigeria or elsewhere”. The registration of limited liability companies is being carried out by the Corporate Affairs Commission (CAC) in Nigeria. The word Limited (Ltd) or Public Company (Plc) is expected to end each name of a registered company.

Ishola (1999) defines taxation as “compulsory payments made by the individuals, partnerships and companies to the government coffer as a percentage of their annual income primarily with the aim of raising revenue and secondly with the aim of directing the factors of production towards government objectives for that period”.

Aji (1997) in his own contributions defines taxation as “compulsory contribution to the support of government, levied on persons, property, income, commodity and transaction mostly proportional to the amount on which the contribution is levied”. It is the imposition of levies by government upon persons or property for the purpose of raising fund. The

reason for such levy is to support the government in the provision of essential services for the people of the country. Hence, taxation is an imposition of levies by government on persons, companies and property for purpose of raising funds for economic growth and development of any country.

Companies' income tax is a compulsory levy by government on the profits made by the registered companies. This type of tax is a sub-set of direct taxes because the incidence of payment and burden of the companies' income tax are borne by the companies and not transferable to third parties. The relevant tax authority charged with responsibility of assessing and collection of companies income tax among others is the federal Inland Revenue service (FIRS) under the supervision of a board called Federal Board of Inland Revenue (FBIR). The companies' income tax act is a federal law operated by the Federal Inland Revenue Service (FIRS). It deals with the taxation of all limited liability companies in Nigeria with the exception of those engaged in petroleum operations.

The most significant enactment on companies' tax is the companies income tax Act (CITA) No. 28 of 1979 which replaced the CITA 1960. CITA 1979 codifies all the companies' income tax enactments since 1961. Between 1979 and 1991, there were amendments to CITA (1979). All the amendments are Finance (Miscellaneous Taxation Provisions) Decrees namely:

i. Decree 98 of 1979

ii. Decree 4 of 1985

iii. Decree 12 of 1987

iv. Decree 31 of 1989

v. Decree 55 of 1989

vi. Decree 21 of 1991

vii. Decree 63 of 1991

The above seven (7) amendments in conjunction with the decree No. 3 1993 make up the Nigerian tax law 1995 first edition prepared under the authority of Federal Inland Revenue Service which came to force on 31st day of December, 1993.

Companies income tax is chargeable on the income of all companies operating in the country except those specifically exempted under the Act. There is some emphasis in the Act on the distinction between Nigerian and non-Nigerian companies. A Nigerian company is defined as one incorporated under the Companies and Allied Matters Act, or any enactment replaced by that Act. The total profits of such company are assessable to Nigerian tax irrespective of whether or not all the profit have been derived from, brought into or received in Nigeria.

A foreign company (non-Nigerian company) is defined as any company or corporation established by or under any law in force in any territory or country outside Nigeria, that is, a company that is not incorporated under the Companies and Allied Matter Act. The profits of a non-Nigerian

company shall be subject to Nigerian tax only to the extend to which such profits are attributable to the company's operations in Nigeria subject to

provisions in the respective double taxation agreements if any is available with the country where the foreign company is registered.

Ariwodola (2000) emphasized that companies income tax is chargeable on:

i. The global profits of Nigerian companies irrespective of whether or not they are brought into or received in Nigeria. Dividends income to a Nigerian company is treated as Franked investment income on which no income tax is due.
ii. The portion of the profits of non-Nigerian companies derived from such companies operations in Nigeria.
iii. Dividends, interests or royalties due to non-Nigerian companies which are assessed at 10 percentage (withholding tax rate) on the gross amount due and only the not is payable to the respective companies.

The income tax year which is known as an assessment year is the government's financial or fiscal year. It runs from 1st January to 31st December of every year. It was from 1st April to 31st March following year up to 31st March, 1980. A company's accounting year will be related to the government's year for the purpose of determining the assessment year in which the operating result of such company is to be assessed to tax. An accounting period which is related to any particular assessment year is usually referred to as the basis period of that assessment year. The assessable profits of any company for each year of assessment shall be the

profits of the year immediately preceding the assessment year. This is referred to as the preceding year basis of assessment.

Assessable profit is usually the accounting profit of the company as adjusted for tax purposes, that is, the adjusted profit that will be arrived at before reflecting the effect of any loss relief, balancing charge and or capital allowances.

## 2.2 OBJECTIVES OF TAXATION

The main objective of imposing tax is to raise money to meet government expenditure which includes cost of general administration, internal and external defence, maintenance of law and order and provision of social services. Apart from the above mentioned main objective, various individuals and institution advance other main reasons for the imposition of taxes by government at different levels.

Ishola (1999) identifies the following reasons why taxes are levied by government.

i. To stimulate growth and development in our economy;

ii. To fight depression, inflation and deflation.

iii. To achieve equitable distribution of income and wealth;

iv. To allocate resources in a socially desirable manner;

v. To discourage consumption of goods that are considered to be socially undesirable such as goods that are inimical to health;

vi. To encourage and protect infant industries in the economy,

vii. To ensure that the balance of payment of a country is in healthy position, and

viii. To preserve and augment foreign exchange reserves.

Abdulrasaq (1993) in his contribution reduced the main and other objectives of taxation to three as follows:

a. *Raising of Revenue:* The raising of revenue to meet government expenditures is a key function of a good tax administration. He stated that with absence of tax, government would find it difficult to carry out its functions while, the ability of government to meet it obligations to the masses may be seriously impaired. Basic social amenities such as education, health, security, defences, law and order cannot be ordinarily provided by the free market. He observed that a review of the developments in Nigeria would show that the level of taxes raised have helped in no small measure in meeting these expenditures.

b. *Re-distribution of wealth:* He stated that the redistribution of wealth as an objective is based on two premises. The first being that taxation should basically rest on the ability to pay, thus requiring that the greatest burden be borne by the rich. The second posits that the present arrangement of wealth distribution is a potently unjust; hence taxation should have a built –in redistribution function.

c. *Management of the economy:* It would appear that greater emphasis is placed on the use of monetary policies in the management of the

economy. He emphasized that fiscal policies have helped greatly too in the management of the economy. Such fiscal policies that have been found to be widely used include the various tax reforms which were supposed to increase the people's purchasing power.

FIRS (2002) advances the following key reasons for the imposition of taxes by government;

i. To cover the cost of general administration, internal and external defence, maintenance of law and order, and the social services provided by the government.
ii. To reduce income and wealth in order to reduce inequality;
iii. To control the consumption of goods and services considered non-essential or harmful.
iv. To check inflation by reducing the volume of purchasing power;
v. To service national debt and to provide retirement benefits etc.
vi. To provide subsidies in favour of preferred sectors of the economy, for example agriculture and selected industries.
vii. To implement government policies. Since the budget becomes an adjunct to monetary policies, taxation has often been increased in order to provide a large budget surplus, or reduced to stimulate demand;
viii. To serve as a powerful fiscal weapon to plan and direct the economy by shaping the economic growth and development of a country.

Having examined the positions of the various authors on the objectives of tax imposition, the researcher is inclined to agree with the view of Abdulrasaq (1993). The objectives of tax imposition by the government can be summarized under these headings: Revenue Generation; Wealth Redistribution; and Management of the Economy. These three reasons explain why government imposes tax on its citizens and on organizations in any economy.

## 2.3 FEATURES OF A GOOD TAX SYSTEM

A good tax system for any country should have the following features as claimed by FIRS (2002):

a. *Economic growth facilitator:* The taxes should be an effective instrument of economic growth. The long term objective of a good public finance system is economic growth rather-than short run economic stability. So a good tax system should encourage savings and capital formulation and should be suitable for the mobilization of resources for accelerated economic growth.

b. *Employment Stimulator:* A good tax system should aim at creating an enabling environment for raising the level of employment and for raising the standard of living of the people.

c. *Tolerable tax burden:* A good tax system should ensures that the tax burden on the masses does not exceed its taxable capacity. Tax burden can be minimized by introducing tax reforms that improve the nature of the tax levied, the time and mode of payment.

d. *Minimum Sacrifice:* Taxes are levied on incomes and wealth and their payments involved sacrifice on the part of the tax payers. Therefore, it is advocated that a good tax system should aim at minimizing this sacrifice.

e. *Highly canonical:* A good tax system should be simple to administer as this will minimize the chances of tax evasion and tax avoidance. A good tax system should also avoid multiplicity of taxes. However, to ensure adequate public revenue, the tax system should be broad-based. Taxes should be convenient to the tax payers in terms of the time and mode of payment.

f. *Common good and maximum social advantage:* A good tax system should adhere to this principle of maximum social advantages. It should also ensure maximum benefits to the country as a whole.

## 2.4 PRINCIPLES OF TAXATION

The eight canons or principles as identified by FIRS (2002) and Ishola (1999) which were described as desirable characteristics of a healthy tax system are as follows:

(i) *The Canon of Equity*: This means that the distribution of tax burden should be equitable. The idea embodies the ability to pay. Only when a tax is based on the tax payer's ability to pay, then it can be considered equitable or just. This equity can be either horizontal or vertical. The horizontal equity means that those with the same income should pay an equal amount of tax, while the vertical

equity signifies that those with different incomes should pay different amount of tax. The equity may be ensured by a proportional, just as much as by a progressive system of taxation.

(ii) *The canon of convenience*: under this principle, taxes should be conceived in such a way that the manner and time of payment should be suitable to the tax payers.

(iii) *The canon of certainty:* According to the certainty canon, the scope of the tax should be clear; the tax should not be arbitrary. The potential tax payers ought to be aware of the exact amount of tax they are expected to pay as well as the time and method of payment.

(iv) *The canon of Economy*: This implies that the administrative costs of taxes to be collected should not be higher than the revenue to be realized. This principle of taxation requires that taxes should not be imposed if their costs of collection were excessive. A good tax system can be considered economical if the cost collection is not excessive. On the other hand, if the cost of collection takes a large part of the tax collected, the tax is not economical.

(v) *The canon of simplicity:* According to the canon of simplicity, a good tax system should be coherent, simple and straight forward. The tax should be cleared to the tax payers and must be accepted by the public. It is argued that proper understanding of tax system eliminates the chances of corruption and oppression by tax officials.

(vi) *The canon of flexibility:* The tax system should be flexible

especially in a federal and democratic nation where there are always change of government. This means the tax system should be responsible to changing realities rather than being rigid. An adjustable tax system would allow any tax found to be obsolete to be removed and replaced with a meaningful and collectible tax.

(vii) *The canon of Impartiality:* This principle recognizes that a good tax system should not discriminate between tax payers under the same and similar circumstances. An impartial tax system ensures that all persons similarly placed pay the same tax.

(viii) *The canon of productivity/fiscal adequacy:* This canon advocates that the yield from a good tax system should be adequate to cover government expenditures.

## 2.5 COMPANIES INCOME TAX RETURNS

In accordance with sections 41 (1) of CITA 1990, every registered limited liability company is expected to at least once in every year without notice or demand delivers to the Federal Inland Revenue Service (FIRS) a return which shall comprise of the following:

(i) The audited financial statements;

(ii) Tax and capital allowance computations;

(iii) A true and correct statement in writing containing the amount of profits from each and every source;

(iv) A declaration which shall be signed by a director or secretary of the

company that the returns contain a true and correct statement of the amount of its profit computed in respect of all sources and that the particulars in such returns are true and complete.

These returns and audited financial statements shall be filed not later than six (6) months after the close of the company's accounting year.

A newly incorporated registered company is expected to fill its returns within eighteen (18) months from the date of its incorporation or not later than six (6) months after the end of its first accounting period, whichever is earlier. The existing companies on the other hand which have been in business for more than eighteen months shall file their returns not more than six months after the close of the company's accounting year.

With effect from 1st January, 1998, self assessment became mandatory for all companies in Nigeria. A tax returns for self assessment filer comprises the following:

(a) Duly completed self assessment income tax form;

(b) Audited financial statements together with the relevant schedules showing assets, trade debtors, trade creditors etc.

(c) A declaration which shall be signed by the managing director or a director or statutory secretary of the company indicating that the returns contain a true and correct statement of the amount of its profits computed in respect of all sources and that the particulars in such returns are true and complete;

(d) Capital allowance computations;

(e) Tax computations for the year of assessment;

(f) Evidence of direct payment of whole or part of the tax due into a bank designated for the payment of tax.

### 2.5.1 Penalties for Late Returns

It is a serious offence for a company not to file tax returns annually under the provisions of the Companies Income Tax Act, 1990. besides viewing the failure when discovered as a serious case of tax fraud and evasion, the federal board of inland revenue is empowered to determine the assessments for all the years in default on its best of judgement and impose substantial penalties on offenders for trying to evade tax by not filing returns.

The following penalties shall be paid by any company for lateness in filing or failure to file self-assessment returns;

(i) A penalty of N2,500 is payable in the first month that failure to file tax return occurs and N500 penalty thereafter on monthly basis for the period the failure persists;

(ii) The denial of tax installment payment privilege to defaulting company;

(iii) Forfeiture of one percent bonus for all self-assessment filers,

(iv) Payment of provisional tax for the year with accrued penalty and interest;

(v) Payment of penalty and interest for the period of the default.

In addition to the penalties imposed on company for late return, a company which makes an incorrect return by omitting or understating its profits in any manner would be liable to a fine of N200 up to 2000 fiscal year. But the fine was reviewed upward to N20,000 from 2001 fiscal year plus double the amount of tax undercharged in consequence of such incorrect returns or information.

### 2.5.2 Accounting Books and Records

Books and records necessary to disclose the profit or loss from a business or trade are required to be kept and made available to tax auditor and special investigation branches of the Federal Inland Revenue Service. And such books and records may not be destroyed without express permission of the Federal Board of Inland Revenue. Under the Companies Income Tax Act, certain receipts, books and documents may be required for examination or to be produced to substantiate certain claims in the tax returns.

If such receipts, books and documents are not requested for by the board immediately or in any particular year of assessment, it should not be concluded that the board has accepted the returns as final and conclusive.

Every registered company's books, records and documents together with the accounts and vouchers related thereto must be retained for a minimum of six(6) years from the end of the year of assessment to which they relate. But where the returns are filed late, the books and records must be retained for six (6) years from the date the returns were filed. Besides, every books and

record necessary for consideration of a notice of objection or appeal must be retained until the objection or appeal is disposed off.

### 2.5.3 Chargeable Profits.

Section 8 (1) of the Companies Income Tax Act CAP 60 LFN, 1990 provides that tax shall for each year of assessment be payable upon the profits of any company accruing in, derived from brought into, or received in Nigeria in respect of:

(a) Any trade or business for whatever period of time such trade or business may have been carried on;

(b) Rent or any premiums arising from a right granted to any other person for the use or occupation of any property;

(c) Dividends, interest, royalties, discount, charges or annuities.

(d) Any source of annual profits or gain not falling within the above mentioned categories;

(e) Any amount deemed to be income or profit under or provision of the Act;

(f) Fees, dues and allowances (whenever paid) for services rendered,

(g) Any amount of profits or gains arising from acquisition and disposal of short-term money instruments like government securities, treasury bills, saving certificates, treasury bonds etc.

### 2.5.4 Non Chargeable Profits

The following profits are exempted from income tax under section 19(1) of the companies' income Tax Act, 1990:

(a) The profits of a company being a statutory or registered friendly society provided such profits are not derived from trade or business carried on by such society.

(b) The profits of any company being a co-operative society registered under any enactment or law relating to co-operative societies not being from any trade or business carried on by that company;

(c) The profits of any company engaged in ecclesiastical, charitable or educational activities of a public character provided such profits are not derived from trade or business carried on by such a company.

(d) The profits of any company formed for the purpose of promoting sporting activities provided such profits are fully applied for such purposes;

(e) Profits of a trade union registered under the Trade Union Act 1973 Provided such profits are not derived from a trade or business carried on by such trade union;

(f) The profits of any company being a corporate body established by or under any local government law or edict in force in any state in Nigeria,

(g) Dividend derived by a company from another company incorporated in Nigeria, provided that the equity participation of the recipient of the dividend in the company paying the dividend is either wholly paid in

foreign currency or by assets brought or imported into Nigeria between 1st January, 1987 and 31st December, 1992. And the company receiving the dividend is the beneficial owner of not less than ten percent of the equity share capital of the company paying the dividend;

(h) The profits of any company or any corporation established by the law of a state for the purpose of fostering the economic development of that state;

(i) The interest on deposit account of a foreign non-resident company, provided that the deposits into the account are transfers wholly of

foreign currencies to Nigeria on or after 1st January, 1990 through approved government channels;

(j) The profits of a company whose supplies are exclusively inputs to the manufacturing of products for export provided that the exporter shall gives a certificate of purchase of the inputs of the exportable goods to the seller of the suppliers.

In addition to the above stated profits exempted from tax, some interests received by companies are also exempted from tax by the provision of the companies Income Tax Act 1990. The interests received on the following loans are exempted from tax:

(a) Foreign loans granted to a Nigerian company of at least N150,000 as from 1st January, 1971 and N5,000,000 from 1st January, 2001 granted for the purpose of carrying on a trade or business provided that such loans are repayable over a period of at least ten (10) years. But where

the repayment period is between five (5) to ten (10) years, the interest is taxed at half the normal income tax rates.

(b) Loans granted by a bank on or after 1st April, 1978 for the purpose of an agricultural trade or business.

(c ) Loans granted by a bank as working capital for industries established under the Family Economic Advancement Programme (FEAP) provided the moratorium is not less than eighteen (18) months.

### 2.5.5 Non –Allowable Deductions

Items of expenditures that are not allowed for deductions in ascertaining the profits of any company for tax purposes according to Ariwodola (2000) are as follows:

(i) Domestic and Private expenses;

(ii) Capital withdrawn from a trade and any expenditure of a capital nature;

(iii) Any loss or expenses recoverable under an insurance or contract of indemnity;

(iv) Contributions to pension, provident fund not approved by the Joint Tax Board (JTB),

(v) Rent of or cost of repairs to any premise or part of premise not incurred for the purpose of producing the business income;

(vi) Taxes on income or profit levied in Nigeria or elsewhere;

(vii) Depreciation on any fixed asset is not allowed.

(viii) Any sum received out of profits is not allowed except in the case of specific provision for doubtful debt;

(ix) Legal expenses incurred in respect of acquisition of leases as well as renewal of long lease;

(x) Any expense incurred within or outside Nigeria as management fee under any agreement entered into the extent as the Minister of Finance may allow;

(xi) Donations generally are not allowed except to bodies listed in the 5th Schedule of CITA 1990; The donations of the listed bodies that are deductible are governed by the following rules;

(a) The donation must not be made for valuable consideration,

(b) Donation must be made out of profits;

(c) Donation must be of a capital nature;

(d) Donation must not exceed ten (10) percent of total profits before deducting the donations.

### 2.5.6 Allowable Deductions

Ariwodola (2000) stated all expenses of a company that are wholly, exclusively, necessarily, and reasonably incurred in the production of the profits are allowable deduction expenses. Thus any expenses that can be proved to meet these conductions will be an allowable deduction in arriving at

the company's chargeable profit except if such expense is specifically prohibited under any other, provision of the Act.

In addition the following items are stated in Section 20 of the Companies Income Tax Act, 1990 as allowable deductions provided they are incurred for the purpose of acquiring the profits being subjected to tax:

(i) Interest on money borrowed and employed as capital,

(ii) Rent and premiums in respect of land or buildings occupied for the purpose of acquiring the profits;

(iii) Repairs and renewal costs relating to the premises, plants, fixtures etc used in the business.

(iv) Bad and doubtful debts to the extent that they are respectively estimated to the satisfaction of the Board to have become bad or doubtful of collection;

(v) Contributions to approved pension, provident or other retirement benefits fund, society or scheme;

(vi) In the case of the Nigerian Railway Corporation such deductions as are allowed under the provisions of the Authorized Deductions (Nigerian Railway Corporation) Rules 1959.

(vii) Any outlay or expenses incurred during the year in respect of:

  (a) Salary, wage or other remuneration paid to the senior staff and executives;

  (b) Cost of the company of any benefit or allowance provided for

the senior staff and executives which shall not exceed the limit of the amount prescribe by the collective agreement between the company and the employees and approved by the Federal Ministry of Employment, Labour and productivity and the Productivity, prices and Income Board as the case may be.

(c ) The expenses proved to the satisfaction of the Board to have been incurred by the company on research and development for the period including the amount of levy paid by it to the National Science and Technology Fund.

(viii) Section 22 of the Act allows for the deduction of the amount of reserve made out of profits for research and development subject to a ceiling of 10 percent of the total profits of the company before any deductions is made under this section and section 21 of the Act.

(ix) Companies and other organizations engaged in research and development activities for commercialization shall be allowed 20 percent investment tax credit on their qualifying expenditure for that purpose.

## 2.6 PAYMENT OF COMPANIES INCOME TAX

FIRS (2002) stipulates that companies that have registered with the Corporate Affairs Commission but fail to commence businesses after six

months of their incorporation shall be liable to pay a levy while those that commenced operation or business shall be liable to pay income tax.

### 2.6.1 Pre-operational Levy

Pre-operational levy is a levy imposed on companies that fail to commence business after six months of their incorporation. The levy is

N500 for the first year of incorporation and N400 for any subsequent year the failure to commence trade or business persists. The payment of this pre-operational levy may not be enforceable until when the company requests for a tax clearance certificate.

### 2.6.2 Provisional Tax

The companies' income tax can be paid for the relevant year of assessment as provisional tax. The provisional tax is not an assessment but just an advance payment to be utilized as a set-off against the assessment for the year.

The provision tax is payable under the following conditions:

(i) When the self-assessment filer fails to file its returns when due;

(ii) Where the collection of tax is in abeyance following on objection or an appeal.

(iii) If the provisional tax is higher than the tax in dispute.

The payment of provisional tax shall not be later than 31$^{st}$ March of the year of assessment if paid in one lump sum. To enjoy instalmental payment concession however, the payment must commence in the month of January.

When approval is given for instalmental payment provisional tax may be paid in four monthly instalments terminating 30th April of the year to which the payment relates.

The time for payment of companies' income tax by self assessment filers is as follows:

(a) Where the accounting year ending 31st December, the due date of payment is 30th June of the succeeding year;

(b) Where the accounting year ending 30th September, the due date of payment is 31st March of the succeeding year;

(c) Where the accounting year ending between 1st January and 30th June, the due date of payment is 1st January of the succeeding

(d) Lastly, all other cases of accounting year ending apart from the above mentioned, the due date of payment shall be six (6) months after the end of the accounting year.

### 2.6.3 Minimum Tax Provision

With effect from 1990 tax year, the minimum tax applies to a company that has been in business for four years and beyond when it makes a loss or has a total profit which results in no tax payable or has a total tax payable that is less than the minimum tax. The minimum tax shall be computed on the following basis:

(a) Where turnover is N500,000 or below, the minimum tax is the highest of:

(i) .5% of Gross Profit

(ii) .5% of Net Assets

(iii) .25% of Paid-up Share Capital

(iv) .25% of turnover of the company for the year.

(b) Where turnover is higher than N500,000, the minimum tax payable is the aggregate of the highest in (a) above plus the excess of turnover of N500,000 at the rate of 0.125%.

### 2.6.4 Exemptions to Minimum Tax Payment

The following companies even though sustained losses during any assessment year are exempted from minimum tax provisions:

(a) A company carrying on agricultural trade or business,

(b) A company that has not been in business up to four years; and

(c ) A company with at least 25 percent imported equity capital.

### 2.6.5 Companies Income Tax Rates

The companies income tax rate before and up to 1979 year of assessment was 50 percent. This rate was reduced to 45 percent with effect from January, 1980 up to 31st December, 1991. From January, 1992 to 31st December, 1995 the rate was further reduced to 35 percent. The current rate of tax on companies' profits is 30 percent with effect from 1st January, 1996 to date except as qualified under the preferred sector.

Presently, lower companies income tax rate of 20 percent is payable by small companies in the preferred sector of the Nigerian economy for the first five years of operation. The companies in the preferred sector are those in manufacturing, agricultural production, mining of solid mineral or

wholly in export trade. While the small companies in this content are those companies having an annual turnover of one million naira or less.

## 2.7 COMPANIES TAX INCENTIVES

Tax incentives are concessions been offered by government to registered companies in certain sector of economy. These incentives are designed to encourage investments in certain preferred sectors of the economy and sometimes they are geared towards attracting inflow of foreign exchange to complement domestic supplies for rapid economic development. The various tax incentives as stated by FIRS (2002) from Federal government under different sectors of the economy are as follows:

### 2.7.1 Manufacturing Business

The following are some of the tax incentives to manufacturing businesses.

(i) *Investment allowance*: This is allowable at the rate of 10 percent on plant and equipments.

(ii) *Rural investment allowance*: A company sited at least 20km away from the provision of electricity, water, tarred road or telephone for the purpose of its trade can claim rural investment allowance provided

such facilities which government fails to provide are provided by the company. This type of allowance is an additional to the initial allowance on such capital expenditure as follows:

(a) *No telephone*: the allowance rate is 5 percent of capital expenditure on assets in use;

(b) *No tarred road:* the rate is 15 percent of capital expenditure on assets in use;

*(c )* *No water:* the rate is 30 percent of capital expenditure on assets in use.

*(d)* *No electricity*: the rate is 50 percent of capital expenditure on assets in use,

*(e)* *No telephone,* tarred road, water and electricity: the allowance rate is 100 percent of capital expenditure on assets in use.

It should be noted that investment allowance cannot be claimed on the same assets on which rural investment allowance has been claimed. The rural investment allowance can only be claimed in the year the capital expenditure is incurred and cannot be carried forward.

(iii) *Pioneer Companies*: Tax holiday is granted to pioneer companies under the Industrial Development Income Tax Relief Act CAP 179 LFN 1990 by the Nigerian Investment Promotion Commission (NIPC) for five (5) years in the first instance and renewable for additional two (2) years.

(iv) *Investment tax relief (ITR):* This is granted precisely under the same conditions as under the rural investment allowances but the rates are on tax payable. The relief which can be claimed for only

(v) three years is not available to a company which has been granted as pioneer status.

(vi) *Input taxes:* Input taxes paid in the course of production of goods are creditable.

(vii) *Interest on loans*: Section 9 (a) of CITA 1990 exempted from taxation interest payable on any loan granted by a bank on or after 1st April, 1980 for the purpose of manufacturing goods for exports. This exemption is subject to presentation of a certificate issued by the Nigerian Export Promotion council stating that the level of export specified has been achieved by the company. A company is deemed to be engaged in manufacturing for export if the Nigerian Export Promotion council certifies that not less than one half of its manufactured goods disposed of in its year of accounts are sold outside Nigeria and are not re-exported to Nigeria.

(viii) *Manufacturers of locally made spare parts, tools and equipment*: All companies that engages wholly in the fabrication of tools, spare part and simple machinery for local consumption and export are given 25 percent investment tax credit on their qualify capital expenditure. Also, any tax payer who purchases locally manufactured plant machinery

and equipment are also entitled to 15 percent investment tax credit on such fixed assets bought for use.

### 2.7.2 Agricultural Business

The following tax incentives apply to companies engage in agricultural trade or business:

(i) *Non restriction of capital allowance:* Companies in the agro-allied business enjoy no restriction to capital allowance as compared to 66 2/3 percent restrictions to trade or business.

(ii) *Non payment of minimum tax:* The payment of minimum tax by companies that make small or no profits at all do not apply to agro-allied business.

(iii) *Enhanced Capital Allowance*: Agro-Allied Plant and equipment enjoy enhanced annual capital allowance of up to 50 percent.

(iv) *Lower rate of tax*: Small companies in agricultural production pay 20 percent of total profit as tax payable for the first five (5) years of commencement of business.

(v) *Investment allowance*: Section 28 of CITA, 1990 makes available to a company an investment allowance of 10 percent for qualifying expenditure incurred on plant and equipment for agricultural production other than in marketing and processing. This allowance is in addition to the initial and annual allowances allowable on the qualified assets.

### 2.7.3 Mining of Solid Minerals

Some of the taxes incentives enjoy by companies engage in mining of solid minerals are as follows:

(i) *Tax free holiday*: All new companies going into the mining of solid minerals are to enjoy a tax free holiday for the first three years of their operations with effect from 1st January, 1996

(ii) *Low rate of tax:* Lower rate of 20 percent is payable by small companies in the mining of solid minerals for the first five (5) years from commencement of business.

(iii) *Increase in Initial and Annual Allowance*: The initial and annual allowances of companies engaged in exploitation of solid minerals have been increased from 20 percent and 10 percent to 30 percent and 20 percent respectively.

(iv) *Tax Relief Period:* The tax relief of a company granted a mining lease under minerals and mining decree No. 34 of 1999 shall commence on the date of operation. The tax relief shall continue for three years and it may be extended by the Minister of Solid mineral resources for one further period of two years. The minister shall not extend the tax relief period on such company unless the minister is satisfied as to:

(a) the rate of expansion, standard of efficiency and the level of development of the company in operation of mining for which the lease was granted;

(b) the implementation of any condition upon which the lease was granted; and

(c) the training and development of Nigerian personnel in the operation of the mineral concerned.

(v) *Other incentives:* The holder of a mining lease shall, where qualified be entitled to the following capital allowances:

(a) Depreciation or capital allowance of 75 percent of the certified true capital expenditure incurred in the year of investment and 50 percent in subsequent years;

(b) Losses in each financial year not exceeding the value of capital allowances for the year may be carried forward.

(c) Investment allowance of 5 percent

(d) Capitalization of all expenditure on prospecting and exploration approved by the Minister on the advice of the Director of Mines where the holder starts mining development.

### 2.7.4 Export Processing Zone Operators

The Nigeria Export Processing Zone Act, 1992 as amended is the enabling law for the establishment and management of the export processing zone scheme in Nigeria. There are currently one export processing zone at Calabar and one export free zone at Onne/Ikpokiri respectively.

The Calabar Export Processing Zone (EPZ) is a multi-functional industrial complex while the Onne Export Free Zone (EFZ) is dedicated to oil and gas. Some of the incentives available to operators in the EPZ include:

(a) One hundred percent foreign ownership of investment,

(b) Land for factory establishment is rent free during construction stage,

(c ) Exemption from import or export duties or licenses,

(d) Exemption from all federal, state and local government taxes,

(e) Unrestricted remittance of profits and dividends on business activities in the zone,

(f) Free repatriation of foreign capital investment at any time, along with capital appreciation of the investment

The above stated tax incentives are granted under the following conditions:

(i) The company is 100 percent export –oriented,

(ii) The company must not have been brought about or formed as a result of split up, merger or reconstruction of any already existing business,

(iii) The company is not formed by transfer of machinery or plant previously used for any purpose to new enterprise. And where this is done, the machinery or plant previously used for any purpose to the new enterprise, the machinery or plant transferred must not exceed 25 percent of the total value of the machinery of the company,

(iv) It manufacturers, produces and exports articles during the relevant year and the export proceeds form at least 75 percent of the enterprises turnover,

(v) The equipment and operating assets of the enterprise must not be utilized for any other purpose other than the production of exportable goods.

**2.7.5 Other Lines of Trade, Research and Development:** The following are some of the incentives to other lines of trade:

(i) As a means of encouraging industrial technology companies and other organization that engage in research and development activities for commercialization are to enjoy 20 percent investment tax credit on their qualifying expenditures.

(ii) Expenses on research and development are now tax deductible. Capital allowance ranging from 10 percent to 100 percent are now granted irrespective of capital outlays.

(iii) About 25 percent of incomes derived from tourists by hotels in convertible currencies are exempted from tax provided such incomes are put in reserve fund to be utilized within five (5) years for expansion or the construction of new hotels and facilities used for development of tourism.

**2.7.6 Companies Dividends.**

The following are some tax incentives that affect various dividends received from different companies:

(i) Withholding tax on dividend from any shareholding or investment is now a fiscal tax in the hands of the recipient.

(ii) Dividend derived by a company from a country outside Nigeria and brought into Nigeria through government channels is exempted from tax.

(iii) Dividends received from small companies in the manufacturing sector in the first five years of their operation are excluded from tax.

(iv) Dividends received from investments in wholly export oriented business are exempted from tax.

(v) Dividends paid by a pioneer company are exempted from tax to the extent that they are paid out of income exempted from tax under the Industrial Development Income Tax Relief Act CAP 179 LFN, 1990 as amended.

## 2.8 PIONEER STATUS COMPANY

Pioneer status according to FIRS (2002) is granted upon specific application which may be made by a company or a group of companies already registered or on behalf of companies yet to be registered. Any company applying for pioneer status must incurred capital expenditure on or before the production day in

excess of N50,000 in case of a Nigerian company while not less than N150,000 in case of other company. It was found out that in practice, investment in capital expenditure of not less than N5,000.000 may required presently from newly registered companies, while approved is hardly granted for yet to be incorporated companies.

Under the Industrial Development Income Tax Relief Act CAP 179 LFN, 1990, as amended a company or product may be granted the pioneer status if:

(i) The industry or company is not carried on in Nigeria on a scale suitable to economic development.

(ii) There are prospects of further development of such industry in Nigeria, or

(iii) It is expedient in the public interest to encourage development or establishment of such industry in Nigeria.

Some of the factors usually taken into consideration before granted the application include the following:

(a) Rate of expansion, standard of efficiency and the level of development of the company.

(b) The level of utilization of local raw materials in the production process of the company and the training and development of the Nigerian personnel.

(c ) Relative importance of the company in the economy of the country.

(d) The need for the extension having regard to the location of the industry.

(e) And any other such relevant matters as may be required from time to time.

Apart from the factors usually taken into consideration before granting the pioneer application, the following industries and products currently enjoy pioneer status:

(i) Cultivation and processing of food crops, vegetables and fruits,

(ii) Manufacture of cocoa products,

(iii) Processing of oil seeds,

(iv) Integrated diary production,

(v) Cattle and other livestock ranching,

(vi) Bone crushing

(vii) Fishing and processing;

(viii) Manufacture of salt,

(ix) Mining of lead zinc ore by underground mining methods;

(x) Manufacture of iron and steel from iron ore;

(xi) Smelting and refining of nonferrous base metals and manufacture of their alloy;

(xii) Mining and processing of barites and associated minerals;

### 2.8.1 Pioneer Status Incentives

Company or goods granted pioneer status after the approval of an application to that effect enjoys some incentives as follows:

(a) Pioneer companies enjoy tax relief period of three years which can be extended by an additional two years to maximum of five years;

(b) Agricultural or agro-allied industries that make use of locally produce raw materials shall be granted tax relief for initial period of five years.

(c) Dividend paid out of pioneer profits during the tax relief period are tax free;

(d) Any aggregate loss incurred during the tax relief period can be carried forward against future trading profits of the same trade or business for a maximum of four years even after the pioneer status period.

## 2.9 FEDERATION ACCOUNT

Federation account according to Daniel (1999) is a distributable pool account established by the 1979 Constitution of the Federal Republic of Nigeria to accommodate revenues meant to be distributed among the federal, state and local governments. The creation of federation account has a constitutional backing through Section 162 (1) of 1999 constitution which state that:

> *"the federation shall maintain a special account to be called the Federation Account into which shall be paid all revenues collected by the government of the federation, except the proceeds from the personal income tax of the personnel of the armed forces, of the federation, the Nigeria Police force, the Ministry or department of government charged with responsibility for foreign affairs and the residents of the Federal Capital Territory, Abuja".*

The amounts standing to the credit of the federation account are been distributed among the federal and state governments and local government councils in each state base on the provision of the revenue sharing formulae approved by the National Assembly. This amount is shared on monthly basis by the constituted federation Account Allocation Committee under the supervision of the Revenue Mobilization Allocation and fiscal commission.

### 2.9.1 Federal Account Allocation Committee

The federation account allocation committee was set up primarily to ensure that the provisions of the revenue allocation formulae are adhered to in sharing the proceeds accrued to the federation account monthly. The committee is also expected to ensure that allocation made to the beneficiaries of the federation account are promptly and fully paid to them. Lastly, the committee is to submit annual report of its performance and activities to the National Assembly.

Daniel (1999) gave the breakdown of the federation account allocation committee membership as follows:

(i) The federal minister of finance as chairman;

(ii) Accountant –General of the federation

(iii) All State Account –Generals

(iv) All State Commissioners for finance.

(v) A representatives of Custom and Excise Department

(vi) A representatives of Nigeria National Petroleum Corporation (N.N.P.C)

(vii) A representative of federal Inland Revenue Service.

(viii) A representative of National Planning Commission

(ix) A representative of Central Bank of Nigeria.

### 2.9.2 Federation Account Revenue Heads

The federal government revenue heads run from Head 1 to Head 17. But head 1-3 are paid into the federation account while Head 6-17 are in respect of federal government account otherwise known as Consolidated Revenue Fund.

The details of revenue head 1 to 3 according to Daniel (1999) are as follows:

*(i) Head 1 – Indirect Taxes*

These are taxes raised from goods and commodities in the form of custom and excise duties which include import duties, export duties and excise duties.

*(ii) Head 2 – Direct Taxes*

These represent taxes charged on registered companies in Nigeria like companies' income tax, back duty, penalties, petroleum profit tax, capital gain tax, companies' pre-operational levy etc.

*(iii) Head 3 – Mining*

This is made up of revenue accrued from oil and gas sector of the economy which comprises of oil pipeline licenses fees, rent on mineral licenses, royalty on oil and gas, Nigeria National Petroleum Corporation earnings from direct sales, sales of crude oil for domestic consumption and penalty for gas flaring.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 INTRODUCTION

This chapter is intended to explain how this research work was carried out in terms of how the data were gathered and analyzed.

However, for any problem to be solved, data concerning the subject matter must be gathered and evaluated to generate the relevant information. Moreover, the success of any research work depends on the nature, type and the source of the data generated and used in the research work. It is therefore imperative that if the outcome of the research must be good and reliable, the information sought, the methods used in obtaining the information sought, methods used in analyzing the data must be carefully and systematically presented to avoid any form of ambiguity. This chapter therefore is devoted to explaining the methods of collecting and analyzing the data needed for this study, the identification of the sample size, the population of the study and the justification of tools, instruments and methods chosen for the study.

## 3.2 POPULATION OF THE STUDY

This study is aimed at assessing the revenue performance of the companies' income tax in Nigeria. This is clearly under the sole jurisdiction of the Federal Inland Revenue Service. Therefore, the ideal population for

this study should be the entire staff of the federal inland revenue service through out the country.

However, the mere fact that the offices of the federal inland revenue service are scattered across the six geographical zones of the country, it was not possible for the researcher to cover all these zones for data collection. Therefore, research efforts were concentrated only on the offices within the North – West Regional Coordinating Office of the Federal Inland Revenue Service, Kaduna comprising of Kaduna, Katsina, Kano, Kebbi and Sokoto States.

The population for this study was made up of the entire senior and management staff of the federal inland revenue service offices in these five states. Based on this, the population for this study is as given bellow.

| **Location** | **No of Staff** |
|---|---|
| Kaduna | 45 |
| Katsina | 30 |
| Kano | 40 |
| Kebbi | 30 |
| Sokoto | 35 |
| **Total** | **180** |

## 3.3 SAMPLE SIZE

In order to draw a sample for this study, the researcher had to take a number of issues into consideration:

(a) The homogeneous nature of the population.

(b) The fact that the offices are in different locations

(c) The statistical method of Hypotheses Testing i.e Chi-Square method.

Under normal circumstance, a sample of 10 percent of the population is considered representative of the population. In this case it is equal to:

$$\frac{10}{100} \times 180 = 18$$

However, the Chi-square method of Hypothesis testing demands that the sample size be between 25 and 250. Therefore, the researcher decided to increase the sample size to 33 percent of the population. In this case, it is equal to:

$$\frac{33}{100} \times 180 = 60$$

Thus, the sample size for this study is 60 members of senior and management staff of the Federal Inland Revenue Service in the 5 states selected.

## 3.4 SAMPLING TECHNIQUE

A sample of 60 was chosen for this study based on the reasons advanced is section 3.3 above. However, in order to ensure that the sample selected from each state office is representative of the population in that office, the proportionate stratified random sampling method was chosen as the most appropriate method, because it is the only method that guarantees that:

(a) The sample selected from each office is representative of that office.

(b) The total sample size (60) is truly representative of the entire population.

(c) The sample size preserves the entire characteristics of the population.

Mathematically Determination of the sample size:

Sample, **n** is given as: $\sum \frac{n_i}{N_i}$

Where $\mathbf{n_i}$ = sample from each office.

$\mathbf{N_i}$ = population from each office.

Thus, the determining factor = $^{n}/_{N}$

$$= \frac{60}{180} = 1/3$$

| **Office** | **Population** | **Factor** | **Sample** |
|---|---|---|---|
| Kaduna | 45 | 1/3 | 15 |
| Katsina | 30 | 1/3 | 10 |
| Kano | 40 | 1/3 | 13 |
| Kebbi | 30 | 1/3 | 10 |
| Sokoto | 35 | 1/3 | 12 |
| **Total** | **180** | | **60** |

## 3.5 DATA COLLECTION METHODS.

The decision must be made as to which sources of data can be used after the determination of the type of information needed to accomplish the study's objective. There are two main types of data which include primary and secondary data.

**Methods of collecting primary data:**

There are various methods of collecting primary data which include, survey, observation, experimental, interview and questionnaire. For the

purpose of this study, primary data were obtained through questionnaires administered to obtain original views and information from some staff of the Federal Inland Revenue Service in the five states selected.

**Methods of Collecting Secondary Data:**

As it has been discussed already, secondary data are those, which have been used for some purpose earlier and still have some relevance to the current study. They are mostly available in libraries, research centres, higher institutions of learning, employment gazettes, official publications of organizations. Secondary data were obtained from texts, journals and published financial statements of the Central Bank of Nigeria.

## 3.6 METHODS OF DATA ANALYSIS

Data analysis refers to the strategies and procedures for exploring and summarizing relationships among the variables on which data have been collected. Thus, the analysis of data is a means of answering research questions and testing the hypotheses stated. Therefore, analysis can be defined as the systematical breakdown of data into its constituent parts, making interpretations, drawing inferences, which are pertinent to the research relations studies and conclusions about them. In analyzing the data for this study, the researcher used tables more than any other tool to lay out the data for both analytical and comparative purposes.

**Methods of Data Analysis Used:**

The three principal methods of data analysis used in this research work were:

a. The chi-square method;
b. The Regression method; and
c. Simple percentages.

### 3.6.1 Chi-square Method.

The principal tool used for testing the stated hypotheses was the chi-square method of hypothesis testing because the variable of the research were measured on a nominal scale. The chi-square test was more

favoured for this because of its suitability for the nature of the test to be carried out.

For the purpose of this study, questionnaires distributed were retrieved and sorted out according to their areas and connected to percentages or proportions. These figures were then used to compute the observed and expected frequencies needed for testing the hypothesis. As it was stated earlier on in chapter 1, the hypotheses were tested at 95% level of significance. This formed the basis for accepting or rejecting the hypothesis.

For the purpose of this analysis, the chi-square ($\chi^2$) was defined by the expression.

$$\chi 2 = \frac{\sum( fo - fe)^2}{fe}$$

Where: (df = k – l)

$\chi 2$ = chi –square

fo = Frequency observed

fe= frequency expected

df= Degree of freedoms

k= No. of categories

I= Constant

The chi-square ($\chi^2$) test has decision rules just like any other test. Its own decision rule is that: When the calculated ($\chi^2$) value is larger or greater than the table value of $\chi^2$, then the Null hypothesis should be rejected. However, when the calculated value is less than the table value of $\chi^2$, we accept the Null hypothesis and reject the Alternative hypothesis.

This statistical test method has certain assumption even though it is a non-parametric statistical method, which does not have stringent assumptions.

These assumptions are:

a. Where two or more than two samples are used, they should be independent of one another.
b. The samples must be randomly selected.
c. The data must be classified and satisfy the nominal level of measurement requirement.
d. The sample size should be between 25 and 250.

*The Advantages of the Chi-square method:*

a. It is easy to apply to categories of data.
b. It is a goodness of fit statistic that reveals the significance associated with the fit between what is observed and what can be expected from the character distribution of frequencies.
c. A table of critical chi-square values is available for the instant interpretation of the significance of any observed $\chi^2$ for either one-tailed or two-tailed tests.

*The limitations of the chi-square methods*:

a. The test is sensitive to very large or very small sample size. If the sample size is less than 25 or larger than 250, the resulting $\chi^2$ becomes distorted and thus misleading.
b. It is also sensitive to very small expected frequencies. Thus for the application to be valid, the expected frequence should be larger than 5
c. Another limitation is the sample size. Some authorities have recommended a correction for sample sizes ranging from 25-75 with the aim of reducing the magnitude of the calculated $\chi^2$ value, thus, making it a little more difficult to reject the Null hypothesis.

   One such correction is Yate's Correction for continuity. This is achieved by reducing the magnitude of the difference between each observed frequency and the corresponding expected frequency by 0.5 (i.e fo-fe-0.5). This is however, only applicable where:

   i. the sample size is between 25 and 75 and
   ii. the data are arranged in a 2 x 2 table.

### 3.6.2 Regression Method.

The aim of using this method was to evaluate the performance of the Federal Inland Revenue Service. The variables involved in this case were measured on interval and ratio scales. This involves the simple regression method of analysis.

A regression equation identifies an estimated relationship between a dependent variable and one or more independent variables, based on past observations (Drury, 1995). He explains further:

> *When the equation includes only one independent variable, it is known as simple regression and it is possible in this case to plot the regression equation on a graph as a regression line. When the equation includes two or more independent variables, it is known as multiple regressions.*

If there is only one independent variable and the relationship is linear, then the regression line is given by the equation for a straight line:-

$$Y = a + bx$$

Where:

Y = estimated value of the dependent variable

a= intercept of the estimated regression equation

b= slope of the estimated regression equation

X= value of the independent variable.

If however, there are two independent variables, then the regression equation becomes:

$$Y = a + b_1 x_1 + b_2 x_2$$

Where:

Y= estimated value of the dependent variable

a= intercept of the estimated regression equation

$b_1$= average change in y resulting from an item change in $x_1$ assuming $X_2$ and all unidentified items are constant.

$X_1$= estimated average change in x1

$b_2$= average change in y resulting from a unit change in $X_2$ assuming $X_1$ and all unidentified items are constant

$X_2$= estimated average change in $X_2$.

For analytical purpose, the slop **b** and the intercept **a** can be computed as follows:

The simple regression:

$$a = \overline{Y} - b\overline{x}$$

and:

$$b = \frac{\sum x_i y_i - (\sum x_i \sum y_i)/n}{\sum x_i^2 - (\sum x_i)^2/n}$$

Where:

$X_i$= value of independent variable for the ith observation.

$Y_i$= value of dependent variable for the ith observation

$\overline{X}$= mean value for independent variable

$\overline{y}$= mean value for dependent variable

n= total number of observations.

OR:

By solving for **a** and **b** in the following equations

$\sum y = na + b\sum x$ ----------(1)

$\sum xy = a\sum x + b\sum x^2$ ----------(2)

Where: a, b and n are as defined above.

For the Multiple Regression, the parameters can be found by solving for a, $b_1$, and $b_2$ in the following equations:

$\sum y = an + b_1 \sum x_1 + b_2 \sum x_2$ ---------- (1)

$\sum X_i y = a\sum x_1 + b_1 \sum x_1^2 + b_2 \sum x_1 x_2$ ----------(2)

$\sum x_2 y = a\sum x_2 + b_2 \sum x_2^2 + b_1 \sum x_1 x_2$----------(3)

Due to the complicated and tedious calculations involved, it is advisable to use computer especially for the calculations involving multiple regression.

The summary of the steps involved in regression analysis are:

(1) Select the dependent variable, y.

(2) Select the potential independent variables $x_1$, $x_2$

(3) Collect data on both dependent and independent variables.

(4) Plot the observations on a graph

(5) Estimate the regression equation.

(6) Test the reliability of the regression equation.

The sixth step is necessary because the change in the dependent variable may be caused by other factors than the independent variable. There are various tests of reliability that can be applied to see how reliable each of the independent variables is in predicting the dependent variables. Only three will be used in this study and they are:

(a) **The coefficient of determination**:

This is given by:

$$r^2 = 1 - \frac{\sum (y_a - y_2)^2/n}{\sum (y_a - \overline{y}_a)^2/n}$$

Where:

$y_a$ = actual observation

$y_e$ = estimated observation

$\overline{y}_a$ = mean of actual observation

This helps to determine the proportion of change in the dependent variable, y explained by the independent variable, X.

The degree of association between the two variables, x and y is known as correlation.

The correlation coefficient is given as r where:

$$r = \sqrt{\left| - \left[ \frac{\sum (y_a - y_e)^2/n}{\sum (y_a - \overline{y}_a)^2/n} \right] \right.}$$

If the correlation is high, r and $r^2$ will be close to 1 else, they will be close to o.

(b). **The Standard Error of the Estimate, $S_e$,** is given by:

$$S_e = \sqrt{\left[ \frac{\sum (y_a - y_e)^2}{n - 2} \right]}$$

This helps to calculate the absolute size of probable deviations from the regression line.

(c ) **Standard Error of the Coefficient:** this given by:

$$S_b = \frac{S_e}{\sqrt{\sum x^2 - \overline{x} \sum x}}$$

Alternatively,

$$S_b = \frac{S_e}{\sqrt{\left[\sum (x - \overline{x})^2\right]}}$$

This helps to determine the reliability of the estimate of the regression coefficient, b. The assumptions of the Regression Analysis are:

(a) For each value of x, there is a group of normally distributed y values.

(b) The means of these y values al lie on the line of regression.

(c ) The standard deviations of these normal distributions are equal.

(d) The y values are statistically independents.

*Advantages of the method are:*

(a) It helps to evaluate current performance as a predictor of future performance.

(b) It allows the measurement of the deviations or error in estimates.

(c) It helps to establish the degree of relationship and hence, association between variables.

*Disadvantages include:*

(a) Difficulty of calculation.

(b) The behaviour of y may depend on other factors than x.

(c) The estimates may not be reliable. Therefore, they must be tested for reliability.

The results expected from the application of these methods include:

(1) The slope, **b,** and the intercept, **a** of the straight-line equation to be used for predicting the performance of the Federal Inland Revenue Services in terms of revenue generated.

(2) The observed and expected frequencies, $f_o$ and $f_e$ respectively, leading to the calculation of the table value of the chi-square ($\chi^2$) which will in turn be used to decide whether to reject the Null hypothesis.

# CHAPTER FOUR

# DATA PRESENTATION, ANALYSIS AND INTERPRETATION.

## 4.1 DATA PRESENTATION AND ANALYSIS

In this section, the data obtained through questionnaire were presented in tabular form, analyzed and interpreted as follows.

The total number of 60 questionnaire were distributed, only 57 representing 95 percent were completed and returned while 3 representing 5 percent were not collected back.

*Question 1*: Do you consider the provision of Companies' Income Tax Act as amended by Finance (Miscellaneous Provisions) Amendment Decree No 3 of 1993 adequate for proper assessment and administration of companies income tax in Nigeria?

**Table 4.1: Adequacy of CITA Provisions**

| Response | Respondents | Percentage |
|---|---|---|
| Yes | 17 | 30 |
| No | 35 | 61 |
| Not sure | 5 | 9 |
| **Total** | **57** | **100** |

Source: Questionnaire administered, June 2005.

From the above table, 35 respondents which is equivalent to 61 percent considered the provision of Companies Income Tax Act as amended by

Finance (Miscellaneous Provision) Amendment Decree No 3 of 1993 not adequate to guarantee proper assessment and administration of the companies' income tax in Nigeria. 17 respondents or 30 percent were of the opinion that the provision of Companies Income Tax Act is adequate, while 5 respondents were not sure whether the provisions are adequate or not. The general implication of the above is that the provisions of Companies' Income Tax Act need to be looked into with a view to carrying out necessary amendments in order to achieve it purpose.

*Question 2:* If your answer to question 1 above is No, in what areas would you propose amendment?

**Table 4.2: Proposed Areas of Amendment**

| **Areas of Amendment** | **Respondent** | **Percentage** |
|---|---|---|
| a. Rate of penalty and punishment for tax defaulters | 3 | 8 |
| b. Tax rate | 1 | 3 |
| c. Incentives for self-assessment by companies | 1 | 3 |
| d. Administration of justice for Tax offenders | 1 | 3 |
| e. All of the above | 29 | 83 |
| **Total** | **35** | **100** |

Source: Questionnaire administered, June 2005.

Most respondents believed that the proposed areas of amendment should among others affect upward review of the rate of penalty and punishment for tax defaulters, downward review of present companies income tax rate,

increase on the present 1 percent tax rebate given to self assessment companies and quick and proper administration of justice for tax offenders. It was concluded that companies shall be willing to pay their taxes regularly if the amendments to the Act are carried out effectively.

*Question 3:* Does the Federal Inland Revenue Service have the accurate and up to date census of the registered companies under it jurisdiction?

**Table 4.3: Accurate Census of Registered Companies**

| **Response** | **Respondent** | **Percentage** |
|---|---|---|
| Yes | - | - |
| No | 46 | 81 |
| Not sure | 11 | 19 |
| **Total** | **57** | **100** |

Source: Questionnaire administered, June, 2005.

The above table indicated that 46 respondents representing 81 percent were of the opinion that the Federal Inland Revenue Service have no accurate figures of the registered companies under it jurisdiction. While 11 respondents claimed they were not sure whether the accurate census is available or not. The implication of the above analysis is that it shall be difficult if not impossible for the Federal Inland Revenue Service to

properly assess and monitor the collection of income taxes from registered companies in Nigeria.

*Question 4:* What in your own opinion are the reasons why registered companies are paying taxes?

**Table 4.4: Reasons for Payment of Tax**

| **Reason for paying tax** | **Respondent** | **Percentage** |
|---|---|---|
| a. To contribute to government revenue | - | - |
| b. To secure income tax clearance certificate for other uses | 34 | 60 |
| c. (a) and (b) above | 23 | 40 |
| **Total** | **57** | **100** |

Source: Questionnaire administered, June, 2005.

From the above, 34 respondents representing 60 percent believed that the only reason why registered companies are paying taxes in Nigeria is to secure tax clearance certificate for other uses rather than willingly contribute their quotas to government revenue. The remaining 23 respondents or 40 percent believed that registered companies are paying taxes to contribute to government revenue willingly and to secure income tax clearance certificate for other uses. Therefore, something needs to be

done to change their orientations toward willingness to pay income tax and perform other social responsibilities to their host communities in general.

*Question 5:* In your opinion, was there any improvement in the revenue generated via companies' income tax between 1994 and 2003?

**Table 4.5: Improvement in Revenue Generation**

| **Response** | **Respondents** | **Percentage** |
|---|---|---|
| Yes | 39 | 68 |
| No | 18 | 32 |
| **Total** | **57** | **100** |

Source: Questionnaire administration, June, 2005.

Most respondents believed there was an improvement in the revenue generated via companies' income tax between 1994 and 2003. While 18 respondents or 32 percent disagreed that there was no improvement in revenue generated. Hence, there was improvement in revenue generated from companies' income tax in Nigeria during the period under review.

*Question 6:* If your answer to the above question 5 is yes, how would you rate or describe these improvements?

**Table 4.6: Rating of Improvement in Revenue Generation**

| Response | Respondent | Percentage |
|---|---|---|
| Very significant | 22 | 39 |
| Significant | 17 | 30 |
| Not quite significant | 10 | 17 |
| Not significant at all | 8 | 14 |
| **Total** | **57** | **100** |

Source: Questionnaire administration, June, 2005.

From the above, 69 percent of respondents agreed that the improvements are very significant and significant while 31 percent were of the opinion that such improvement are not quite significant and not significant at all.

*Question 7*: Do you think there is an effective operation of the companies' income tax system in Nigeria?

**Table 4.7: Effective Operation of CIT System**

| Response | Respondent | Percentage |
|---|---|---|
| Yes | 14 | 25 |
| No | 36 | 63 |
| Not sure | 7 | 12 |
| **Total** | **57** | **100** |

Source: Questionnaire administered, June 2005.

The above analysis revealed that 36 respondent representing 63 percent claimed that there was no effective operation of companies' income tax

system in Nigeria. While 14 respondents or 25 percent were of the opinion that the system was effective, and the remaining 12 percent were not sure. The general believe is that there was no effective operation of companies' income tax system in Nigeria.

*Question 8:* What do you think is/are the best way(s) to measure the effectiveness of Nigeria's companies' income tax system?

**Table 4.8: Ways of Measuring Effectiveness of CIT System**

| **Measure of effectiveness** | **Respondent** | **Percentage** |
|---|---|---|
| a. Increase in revenue generation | 29 | 51 |
| b. Proper administration of the Act | 5 | 9 |
| c. Willingness of the companies to pay tax. | - | - |
| d. Constant review of the Act | 2 | 3 |
| e. All of the above | 21 | 37 |
| **Total** | **57** | **100** |

Source: Questionnaire administered, June 2005.

The above table revealed that the best way of measuring the effectiveness of the companies' income tax system is through regular increase in revenue generation as pointed out by 29 respondents representing 51 percent. About 21 respondents declared that apart from revenue generation, other factors like proper administration of the Act, willingness of the companies to pay tax and constant review of the Act should also be additional yardsticks.

*Question 9:* Would you say that the revenue generated from companies' income tax between 1994 and 2003 had any impacts on the Nigerian economic development?

**Table 4.9: Impacts of CIT on the Economic Development**

| Response | Respondent | Percentage |
|---|---|---|
| Yes | 39 | 68 |
| No | 18 | 32 |
| **Total** | **57** | **100** |

Source: Questionnaire administered, June 2005.

The table above revealed that 68 percent of respondents were of the opinion that the revenue generated from companies income tax between 1994 and 2003 had impacts on the Nigerian economic development. While the remaining 32 percent of respondents have contrary opinion.

*Question 10*: How significant was this impact?

**Table 4.10: Degree of CIT Impact on the Economic Development**

| Response | Respondent | Percentage |
|---|---|---|
| Significant | 39 | 68 |
| Not quite significant | 12 | 21 |
| Not significant at all | 6 | 11 |
| **Total** | **57** | **100** |

Source: Questionnaire administered, June 2005.

From the above table, 39 respondents believed that the revenue generated from companies' income tax has significant impact on the Nigeria economic development. While the remaining 18 respondents representing 32 percent have contrary opinion.

The implication is that companies' income tax generation and administration have significant impact on the Nigerian economic development.

*Question 11*: Are there impediments to effective assessment and collections of companies' income tax in Nigeria?

**Table 4.11: Any Impediment to Assessment and Collection of CIT.**

| **Response** | **Respondent** | **Percentage** |
|---|---|---|
| Yes | 57 | 100 |
| No | - | - |
| Not sure | - | - |
| **Total** | **57** | **100** |

Source: Questionnaire administered, June, 2005.

The whole 57 respondents representing 100 percent were of the opinion that there are inherent obstacles to effective assessment and proper collection of the companies' income tax in Nigeria.

*Question 12*: What in your own opinion are these impediments to effective assessment and collection of companies' income tax in Nigeria?

**Table 4.12: Impediments to assessment and collection of CIT.**

| **Impediment** | **Respondent** | **Percentage** |
|---|---|---|
| i. Corruption | 5 | 9 |
| ii. Lack of staff motivation | - | - |

| | | |
|---|---|---|
| iii. High tax rate | - | - |
| iv. Non disclosure of the company's actual financial transactions | - | - |
| v. Unwillingness to pay income tax | - | - |
| vi. Lack of up to date census of registered companies | - | - |
| vii. Lack of stiffer punishment for tax offenders | 2 | 3 |
| viii. Lack of separate tax court to by tax offenders | - | - |
| ix. All of the above | 50 | 88 |
| **Total** | **57** | **100** |

Source: Questionnaire administered, June, 2005.

The above table revealed that majority of respondents which is about 88 percent was of the opinion that the impediments militating against effective assessment and administration of companies income tax in Nigeria includes:

a. Corruption;
b. Lack of staff motivation;
c. High tax rate,
d. Non disclosure of the company's actual financial transactions;
e. Unwillingness to pay income tax by companies;
f. Lack of up to date census of registered companies;
g. Lack of stiffer punishment for tax offenders;
h. Lack of separate tax court to by tax offenders;

While 5 and 2 respondents were of the opinions that the major impediments are corruption and lack of stiffer punishment for tax offenders respectively.

*Question 13:* In your opinion, is the anti-corruption crusade of the Federal Inland Revenue Service management yielding favourable impacts?

**Table 4.13: Impacts of Anti-Corruption Crusade of FIRS.**

| **Response** | **Respondent** | **Percentage** |
|---|---|---|
| Yes | 31 | 54 |
| No | 18 | 32 |
| Not sure | 8 | 14 |
| **Total** | **57** | **100** |

Source: Questionnaire administered, June, 2005.

It was revealed from the above table that 31 respondents or 54 percent believed that the anti-corruption crusade of the present management of the Federal Inland Revenue Service is yielding some favourable results. Meanwhile, 18 respondents or 32 percent felt contrary and the remaining 8 respondents were unable to make up their minds as to whether such anti-corruption crusades are yielding impacts or not.

*Question 14*: In your opinion, what percentage of companies' income tax revenue being contributed to the federation Account yearly?

**Table 4.14: Rate of CIT Contributions to the Federation Account.**

| **Response** | **Respondent** | **Percentage** |
|---|---|---|
| a. Between 30 -40 percent | - | - |
| b. Above 20 percent | - | - |
| c. Below 20 percent | 57 | 100 |
| **Total** | **57** | **100** |

Source: Questionnaire administered, June 2005.

The whole 57 respondents were of the opinion that the contributions from companies income tax is usually below 20 percent of total revenue accruing to the Federation Account. This is an indication of heavy dependent on the crude oil and gas as major source of country's revenue which is also an impetus for rapid efforts in revenue diversification of the country.

*Question 15:* In your opinion, can there be further improvements in revenue generation from companies' income tax in future?

**Table 4.15: Possibility of further improvements in Revenue Generation.**

| **Response** | **Respondent** | **Percentage** |
|---|---|---|
| Yes | 36 | 63 |
| No | 18 | 32 |
| Not sure | 3 | 5 |
| **Total** | **57** | **100** |

Source: Questionnaire administered, June, 2005.

The above table revealed that 36 respondents or 63 percent were of the opinion that if those identified impediments are properly addressed, there is room for further improvements in revenue generation from companies' income tax in the near future.

## 4.2 HYPOTHESES TESTING

The study had two hypotheses to test. The approach adopted by the researcher is to take the objective and test the corresponding hypothesis in order to come to a conclusion and draw an inference on the basis of that conclusion. The test of all the hypotheses follows immediately.

*Test of Hypothesis 1*

The second objective of this study is:

To determine the trend of revenue generation via the companies income tax in Nigeria between 1994 and 2003.

To achieve this objective, the researcher formulated the first hypothesis of the study.

The relevant data for the test of this hypothesis were obtained from the responses to questions (5) and (6) in the questionnaire. For this purpose, the first hypothesis is re-stated as follows:

***Hypothesis I:***

Ho: There were no significant improvements in the revenue generated through the companies' income tax by the Federal Inland Revenue Service between 1994 and 2003.

Hi: There were significant improvements in the revenue generated through the companies' income tax by the Federal Inland Revenue Service between 1994 and 2003.

Based on tables 4.5 and 4.6 above, the responses were categorized as YES and NO for the independent variable, the period 1993-2004, while the dependent variable, companies income tax revenue generated was categorized as significant and not significant. Based on the number of questionnaire retrieved, the observed frequency was prepared as shown below in table 4.16.

**Table 4.16: Contingency table of observed frequency**

| **Income Tax Generated** | | | | |
|---|---|---|---|---|
| | | Significant | Not significant | Total |
| Period | Yes | 22 | 10 | 32 |
| 1994 to 2003 | No | 8 | 17 | 25 |
| Total | | 30 | 27 | 57 |

In order to test the hypothesis using the Chi-square ($\chi^2$) method of statistical analysis, it was necessary to compute the Expected Frequency for each of the cells in the contingency table, as well as the value of the chi-square ($\chi^2$). Given that the total number of observations N, is 57, the Expected frequencies were calculated as follows:

For cell $a_{ij}$;

Expected Frequency ($f_e$) = $\frac{\text{Row Total x Column Total}}{\text{Total Numbers of Observations.}}$

Hence for

Cell $a_{11}$, fe = $\frac{32 \times 30}{}$ = 16.84

Cell $a_{12}$, fe = $\frac{32 \times 27}{57}$ = 15.16

Cell $a_{21}$, fe = $\frac{25 \times 30}{57}$ = 13.16

Cell $a_{22}$, fe= $\frac{25 \times 27}{57}$ = 11.84

Next was the computation of the Chi-square ($\chi^2$) value. This is shown below:

**Table 4.17: Computation of chi-square ($\chi^2$)**

| Cell | fo | fe | fo-fe | $(fo-fe)^2$ | $\frac{(fo-fe)^2}{Fe}$ |
|---|---|---|---|---|---|
| $a_{11}$ | 22 | 16.84 | 5.16 | 26.6256 | 1.5811 |
| $a_{12}$ | 10 | 15.16 | -5.16 | 26.6256 | 1.7563 |
| $a_{21}$ | 8 | 13.16 | -5.16 | 26.6256 | 2.0232 |
| $a_{22}$ | 17 | 11.84 | 5.16 | 26.6256 | 2.2488 |
| | | | | $(\chi^2)$ = | 7.6094 |

From table 4.17 above,

$(\chi^2) = \frac{\sum (fo - fe)^2}{fe} = 7.6094$

Where: $f_o$= Frequency Observed
$f_e$= Frequency Expected

Next, the degree of freedom (df) was calculated as follows:

df= (c-1) (r-1)

where: c = No of columns
r = No of rows
.df = (2 – 1) (2-1) = 1

Given that the level of significance = 95%

Then $\alpha$ = 0.05 (allowing a maximum error of 5%).

In order to test the calculated value of chi-square ($\chi^2$) for significance at

df = 1

and

$\alpha$ = 0.05

The table value of $\chi^2$ was obtained to be 3.841 and compared with the calculated value. The calculated value of chi-square was fond to be greater than its table value.

**Decision Rule:**

If the table value of chi-square ($\chi^2$) is less than its calculated value, reject the Null hypothesis.

**Decision:**

The table value of $\chi^2$ (3.841) was less than the calculated value of $\chi^2$ (7.6094).

Therefore, the Null hypothesis was rejected.

**Interpretation:**

The implication of rejecting the Null Hypothesis is the acceptance of the alternate hypothesis. The researcher therefore, concluded that there were significant improvements in the revenue generated through companies income tax by the Federal Inland Revenue Service between 1994 and 2003.

**Test of hypothesis 2:**

The third objective of this study is:

To determine the contributions of the companies income tax to the economic development of Nigeria.

To achieve this objective, the research formulated the second hypothesis of the study. The relevant data for the test of this hypothesis were obtained from the responses to questions (9) and (10) in the questionnaire. For this purpose, the second hypothesis is re-stated as follows:

***Hypothesis 2:***

Ho: Companies income tax administration and its revenue generation did not had any significant impact on the development of the Nigerian economy between 1994 and 2003.

H1: Companies income tax administration and its revenue generation had significant impact on the development of the Nigeria economy between 1994 and 2003.

Based on tables 4.9 and 4.10 above, the responses were categorized as YES and NO for the independent variable, companies' income tax revenue generation and administration, while the dependent variable, Nigerian economic development was categorized as significant and not significant. Based on the number of questionnaires retrieved, the observed frequency was prepared as shown below in table 4.18.

**Table 4.18: Contingency table of observed frequency**

| Nigerian Economic Development | | | | |
|---|---|---|---|---|
| Companies' income tax generation and administration | Yes | Significant 28 | Not significant 12 | Total 40 |
| | No | 6 | 11 | 17 |
| | Total | 34 | 23 | 57 |

In order to test the hypothesis using the chi-square ($\chi^2$) method of statistical analysis, it was necessary to compute the Expected Frequency for each of the cells in the contingency table, as well as the value of the Chi-square ($\chi^2$). Given that the total number of observations, N, is 57, the Expected frequencies were calculated as follows:

Cell $a_{12}$, fe = $\frac{40 \times 34}{57}$ = 23.86

Cell $a_{12}$, fe = $\frac{40 \times 23}{57}$ = 16.14

Cell $a_{21}$, fe = $\frac{17 \times 34}{57}$ = 10.14

Cell $a_{22}$, fe = $\frac{17 \times 23}{57}$ = 6.86

Next was the computation of the chi-square ($\chi^2$) value. This is shown below:

**Table 4.19: Computation of chi-square ($\chi^2$)**

| Cell | fo | fe | fo-fe | $(fo-fe)^2$ | $\frac{(fo-fe)^2}{fe}$ |
|---|---|---|---|---|---|
| | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| $a_{11}$ | 28 | 23.86 | 4.14 | 17.1396 | 0.7183 |
| $a_{12}$ | 12 | 16.14 | -4.14 | 17.1396 | 1.0619 |
| $a_{21}$ | 6 | 10.14 | -4.14 | 17.1396 | 1.6903 |
| $a_{22}$ | 11 | 6.86 | 4.14 | 17.1396 | 2.4985 |
| | | | | $\chi^2$ = | 5.969 |

From table 4.19 above.

$$\chi^2 = \frac{\sum(fo-fe)^2}{fe} = 5.969$$

Where: $f_o$ = Frequency Observed

$f_e$ = Frequency Expected

Next, the degree of freedom was calculated as follows:

df = (2 -1) (2 – 1) =1

Given that the level of significance = 95%

Then $\alpha$ = 0.05 (allowing a measure error of 5%)

In order to text the calculated value of chi-square ($\chi^2$) for significance at

df =1

And

$\alpha$ = 0.05

The table value of $\chi^2$ was obtained to be 3.841 and compared with the calculated value. The calculated value was found to be greater then its table value.

**Decision Rule:**

If the table value of chi-square ($\chi^2$) is less than its calculated value, reject the Null hypothesis.

**Decision:**

The table value of $\chi^2$ (3.841) was less then the calculated value of $\chi^2$ (5.969). Therefore, the Null hypothesis was rejected.

**Interpretation:**

The implication of rejecting the Null Hypothesis is the acceptance of the alternate hypothesis. The researcher therefore, concluded that companies' income tax administration and its revenue generation had significant impact on the development of the Nigerian economy between 1994 and 2003.

## 4.3 THE FEDERAL INLAND REVENUE SERVICE – A PERFORMANCE ANALYSIS.

In this section of the study, the researcher undertakes a performance analysis of the Federal Inland Revenue Service using most of the common parameters or indices for measuring the performance. All the data used in this section were secondary data, which the researcher had obtained from the Central Bank of Nigeria's Annual Report and Statement of Accounts for the period 1994 to 2003 and the budgeted revenue obtained from Federal Ministry of Finance during the same period.

The researcher made use of tables, charts and an application package known as Megastat Version 8.8 for regression analysis for the purpose of data analysis and performance evaluation and prediction.

Table 4.20 and 4.21 show the actual revenue generated from companies' income tax and variance analysis between 1994 and 2003.

**Table 4.20: Actual Revenue Generated from Companies Income Tax**

| Year | Amount N million | Percentage change over the preceding year. |
|---|---|---|
| 1994 | 12,274.8 | - |
| 1995 | 21,878.3 | 78.2 |
| 1996 | 22,000.0 | 0.6 |
| 1997 | 26,000.0 | 18.2 |
| 1998 | 33,315.3 | 28.1 |
| 1999 | 46,211.2 | 38.7 |
| 2000 | 51,147.4 | 10.7 |
| 2001 | 68,660.0 | 34.2 |
| 2002 | 89,104.0 | 29.8 |
| 2003 | 114,800.0 | 28.8 |
| **Total** | **485,391.0** | **-** |

Source: Central Bank of Nigeria Annual Report and Statement of Accounts.

**Table of 4.21: Variance Analysis**

| Year | Actual collection N million | Budget N million | Variance N million |
|---|---|---|---|
| 1994 | 12,274.8 | 7,000 | 5,274.8F |
| 1995 | 21,878.3 | 15,000 | 6,878.3F |
| 1996 | 22,000.0 | 21,000 | 1,000.0F |
| 1997 | 26,000.0 | 23,000 | 3,000.0F |
| 1998 | 33,315.3 | 25,000 | 8,315.3F |

| | | | |
|---|---|---|---|
| 1999 | 46,211.2 | 30,000 | 16,211.2F |
| 2000 | 51,147.4 | 45,000 | 6,147.4F |
| 2001 | 68,660.0 | 70,000 | 1,340.0(A) |
| 2002 | 89,104.0 | 76,000 | 13,104.0F |
| 2003 | 114,800.0 | 90,000 | 24,800.0F |
| **Total** | **485,391.0** | **402,000** | **83,391.0F** |

Source: Central Bank of Nigeria Annual Reports and Statements of Accounts and Federal Ministry of Finance Approved budget.

Key: F= Favourable Variance

(A)= Adverse (Unfavourable) variance

**Table 4.22: Analysis of Companies' Income Tax Revenue Generated to the Federation Account**.

| Year | Federation account revenue N' million | Companies income tax revenue N' million | Percentage of contribution % |
|---|---|---|---|
| 1994 | 115,698.2 | 12,274.8 | 10.6 |
| 1995 | 170.522.9 | 21,878.3 | 12.8 |
| 1996 | 179,000.0 | 22,000.0 | 12.3 |
| 1997 | 208,000.0 | 26,000.0 | 12.5 |
| 1998 | 257,331.4 | 33,315.3 | 12.9 |
| 1999 | 275,801.4 | 46,211.2 | 8.0 |
| 2000 | 1,262,468.3 | 51,147.4 | 4.1 |
| 2001 | 1,599,361.1 | 68,660.0 | 4.3 |
| 2002 | 1,899,500.0 | 89,104.0 | 4.7 |
| 2003 | 2,011,600.0 | 114,800.0 | 5.7 |
| **Total** | **8,280,283.3** | **485,391.0** | **5.9** |

Source: Central Bank of Nigeria Annual Report and Statement of

Accounts.

**Interpretation of Results**

The megastat result of the regression analysis shows the following:

(a) *Correlation Coefficient (r)* = 0.948

This means there is a strong positive correlation between the predicator, year, and the predicated variable, amount of companies' income tax revenue generated.

(b) *Coefficient of Determination ($r^2$):* = 0.898 This means that 89.8 percent of the variations in the companies income tax revenue generated in any year is accounted for the variations in the year.

(c) *Regression Equation*

Companies Income tax Revenue Generated = - N20,723,080.1897 + N10,393.604848 (year).

This means that the amount of companies income tax revenue generated has been increasing at an annual rate of N10,393.604.848 million.

(d) Standard Error of Estimate ($S E_{est}$) = 11,240.876

This means that the estimate produced by the regression model are within N11,240.876 million and N22,481.752 million (N11,240,876 x 2) companies income tax revenue generated.

On the basis of the foregoing, the forecast companies' income tax revenue for the years 2004 and 2005 are:

**2004**

Estimated Companies Income Tax Revenue =

- N20,723.080.1897 + N10,393. 604848 (2004)

= N105,703.9094 million.

**2005:**

Estimated Companies Income Tax Revenue =

-N20,723,080.1897 + N10,393.604848 (2005)

= N116,097.5142 million.

## 4.4 SUMMARY OF FINDINGS

Having analysed the data obtained for the study, tested the two hypotheses and applied the methods of regression analysis to evaluate the performance situation of the Federal Inland Revenue Service, the findings of the study were summarized as follows:

(a) There were significant improvements in the companies income tax generated by the Federal Inland Revenue Services between 1994 and 2003.

(b) Any variation in the companies' income tax revenue in any one year is accounted for by the variations in the year. That is, the events that take place in any year determine the amount of companies' income tax to be generated in that year.

( c) All other things being equal, the companies' income tax generated is expected to continue to grow from year to year at the rate of N10,393,604,848 per annum.

(d) The estimates produced by the regression analysis show that the

variances between actual expected companies income tax are wide. The Federal Inland Revenue Service was only able to meet or exceed its targets in the years, 1994, 1995, 2002 and 2003. While it failed to meet the targets between the years 1996 and 2001.

This however contrast sharply with actual estimates obtained from the approve revenue budget from the Federal Ministry of Finance.

(e) Companies income tax generation and administration had a significant impact on the development of the Nigerian economy between 1994 and 2003.

(f) The Federal Inland Revenue Service have no accurate and up to date census of registered companies under it jurisdiction.

(g) There are factors militating against effective assessment and collection of companies income tax in Nigeria during the period under review.

(h) The contribution of companies' income tax to the total annual federation account revenue felt from 10.6 percent in 1994 to 5.7 percent in 2003.

(i) The registered companies in Nigeria are only paying income tax in order to secure tax clearance certificates for other uses rather then willingness to contribute to government revenue.

(j) That the current Companies Income Tax Act as amended to date needs to be reviewed with a view to remove obsolete and irrelevant provisions.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 SUMMARY

This research study was conducted to assess the revenue performance of companies' income tax in Nigeria between 1994 and 2003. In order to carry out the research study properly, the research work was structured into five chapters. It was also shown, among other things, the trend of revenue generated via the companies' income tax in Nigeria, the contributions of the companies' income tax to the economic development of Nigeria and various factors that militate against proper administration and collection of companies' income tax in Nigeria.

The basic assumptions of this study are that there were significant improvements in the companies income tax generated by the Federal Inland Revenue Service between 1994 and 2003 and that the companies income tax generation and administration had a significant impact on the development of the Nigerian economy during the period under review.

Two hypotheses were formulated and tested and the results show that there were significant improvements in the companies income tax generated and tax generation and administration had a significant impact on the development of the Nigeria economy.

In order to evaluate the performance of the Federal Inland Revenue Service with respect to the administration and collection of the companies' income tax in Nigeria, actual revenue generated from companies' income tax between 1994 and 2003 were used through the regression analysis after which the research findings were summarized.

## 5.2 CONCLUSIONS

In the previous chapter, the two hypotheses of the study were tested and decisions were reached based on each hypothesis. In addition, the regression method of data analysis was applied to the data obtained from the Central Bank of Nigeria Annual Report and Financial Statement on the actual revenue collected from companies' income tax in Nigeria between 1994 and 2003.

The analysis showed that the Federal Inland Revenue Service was only able to meet or exceed its targets in the years, 1994, 1995, 2002 and 2003 while it failed to meet the targets between the years 1996 and 2001. This contrast sharply with actual estimates obtained from the approve revenue budget from the Federal Ministry of Finance.

Having analyzed and interpreted the data obtained, the following conclusions were drawn from the study:

(1) There were improvements in revenue generated from companies'

income tax in Nigeria between 1994 and 2003 but at a decreasing rate.

(2) There are identified factors militating against the effective administration and collection of companies income tax in Nigeria. These are as follows:

(a) Corruption;

(b) Lack of staff motivation;

(c ) Window dressing of companies financial statements;

(d) Lack of up to date census of registered companies by the Federal Inland Revenue Service;

(e) Lack of stiffer punishment for tax offender;

(f) Lack of separate tax court to try tax offenders as quick as possible.

(3) The method being used by Federal Ministry of Finance to determine the expected revenue from companies' income tax in Nigeria have not been subjected to statistical analysis.

(4) Any variation in the companies' income tax revenue in any year is accounted for by the variations in the year.

(5) All other things being equal, the companies' income tax generated is expected to continue to grow from year to year at the rate of N10,393,604,848 per annum.

(6) Companies income tax generation and administration had a

significant impact on the development of the Nigeria economy.

(7) The contributions of companies' income tax to the Federation

Account Revenue have been at declining rate during the period under review.

(8) The registered companies in Nigeria are only paying income tax in order to secure tax clearance certificates for other uses.

## 5.3 RECOMMENDATIONS

Based on the conclusions drawn above, the following recommendations are hereby made:

(1) Government should provides conducive business environment for registered companies to operate and make more profits in order to in turn increase companies' income tax revenue generation.

(2) Government should put up necessary economic measures and reforms to revamp the existing weak and dead companies in the various sectors of the economy to further increase companies' income tax revenue generation.

(3) Government should eliminate the identified factors militating against effective and efficient administration of Companies Income Tax Act for the generation of revenue through companies' income tax in Nigeria.

(4) Government should articulate macro-economic measures designed to stimulate growth and stability in order to forestall any negative variation that might affect the companies income tax revenue generation in any year.

(5) Government should introduce mobile tax courts to try tax offenders to hasten quick dispensation of justice and also serve as deterrent for other tax offenders.

(6) The Federal Ministry of Finance should use more acceptable and objective mathematical model like regression analysis model for determining the estimate of revenue from companies' income tax.

(7) Federal Inland Revenue Service should take proper care of staff welfare, training and remunerations in order to reduce corruption, frauds, and diversion of public revenue for private uses.

(8) Federal Inland Revenue Service is urged to have accurate and up to date census of registered companies under it jurisdiction for efficient and effective assessment, monitoring and collection of companies' income tax.

## 5.4 PROPOSED AREAS OF FURTHER RESEARCH

The researcher wishes to propose further researcher areas as follows:

(a) The impacts of the economic reforms on the companies income tax in Nigeria;

(b) An assessment of companies Income Tax Act in Nigeria – problems and prospects.

## APPENDIX XI

27TH May, 2005

Postgraduate School,
Faculty of Administration
Department of Accounting
Ahmadu Bello University, Zaria.

Dear Respondent,

**REQUEST FOR THE COMPLETION OF RESEARCH QUESTIONNAIRE.**

Attached herewith is a questionnaire containing 15 questions. These questions are aimed at assessing the companies' income tax in Nigeria from 1994 to 2003.

The information obtained through this questionnaire will be used strictly for academic purposes. It will also be kept very confidential.

The researcher will be grateful if you will kindly complete the questionnaire as honestly as possible for the intended purpose by ticking the appropriate box (es) corresponding to each question.

Thank you for your co-operation.

Yours faithfully,

**SALAWU, MOHAMMED OMOTOSHO**
*M.SC STUDENT*

## QUESTIONNIARE

1. Do you consider the present Companies Income Tax Act as amended by Finance (Miscellaneous Provisions) Amendment Decree No. 3 of 1993 adequate for proper assessment and administration of companies income tax in Nigeria?

   Yes ( ) No ( ) Not sure ( )

2. If your answer to question 1 above is No, in what areas would you propose amendment?

   a. Rate of penalty and punishment for tax defaulters ( )
   b. Tax rate ( )
   c. Incentives for self assessment by companies ( )
   d. Administration of justice for tax offenders ( )
   e. All of the above ( )

3. Does the Federal Inland Revenue Service have the accurate and up to date census of the registered companies under it jurisdiction?

   Yes ( ) No ( ) Not sure ( )

4. What in your own opinion are the reasons why registered companies are paying taxes?

   (a) To contribute to government revenue ( )
   (b) To secure income tax clearance certificate for other uses ( )
   (c ) (a) and (b) above ( )

5. In your opinion, was there any improvement in the revenue generated via companies' income tax between 1994 and 2003?

   Yes ( ) No ( )

6. If Your answer to the above question 5 is Yes, how would you rate or describe these improvement?

a. Very significant ( )
b. Significant ( )
c. Not quite significant ( )
d. Not significant at all ( )

7. Do you think there is an effective operation of the companies' income tax system in Nigeria?
   Yes ( ) No ( ) Not sure ( )

8. What do you think is/are the best way(s) to measure the effectiveness of Nigeria's companies' income tax system?
   a. Increase in revenue generation ( )
   b. Proper administration of the Act ( )
   c. Willingness of the companies to pay tax ( )
   d. Constant review of the Act ( )
   e. All of the above ( )

9. Would you say that the revenue generated from companies' income tax between 1994 and 2003 had any impacts on the Nigerian economic development?
   Yes ( ) No ( )

10. How significant was this impact?
    a. Significant ( )
    b. Not quite significant ( )
    c. Not significant at all ( )

11. Are there impediments to effective assessment and collection of companies' income tax in Nigeria?
    Yes ( ) No ( ) Not sure ( )

12. What in your own opinion are these impediments to effective assessment and administration of companies' income tax in Nigeria?

| | | |
|---|---|---|
| (i) | Corruption | ( ) |
| (ii) | Lack of staff motivation | ( ) |
| (iii) | High tax rate | ( ) |
| (iv) | Non disclosure of the company's actual financial transactions. | ( ) |
| (v) | Unwillingness to pay income tax | ( ) |
| (vi) | Lack of up to date census of registered companies | ( ) |
| (vii) | Lack of stiffer punishment for tax offenders. | ( ) |
| (ix) | All of the above | ( ) |

13. In your opinion, does the anti-corruption crusade of the Federal Inland Revenue Service management yielding favourable impacts?

    Yes ( ) No ( ) Not sure ( )

14. In your opinion, what percentage of companies income tax revenue being contributed to the Federation Account yearly?

| | | |
|---|---|---|
| a. | Between 30 – 40 percent | ( ) |
| b. | Above 20 percent | ( ) |
| c. | Below 20 percent | ( ) |

15. In your opinion, can there be further improvements in revenue generation from companies' income tax in future?

    Yes ( ) No ( ) Not sure ( )

## REFERENCES


Abdulrasaq, M. T (1993): Principles and Practices of Nigeria Tax Planning and Management, Batay Law Ppublication Ltd, Ilorin, Nigeria (pp3 -4)

Adesola, S. M (1983): Income Tax and Administration in Nigeria, University of Ife Press Ltd, Ile-Ife, Nigeria.

Agyeman, E. O (1987): Nigeria Taxation Principles and Practice , The Triumph Publishing Company, Nigeria Ltd, Kano, Nigeria.

Aji, S. A (1997): "Taxation as a major Social and Economic Policy", The Potential Accountant Journal, Vol. 1 No. 6 (P.14).

Ani, A. A. et al (1989): Companies income tax and Petroleum Profits Tax in Nigeria; University Press Ltd, Ibadan, Nigeria.

Anonymous (1992): General Tax Guide –Company Income Tax; The Nigeria Accountant Journal, Oct/Nov vol. 35 No 4 (pp32-36)

Ariwodola, J. A (2001): Personal Taxation in Nigeria; J.A.A Nigeria Ltd, Lagos, Nigeria (pp50 – 52).

Ariwodola, J. A (2000): Companies Taxation in Nigeria (including Petroleum Profit Tax), 3rd Edition, J. A. A. Nigeria Ltd, Lagos, Nigeria (pp 21-50, 132-135)

Awen, B. I (2004): An empirical Assessment of performance of firms in the Nigerian Cement Industry, Unpublished M.Sc Thesis, Ahmadu Bello University, Zaria, Nigeria.

Central Bank of Nigeria: Annual Reports and Statement of Accounts for the years ended 31st December, 1998, 2001, 2002 and 2004. C.B.N Abuja , Nigeria.

Dandago. K. I. and Alabede, J. O. (2000): Taxation and Tax Administration in Nigeria; Triumph publishing company Ltd, Kano, Nigeria.

Daniel, G. I (1999): Public Sector Accounting; Ahmadu Bello University Press Ltd, Zaria, Nigeria (pp31 -35)

Drury, C. (1995): Management and Cost Accounting 3rd Edition, Chapman and Hall, London.

Farayola, G. O (1987): Guide to Nigerian Taxes: Allcrowns Nigeria Ltd, Ikeja, Nigeria (pp 197-226)

Federal Government of Nigeria Approved Budget: 1994-2003, Federal Ministry of Finance, Abuja Nigeria.

Federal Inland Revenue Service (1995): The Nigerian Tax Laws, Federal Government of Nigeria.

Federal Inland Revenue Service (2002): General Tax Guide for Tax Administration and Practitioners, (June) Abuja Nigeria.

Federal Inland Revenue Service (2005): New Integrated Tax offices: FIRS News Publications, Vol 1 No 1 (May) (pp7-14).

Ibanga, U. (1987): Statistics for Social Sciences, Faculty of Social Sciences, University of Jos, Jos, Nigeria.

Ishola, K. O (1999): Specimen Questions and Answers on Taxation; Jimsons Nigeria Enterprises, Oyo, Nigeria, (pp 1,2, 137 -152).

Melville, A. (1996): Taxation Finance Account, Pitman Publishing, London (P205)

Ndagi, J. O (1999): Essentials of Research methodology for Business; University Press Plc, Zaria, Nigeria (pp49-93).

Nlewedin, B. O; Research Methods Made Easy General Studies Department, University of Jos, 1987 (unpublished).

Ogundele, B. (1996): Corporate Taxation, Strategy and Planning, University Press Ltd, Ibadan, Nigeria (pp 10-15).

Ola, C. S (1981): Income Tax Law for Corporate and Unincorporated Bodies in Nigeria; Heineman Educational Books Nigeria Ltd, Lagos, Nigeria.

Ola, C.S (1985): Tax Planning and Auditing in Nigeria in Nigeria, University Press Ltd, Ibadan, Nigeria ( pp 7, & 56).

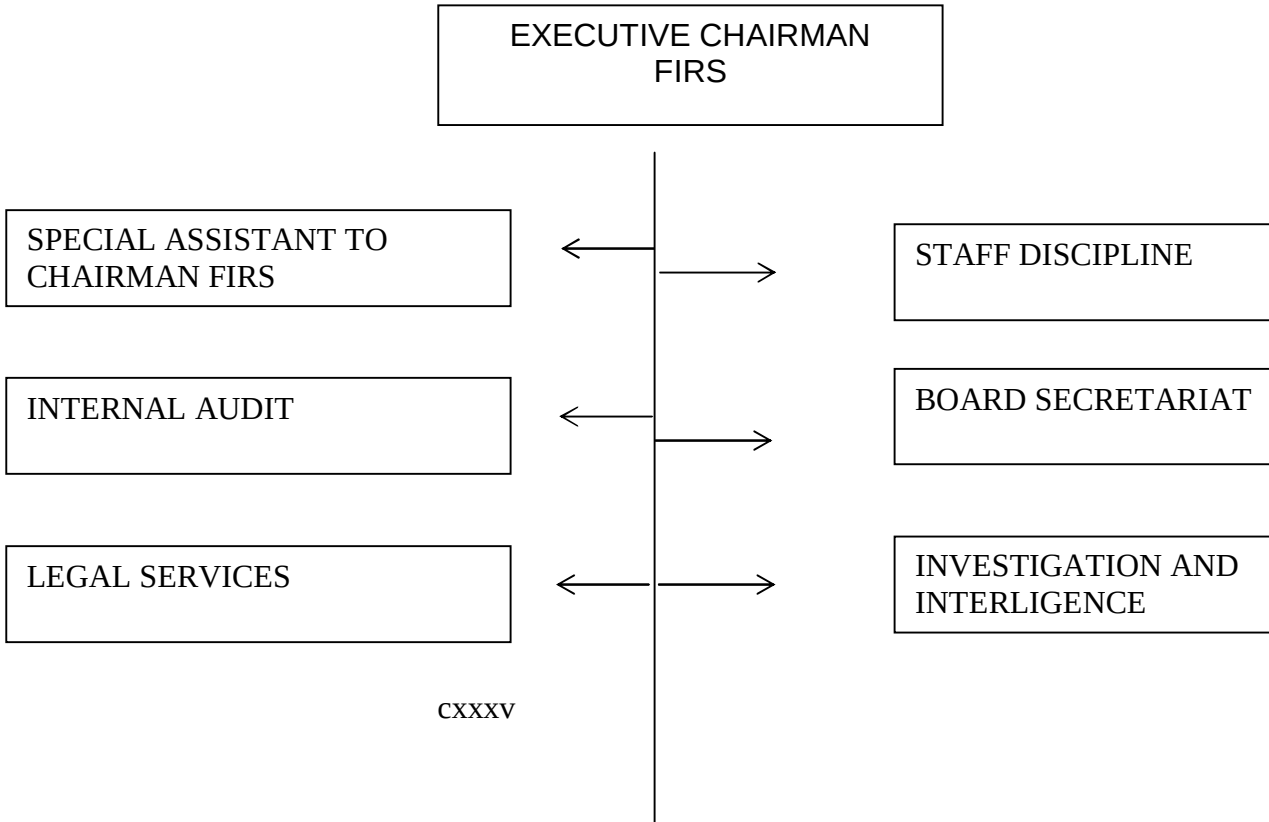
Onochie, V. O (2002): The commencement provisions in the Nigeria Tax laws. The Nigeria Accountant Journal, Oct/Nov. vol 35 No. 4 (pp 32-36).

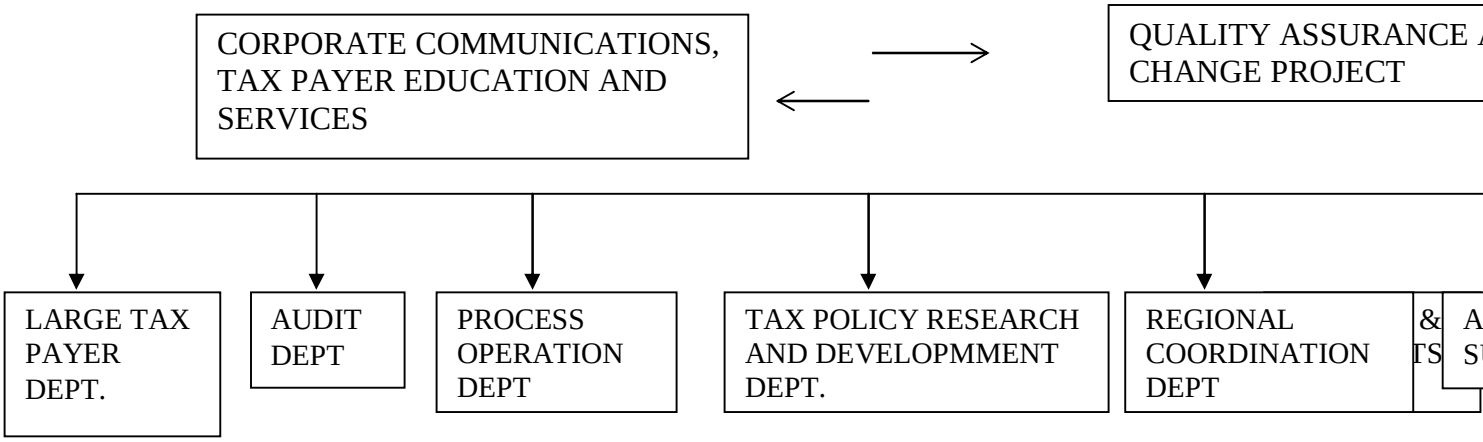
Osuala, E. S. (2001); Introduction to Research Methodology, Africana – Fed publishers Ltd, Onitsha, Nigeria (pp 1-108).

Seyi, Ojo (1999): Issues on Tax Management and Administration; Nigerian Financial Review Vol. 8 No. 1 (March) (pp 49-57).

Yusuf, O. S. (1996): Research Methodology: A Guide to Project Writing in Business and social Science. Jimsons Publishes, Ilorin, Nigeria (pp 18-24).

## APPENDIX 1
## F. I. R. S. ORGANISATION STRUCTURE




CORPORATE COMMUNICATIONS, TAX PAYER EDUCATION AND SERVICES
QUALITY ASSURANCE A
CHANGE PROJECT
LARGE TAX PAYER DEPT.
AUDIT DEPT
PROCESS OPERATION DEPT
TAX POLICY RESEARCH AND DEVELOPMMENT DEPT.
REGIONAL COORDINATION DEPT
&
TS
A
S

107