

# **Taxation and Performance of Manufacturing Companies in Nigeria: Evidence from Flour Mills Plc**

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## **Abstract**

*The study examined the impact of taxation on the performance of manufacturing company in Nigeria from 2005-2021. The study sought to determine if taxation has any impact on the return on asset (ROA) and earnings per share (EPS) using flour mills plc as a case study. The Ex-post research design was adopted and time series data were collected for the study. The ordinary least square regression analysis was used in the analysis. The findings revealed that there is no significant relationship between taxation and the performance of manufacturing company in Nigeria. From the result of the analysis, independent variable of tax showed a weak and negative relationship with ROA and weak and positive relationship with EPS. The study recommends that there should be improvement in the effectiveness of tax administration by ensuring proper assessment. Also, all Relevant Tax Authorities (ROA) should endeavour to have good relationship with the Professional Associations like Chartered Institute of Taxation of Nigeria (CITN) and Institute of Chartered Accountants of Nigeria (ICAN) involved in tax matters so as to increase their support in reducing tax malpractices perpetrated by tax payers with the connivance and often active support of external auditors and tax consultants. Also, the entire tax system as well as the taxes that affect the performance of manufacturing sectors should urgently be overhauled for more effectiveness to achieve the desired results.*

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**Key words:** Tax, ROA, EPS, Manufacturing, Performance

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## **1.0 Introduction**

All over the world, there is a realization that taxation has a significant role to play in the development of the society. But sometimes, tax could also have an adverse impact in the society especially in manufacturing company. Within the last decade the issues of taxation in manufacturing company have attracted considerable attention in many developing societies which Nigeria is inclusive of then.

The impact of taxation in promoting economic growth especially in a manufacturing company setting is not felt primarily due to various reasons which include high tax rate, double taxation and poor tax administration coupled with domestic and financial imbalance confronting them. Due to this many manufacturing companies have been forced to adopt stabilization and adjustment policies which demand better and efficient methods of tax payment with the view to achieving more and better financial stability.

The manufacturing sector of the Nigeria economy is the main driving force of the development process. This is because no sustainable development can be achieved without viable manufacturing sector cannot be achieved without an effective use of tax revenue to provide an enabling environment via good and quality infrastructures such as electricity, good roads for firms to thrive. Taxation is classified into two and this includes direct or indirect tax. Direct tax is a type of tax where the incidence and impact of taxation fall on the same entity. In this case of direct tax, the burden cannot be shifted by the taxpayer to someone else. These are largely taxed on income or wealth. Income tax, corporate tax, property tax, inheritance tax and gift tax are examples of direct tax, levied on individual's income, earning, profits of corporate bodies and institutions. While that of indirect tax, the final consumers bear the ultimate burden such as value added tax, import and export duties.

In recent time, manufacturing companies in Nigeria have been experiencing a decline in performance as a result of poor electricity supply, high rates of exchange, and illicit importation of foreign goods, trade liberalization and low government expenditure. According to Ogbuagu and Ewubare (2007) poor implementation of budget by the government and hindrance in assessing raw material will continuously lead to the poor performance or turnover in the manufacturing sector. In addition, Rasheed (2010) high rate of interest had negatively affected the level of growth of manufacturing companies and it is also the reason for high cost of production in manufacturing companies in Nigeria. Adewuyi (2006) maintained that the decrease in the output of the manufacturing sub-sector was caused by high tax and interest rate, lack of effective utilization of tax, low capacity utilization and low output. However, with the outlines above this brought about the need to examine the impact of taxation on the performance of manufacturing company in Nigeria.

Taxes are raised by the government to generate revenue used to provide basic amenities, which helps to improve the performance position of manufacturing company to make profit. It should be realized that profit is made when total sales revenue exceeds total operating costs but when total operating cost exceeds total sales revenue the business run in lost.

Considering the above, there arises the need for manufacturing companies to strive and adopt all measures and techniques necessary and available to provide profit. A reasonable care should be taken to cut cost and improve the product quality so as to receive the acceptance of the consumer (market). But with rates of taxes imposed, a manufacturing company is bound to ask whether such measure enhance performance of the firm.

It is in the light of the above problem that this present study intends to examine the impact of taxation on the performance of manufacturing company in Nigeria.

## **2.0 Review of related literature**

### **2.1 The concept of taxation.**

This refers to the assessment, collection, and management of taxes in Nigeria. It deals with raising public revenue, managing public expenditure and public debt. Taxation is a payment which cannot be avoided without attracting punishment and in return of which no gain *quid pro quo* is promised by the government to the tax payer. The government is responsible for providing to its citizen's certain public facilities and services such as roads, hospitals, electricity, schools and securities.

According to Onwuka (2007), taxes are the most important sources of government revenue. He defined tax as a compulsory levy imposed by a public authority on incomes, consumptions and production of goods and services. This definition points towards three characteristics of tax viz,

1. It is compulsory contribution imposed by the government on the people residing in the country.
2. Tax is a payment made by taxpayers which is used by the government for benefit of all the citizens.
3. Tax is not levied in return for any specific services rendered by the government to the taxpayer. It implies that a taxpayer cannot claim something equivalent to the tax paid from the government.

### **2.2 Corporate income tax**

According to Albertazzi and Gambacorta (2006). Corporate tax are taxes levied against the income earned by firms during the course of doing business in a given tax period. Corporate taxes are majorly applied to firms making earnings after expenses are deducted from sales.

The concept of corporate tax has different dimensions from a conceptual standpoint (Graham, 2003). This research looks at two-dimensional approach. The first dimension considers corporate tax payers, which is about the evolution of how this tax affects the income of firms whilst carrying out production activities; while the second dimension considers corporate tax based totally on its influence on the way firms are financed. The first and second dimension of corporate tax go hand in hand in influencing the company's performance for a financial decision which is centered on the company's sustainable performance (Graham, 2003).

Harberger (1962), wrote an article called "the incidence of corporation income tax" where he attempted to prove a theory to understand the effect that income tax has on corporation and to determine inferences of this tax. He proposed the general equilibrium nature in which he assumes a two-sector economy, one corporate and other not. In this model, Harberger's theory states that by redistributing the economy's resources the market will move towards a constant equilibrium in the long-run where the elasticity of the substitution between the two goods being consumed.

Feldstern (2008) argues that policy makers when determining tax changes for corporation income tax, focused solely on the effects in personal income tax and should analyse these two aspect separately. He presented a method on how to input the net effect of the changes of the efficient corporate tax rate into individual tax returns by focusing on the difference between real and normal capital income.

### **2.3. Theoretical framework**

#### **Ability-to-pay theory**

Ability to pay theory which was propounded in 1939 by Kaddick is of the assertion that, taxes are based on taxpayer's ability to pay thus there is no quid pro-quo. The underlying principle of this theory is that, taxes paid are seen as a sacrifice by taxpayer, which raises the issues of what the sacrifice of each taxpayer should be and how it should be measured. Base on this the theory has the following principle.

1. Equal sacrifice: this implies that the total loss of utility as a result of taxation should be equal for all taxpayers so that those who can afford to pay higher taxes are made to pay higher than those who cannot afford.
2. Equal proportion sacrifice: the proportion loss of utility as a result of taxation should be equal for all tax-payers such that the payment of taxation should not deprive anybody of what he/she would have previously sacrificed.
3. Equal marginal sacrifice: the instantaneous loss of utility this is measured by the derivative of the utility function as a result of taxation should be equivalent for all taxpayers. This will require the least collective sacrifice.

#### **The expectancy theory of tax**

This study is anchored on the expectancy theory of tax. According to Adam (1776) every tax proposal must pass the test Of practicality and that must be the only consideration government authority should consider in choosing a tax policy. This theory which focuses on the cannon of economy explains the economic, effectiveness and efficiency of tax collection instrument. According to Adam (1776), taxation is seen to provide a powerful set of policy tools to the authorities and such tools should be effectively used for remedy economic and social ills of the study such as income inequalities, regional disparities, and unemployment.

Effective administration of corporate tax in Nigeria can be used as a tool to offset the economic challenges currently facing the Nigeria economy. Chigbu, Eze & Ebimobowe (2012) carried out a study and found out that good corporate administration of tax system increases the revenue base of a country which as a result fosters development and growth of economy.

#### **Resource-based view theory**

Pearce and Robinson (2011) define the resource-based view as a method of analysing and identifying a firm's strategic advantages based on examining its distinct combination of assets, skills, capabilities and intangibles as an organization. This theory views the firm specific factors and their effects on performance. Grant (1991) views the firm as a bundle of resources which it can use to earn above average profitability and it turn settle it tax obligation. Firms develop competencies from these resources and when they are well developed, these the source of the firm sustainable performance.

## 2.4 Empirical review

Adeyeme and Anowai (2016). Examine the growth and performance of the manufacturing companies as it related to tax incentive. They adopted the questionnaire based approach by employing judgmental sampling techniques to generate data from 20 small and medium scale manufacturing companies an Ogun state. The outcome was that 20 small and medium scale manufacturing companies in Ogun state were affected by the tax incentive and also increase in tax incentives led to a corresponding increase in the performance and creation of new manufacturing companies in Nigeria.

Arikpo, Ogar and Comelius (2017) observed the relationship between fiscal policy and output on the performance of manufacturing companies Nigeria from 1982 to 2014. They employed the method of ordinary least square. Data on output of the manufacturing sector, government revenue and spending were used as variables for the model parameters. The study pointed out that an increase in government revenue has a positive impact on performance of manufacturing company in Nigeria within the time reviewed.

Eze and Ogiji (2013) used method of error correction analysis to analyse the impact of fiscal policy and taxation as it affects the manufacturing companies locally between 1990 - 2010. They used government revenue and expenditure as the main explanatory variables while the dependent variable is the manufacturing company. The result showed that government expenditure has a significant position impact on manufacturing companies while government revenue has grossly negative impact on manufacturing company.

In the study of Gatis, Gadzo and Kportorgbi (2013) on the effect of corporate income tax on the financial performance of manufacturing firms in Ghana, it was revealed that there is a significant negative relationship between corporate income tax and financial performance. It also disclosed that firm's size, age of the firm and growth of the firm shows a significant positive relationship with financial performance.

Otwani, Simiyu and Makokha, (2017) investigated the effect of corporate income tax on financial performance of the companies listed on the Nairobi Securities Exchange in Kenya. They used mixed research design. They found out that there is a positive relationship between corporate income tax and financial performance of listed companies on the Nairobi Stock Exchange in Kenya.

Abiahu and Amahalu (2017) exchanged the effect of taxation on the dividend policy of banks in Nigeria from 2006 - 2015, using the Pearson coefficient of correction, and ordinary least square (OLS) regression analysis. Their study reveals a negative significant relationship between tax and dividend policy. Also, it was discovered that tax has a statistically significant effect on dividend policy.

Junaidu and Hawau (2018) assessed the effect of company income tax on the financial performance of listed consumer goods companies in Nigeria from 2006-2016 using regression analysis. They found out that there is an insignificant negative relationship between corporate tax and financial performance using the return on assets as a measure.

Findings from the study of Chen, Ge, Louis and Zolotoy (2019) on stock liquidity and corporate tax avoidance shows firm with higher stock liquidity engaging less in extreme tax avoidance. According to Chen et al (2019), "the effect on stock liquidity on tax avoidance is economically meaningful and robust across alternative measures of tax avoidance and stock

liquidity. Their findings also hold after controlling for potential endogenous effects “. They further document that the effect of stock liquidity on tax avoidance is amplified for firms with high proportion of activist shareholders and alternative for firms with high level of stock price in formativeness.

Mohammad and Ahmed (2019) examined the effect of corporate income tax rate on investment decisions of listed deposit money banks in Nigeria using descriptive research design and panel data generated from annual reports and accounts of the sampled banks covering the periods of 2014 to 2018, the study employed Ordinary Least Square (OLS) regression to analyse the data of their study. Findings of their study indicated that after tax cash flow is the major factor that affect investment decisions of listed deposit money banks in Nigeria and corporate tax rate has no effect on investment decisions of listed deposit money banks in Nigeria as the company income tax rate of 30% has been constant over decades.

Vrzina and Dimitrijevic (2020) analysed the financial performance of agricultural companies and corporate income tax burden of agricultural companies in Vojvodina, as well as its impact on company profitability. They carried out simple descriptive statistics test which showed that effective corporate income tax rate in agricultural companies are significantly lower than that statutory corporate income tax rate. Their result further revealed that, nearly 69% of observation have both a current effective tax rate and cash effective tax rate of 0%, which indicates that agriculture is an industry with an exceptionally low corporate income tax burden. They further used panel regression which showed that agricultural companies with lower effective tax rate. Results of the analysis are not sensitive to changes in corporate income tax burden and profitability proxies.

### 3.0 Materials and Methods

This study is design to investigate the impact of taxation on the performance of manufacturing company in Nigeria. As such, this study focus on manufacturing company using Flour mills data from 2005-2021. In this study, the ex-post research design was employed.

Data collection was simplified, organized and tabulated to make it easier to understand and analyse the data. The data was then analysed using econometric packages. Correlation analysis was used to show how strongly taxation and manufacturing performance are related while regression analysis was used to measure the nature of the relationship between taxation and manufacturing performance.

The model of this study would take the following form;

ROA = f (TAX) ..... i, expressed as;

LOGROA =  $a_0 + a_1 \text{ LOGTAX} + e$  .....ii.

EPS = f (TAX) ..... iii, expressed as;

LOGEPS =  $a_0 + a_1 \text{ LOGTAX} + e$  ..... iv

Where;

EPS = Performance (Earnings per Share)

ROA= Performance (Return on Asset)



Tax = Taxation

$a_0$  = constant term

$a_1$  = coefficient to be estimated

$a_0, a_1 > 0$

$e$  = statistic error term

#### 4. Results and discussion

Table 1: Statistical analysis for model 1

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. regress logroa logtax
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Source	SS	df	MS	Number of obs =	17
Model	.861752883	1	.861752883	F( 1, 15) =	3.94
Residual	3.28154278	15	.218769519	Prob > F =	0.0658
Total	4.14329567	16	.258955979	R-squared =	0.2080
				Adj R-squared =	0.1552
				Root MSE =	.46773

  

logroa	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
logtax	-.7731107	.3895325	-1.98	0.066	-1.60338 .0571582
_cons	3.660081	2.444043	1.50	0.155	-1.549273 8.869436

Source: Researcher's computation, 2022

On the basis of the above result, the regression equation can be written as:

$$\text{LOGROA} = 3.660081 - 0.7731107\text{TAX}$$

From the result of the analysis,  $R^2 = 0.2080 \approx 20.8\%$ . This implies that the independent variable, TAX included in the model is able to explain 20.8% of variation in the dependent variable ROA, while the remaining 79.2% is accounted for by disturbance (error) terms which are accommodated in the model specified.

This implies that the independent variable of TAX showed a weak and negative relationship with ROA.

Also, in the above, the adjusted  $R^2$  is 0.1552 which is less than  $R^2$  value of 0.208. This is because it has been adjusted for independent variable, TAX in association with the dependent variable ROA.

The coefficient of TAX is  $-0.7731107$  which implies that one-percent increase in TAX, will to  $-0.7731107$  percentage in ROA holding all other factors constant.

Following the analysis of the hypothesis, we discover that P-value of TAX is 0.066 and is greater than 0.05 at 95% confidence interval, we have sufficient evidence not to accept the  $H_1$  and accept  $H_0$  and conclude that taxation has no significant effect on return on asset of a manufacturing company. This is in line with the submission of Junaidu and Hawau (2018)

that there is an insignificant negative relationship between corporate tax and financial performance using the return on assets as a measure.

Table 2 Statistical analysis for model 11

. regress logeps logtax

Source	SS	df	MS	Number of obs = 17		
Model	.073209139	1	.073209139	F( 1, 15) =	1.25	
Residual	.877605739	15	.058507049	Prob > F =	0.2809	
				R-squared =	0.0770	
				Adj R-squared =	0.0155	
Total	.950814878	16	.05942593	Root MSE =	.24188	

  

logeps	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
logtax	.2253372	.201444	1.12	0.281	-.2040306	.6547051
_cons	-.9100268	1.26392	-0.72	0.483	-3.604008	1.783955

Source: Researcher's computation, 2022

On the basis of the above result, the regression equation can be written as:

$$\text{LOGEPS} = -0.9100268 + 0.2253372\text{LOGTAX}$$

From the result of the analysis,  $R^2 = 0.0770 \approx 7.70\%$ . This implies that the independent variable, TAX included in the model is able to explain 7.7% of variation in the dependent variable EPS, while the remaining 92.3% is accounted for by disturbance (error) terms which are accommodated in the model specified.

This implies that the independent variable of TAX showed a weak and positive relationship with EPS.

Also, in the above, the adjusted  $R^2$  is 0.0155 which is less than  $R^2$  value of 0.0770. This is because it has been adjusted for independent variable, TAX in association with the dependent variable EPS.

The coefficient of TAX is 0.2253372 which implies that one-percent increase in TAX, will to 0.2253372 percentage in EPS holding all other factors constant.

Following the analysis of hypothesis two, we discover that P-value of TAX is 0.281 and is greater than 0.05 at 95% confidence interval, we have sufficient evidence not to accept the  $H_1$  and accept  $H_0$  and conclude that there is no significant relationship between taxation and earnings per share of a manufacturing company which is in line with the submission of Abiahu and Amahalu (2017) that reveals no significant relationship between tax and dividend policy.

## 5 Conclusion



The objective of the research study was to examine the impact of taxation on the performance of manufacturing company. An extensive research work was carried out on the subject matter. From the analysis of the data collected, it was revealed that the independent variable of tax showed a weak and negative relationship with ROA and also showed a weak and positive relationship with EPS.

Based on the findings of this study, the study recommends that there should be improvement in the effectiveness of tax administration by ensuring proper assessment. Also, the tax execution Relevant Tax Authorities (ROA) should endeavour to have good relationship with the Professional Associations like Chartered Institute of Taxation of Nigeria (CITN) and Institute of Chartered Accountants of Nigeria (ICAN) involved in tax matters so as to increase their support in reducing tax malpractices perpetrated by tax payers with the connivance and often active support of external auditors and tax consultants. Also, the entire tax system as well as the taxes that affect the performance of manufacturing sectors should urgently be overhauled for more effectiveness to achieve the desired results.

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