

Is Company Income Tax Relevant In Capital Structure Decisions?

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Abstract

Capital structure decision is the mix of debt and equity of a company that would ensure an optimal structure. Such optimal level would guarantee maximizing the wealth of the shareholders. The long-standing theoretical base was on the premise that increases in equity ratio- a low geared/leverage structure, exhibit a healthy capital structure. The relevance of company income tax (CIT) on capital structure decisions had been under crucial investigations. While the theoretical arguments for tax sensitivity of capital structures are convincing, empirical findings instead had been, for years, very weak. Two major approaches on capital structure decision, aimed at complementing each other, were the application of behavioural approach and the use of secondary data which dominated most researches. This paper investigates the relevance of CIT on capital structure using behavioral approach. Questionnaire was designed to collect data from 180 companies-91 small scale and 89 medium scales companies-in the South West Zone of Nigeria. Findings revealed that CIT had not been very relevant in capital structure decisions of the companies studied. It was recommended that managers should watch out for other implicit factors and incorporate them apart from much concentration on CIT, in capital structure decisions.

Keywords: Capital Structure Decision, Company Income Tax, Behavioural Approach

Introduction

Most actions of economic entities are influenced by taxes. The effect of government taxation on company financial policy (Dividend, Investment and Capital Structure) still constitutes a comparatively controversial issue in the field of micro economic system. The controversies regarding taxes and company's financial policies have attracted many academic interests. The effect of CIT on capital structure had also been under crucial investigations since the middle of 20th century. An aspect of discussion on financial policy is on capital structure. Capital structure is made up of all the financing resources of a company. It is the mix of long term sources of funds, such as equity share capital, long term preference share capital, debentures, reserves and retained earnings (Pandey, 2003: 718)

This study examines the relevance of CIT on capital structure decisions. Theoretical arguments for the tax sensitivity of capital structures are convincing, empirical findings instead have, for years, been rather weak. The capital structure question has since been concerned with the factors that determine the optimum balance (if any) of equity and debt used to finance companies (Eriotis, Vassilliou and Neokosmidi, (2007). Classical capital structure theorists (e.g. Modigliani and Millan, 1958, 1963) argued that corporate tax affects capital structure. Debt has a tax advantage over equity because interest expenses are deducted before tax rate. The M-M proposed a situation with perfect market without CIT, no transaction cost, and firm would finance with 100 percent debt. When there are bankruptcy costs, or other costs, firm have an optimal capital structure that trades off the cost and benefit of debt. Firms with higher tax rate use more debt (Roslami and Akbarpour, 2012).

The CIT was a private expenditure of public limited companies but public revenue to the government. Taxes are the most important sources of government income. Government fiscal policy has effect on the whole economy. When government increases taxes, it reduces the level of total output in the economy. With reduction in taxes, companies have more profits. Therefore, companies would want to invest more. This would lead to increased production and employment without price increase if some machinery and workers are lying idle. Olayinka and Busari (2001) had earlier provided a clear illustration of the characteristic governance as including excessive government borrowing, rapid monetary expansion and problems in the financial sector, such as inflation, chronic overvaluation of the national currency, reduced export competitiveness, rising huge domestic and external debt overhang, crowding out of private investment and unsatisfactory growth. While some analysts were of the opinion that fiscal deficit could stimulate aggregate demand and set a country on the path of recovery, some justified fiscal deficit as a phenomenon in the course of governance.

The magnitude of fiscal deficit is an index to be considered in justifying fiscal deficit. In line with this, Omojimite and Ibona (2012) reported the present economic reform in Nigeria by the Federal Government as a result of economic instability such as the expanded government spending resulting in large deficits. In view of the private sector economy, it is expedient to look into the effect of CIT on company's financial policy, as regards capital structure planning, more so that the present CIT rate is one of the highest in the world.

Statement of the Problem

The study is designed to determine whether CIT has same relevance on capital structure decisions. Most empirical findings had supported that CIT significantly influence capital structure decisions. These empirical

studies involve the use of secondary data; the primary characteristics the researchers would not know. Hence, there is a missing link by relying on empirical studies with secondary data alone. To complement the studies of CIT and capital structure, a behavioral approach was therefore adopted to overcome the probable demerits of secondary data and then compare results with previous findings.

Objectives of the Study

Generally the study is targeted to evaluate the effect of CIT on capital structure decisions and specifically to:

- i. evaluate whether tax system influence management in equity financing;
- ii. assess whether tax influence debt ratio;
- iii. know how management will respond to decrease in CIT; and
- iv. know whether tax is considered very important factor in raising finance.

Theoretical and Conceptual Issues

What is capital structure?

The balance sheet (statements of assets and liabilities of an organization) is the custodian of the capital structure on one hand, and the real asset structure on the other. "All the financing resources simply make up what is known as capital structure. It is the mix of long term sources of funds; such as equity share capital, long term preference share capital, debentures, reserves and retained earnings" (Pandey, 2003: 718). The choice of the long term financing mix is often called the capital structure decisions, since capital refers to the firm's source of long term financing [Brealy, Myers and Marcus, 2004:8]. Capital structure involves careful and prudent planning because any given structure should be planned to achieve an optimal level. An optimal capital structure guarantees maximizing the market value per share, i.e. the market value of equity relative to total capital employed. It is a long standing theoretical base that increases in equity ratio; a low geared/leverage situation, and exhibits a healthy capital structure. But we need to investigate the source of the increase (or paradoxically, the source of the decrease in leverage ratio). Higher equity ratio may be as a result of an increase in equity or a reduction in non-equity liabilities. Also the increase can be attributable to higher retention ratios.

Capital Structure Decisions

Broadly, a manager must decide when, where and how to acquire funds to meet the firm's capital structure investment needs. According to Pandey (2003: 6), "The central issue before him or her is to determine the proportion of equity and debt. The mix of debt and equity is known as the firm's capital structure". Making an incorrect decision in relation to capital structure results in; losing properties of firm, facing with debt and finally bankruptcy. Firm managers shall select the capital structure to increase the value of firm (Eriotis, Vasilliou and Neokosmidi, 2007)

The use of debt affects the return and risk of shareholders. It may increase the return on equity funds but it always increases risk. The classical capital structure theorist (e.g. Modigliani and Miller (1958, 1963) argued that corporation tax affects capital structure; that debt has tax advantage over equity, and this tax advantage increases with the corporation tax rate, because interest on debts are deductible before tax. These theorists warned that when there are bankruptcy costs or other costs, firms have an optimal capital structure that trades off the costs and benefits of debt.

Pandey (2003) advises that once the financial manager is able to determine the best combination of debt and equity, he or she must raise the appropriate amount through the best available sources. In practice, a firm considers many other factors such as control, flexibility, loan convenience, legal aspects etc. in deciding its capital structure.

Tax and Capital Structure

The theory of tax in relation to capital structure has been in serious debate since early 20th century. Various questions such as whether tax rate changes or affects capital structure decision; in the absence of the traditional tax rules favouring debt financing, and whether leverage ratios of firms will be affected; also, if firms respond to time varying tax incentives, whether firms and financial policies would be significantly sensitive to changes. These issues are germane and the discourse on them is central to corporate finance research. Up till present day, no research has been able to give satisfactory reports on them.

According to Modigliani and Miller (1958, 1963), optimal financing decisions maximize the after-tax value of the firms' total cash-flows. While there is no universal agreement that taxes must be relevant for corporate financing decisions, to this date, the empirical evidence linking corporate income tax rates and capital structure has been weak at best (Berk, and DeMarzo, 2010; Brealey, Myers and Allen, 2010). This issue is not new. In 1984, Myers opines that "I know of no study clearly demonstrating that a firm's tax status has predictable, material effects on its debt policy." Moreover, the empirical relevance of taxes for financing decisions has been the subject of a renewed and heated debate in the light of the recent financial crisis and the

high level of leverage used by many firms. Yet, to this date, “there is no known study that documents tax related time series in debt usage (Graham, 2008)

The theoretical and debatable propositions of Modigliani-Millan (1958) on capital structure presented a fundamental analysis of the capital structure in the absence of taxes. A summary of their arguments was that in a perfect and competitive capital market, the financial decision of the firm is irrelevant. A corollary to this result is that, under these same conditions, the real and financial decisions of the firm are independent and therefore can be made separately. In a perfect market, M-M argued that individual was able to borrow at the same market rate of interest as companies, and in which markets are frictionless. Information is fully disseminated and there are no taxes. They showed that for market prices to be in equilibrium, there is no possibilities for arbitrage existing across firms with equal “Business” or operating risk, the weighted average cost of capital must be the same irrespective of the capital structure of the companies concern. Never the less, the fact remains that there is nothing in the original M-M analysis which makes their debt-equity ratio determinate and it is clear that if the debt-equity ratio is determinate, then there must be other factors at work.

The second analysis was the capital structure decision where tax exists. The theoretical proposition developed under tax absence does not hold in a world where tax exists. Debt finance is relatively cheap because of the tax relief, and consequently equity enjoys a relative value advantage as debt level increase. Myers (1984: 588) explained that no study clearly demonstrates that a firm’s tax status has predictable, material effects on its debt policy. Confirmation of the underlying financial theory has proved elusive; some studies seem to find support for the view that capital structure decisions are influenced by taxation, together with other factors. Even under an individual firm’s possibility of serious tax effect, debt financing cannot be so disproportionate as to render the firm into uncertainty and bankruptcy, resulting in a capital structure with the risk of takeover by creditors.

Chatterjee and Scott (1989) derived a theory of capital structure based on three deviations from the perfect market assumption of M-M (1958) namely:

- i. a net tax effect ;
- ii. bankruptcy and bankruptcy cost;
- iiii. unprotected creditor effect.

Bankruptcy costs are the costs associated with the probability of the firm going into liquidation (a signal of excessively highly geared/leverage structure). The costs of bankruptcy are not statistically significant but they are strong explanatory power in the marginal (implicit) cost of bankruptcy.

The Company Income Tax

Company’s income tax [CIT] is chargeable on the income of all companies operating in the country except those specifically exempted under the CIT Act. There is a clear distinction between Nigerian and non-Nigerian companies. A Nigerian company is that company incorporated under the Companies and Allied Matters Act, 1990, [as amended]. The total profit of such companies are assessable to Nigerian tax irrespective of whether or not all the profits have been derived from, brought into, or received in Nigeria. The CIT was introduced in 1961. The original law (Company Income Tax) has been amended many times and is currently codified as the Company Income Tax Act 1990 (CITA) (Odusola, 2006). The Federal Inland Revenue Services (FIRS) is empowered to administer the tax and is responsible to the Federal Board of Inland Revenue (FBIR). The amendments were explained by Odusola (2006) in such areas as: excess profit tax elimination 1991, capital transfer tax scrapped in 1996. The CIT rate which was 45 percent up till 1986, fell down to 40 percent between 1987 and 1991 and further subsided to 35 percent between 1992 and 1995. From 1996, the CIT rate of 30 percent was charged to date. Odusola (2006) again explains that there is a 20 percent tax concession for companies engaging in agricultural production or mining of solid minerals with a maximum turnover of ₦0.5million and those in manufacturing or the export promotion sector with a turnover not exceeding ₦1.0million. This concession is limited to the first five years of operations. The rates on capital allowance have been reduced continually to reflect the economic reality of the country.

Company’s income tax is chargeable on the following:

- i. The global profit of Nigerian companies irrespective of whether or not they are brought into or received in Nigeria. Dividend 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-Nigeria companies which are assessed at 10 percent (withholding tax rate on gross amount due and only the net is payable to the respective companies.

Small and Medium Scale Companies

The classification criteria for small and medium enterprises (SME) have been subjected to various sectors of the economy's coinage. At international level, classification differs from one country to another. In Nigeria, the various parameters for differentiating small from medium enterprises according to Izedonmi (2008: 45) include:

1. The number of employees
2. The volume of sales or turnover
3. The volume of deposits if it is a bank
4. The amount of insurance cover if it is an insurance business and
5. The value of assets.

Various sectors of the economy in Nigerian had classified SME as in table I below. Such sectors include the Federal Ministry of Industry (FMI), the CBN, the National Economic Recovery Fund (NERFUND) and others.

More than one criterion had been used in classifying the companies sampled under this study into small and medium companies. While small scale companies are easily identified, criteria overlap on the identification of medium and large scale companies. Whatever the case may be, medium scale or large scale dichotomy is absolute rather than relative.

Institution	Asset Value ₦M		Annual T/O NM		No of Employee	
	MSE	<200	MSE	-	MSE	<300
FMI [Fed Min of Ind]	SSE	<50	SSE	-	SSE	<100
Central Bank	MSE	<150	MSE	<150	MSE	-
	SSE	<1	SSE	<1	SSE	-
NERFUND						
	SSE	<10	SSE	-	SSE	-
NASSI	SSE	<40	SSE	>40	SSE	3-35
NASUME	MSE	<150	MSE	<500	MSE	<100
	SSE	<50	SSE	<100	SSE	<50

Source: World Bank, SME Country Mapping 2001 Cited by Izedonmi (2008: 46)

Research Questions

1. What are the major reasons for choosing a particular form of finance in capital structure decisions?
2. Would tax system influence managements' attitude to equity financing?
3. If the important of tax in reusing equity finance is compared with other factors, is taxation Considered very important?
4. Does tax system encourage management to rely more heavily on debt than it would if dividend and interest payment were tax deductible?
5. If CIT was reduced by say, 10 percent, how would that surplus be used?
6. If tax is held constant, what are the other factors considered in raising finance?

Research Hypothesis

The companies' reactions to taxation and incentives were analyzed based on the size of companies. The following hypothesis were formulated by the researcher and tested at 0.05 significant level.

- H₀ = Responses are independent of the size of companies.
 H₁ = Responses are not independent of the size of companies.

Methodology

Research Design

The research design is survey. The Dependent variable is capital structure of selected companies and the independent variable is CIT. Test of independence was designed to evaluate whether responses are affected by the size of companies.

Population

The population consists of all limited liability companies that are liable under the Company Income Tax Act 1990 [as amended] and located in the South West Zone[-Ekiti/Ondo, Lagos, Ogun, Osun and Oyo States]

Sample and Sampling Techniques

The sample size of 180 companies was used in analyzing the Questionnaire. 300 companies were randomly selected but only 180 were usable out of the responses. The pattern of sample composition is on table A and B in the Appendix.

Instrument

A structured questionnaire designed by the researcher and validated was used for the study. There are two sections-Sections A was on socio-demographic characteristics of both the companies and the respondents. Section B contains six test items, each with about four to six alternatives, to evaluate the effect of CIT on capital structure.

Subjects

These were either the manager, Financial Analyst or the Accountant of the companies. Managers were 83 (46: 10%), Financial Analyst/Controllers were 21 (11: 7%), Accountants were 71 (39: 40%) and others were 5 (2.80%) who were senior staff but not any of the target respondents.

Administration of Questionnaire

Research assistants were used by the researcher. These were the Higher National Diploma Students of Accountancy Department Rufus Giwa Polytechnic, Owo. They personally distributed and collected questionnaires. Out of 300 questionnaires distributed, only 180 were usable.

Statistical Design

Percentages were used to analyze responses based on small and medium scales and the control total. Chi-square statistics was used to carry out test of independence in relation to the size of companies.

Presentation and Analyses of Data

The data collected for this study were analyzed and presented under this section based on the research questions and the hypothesis that guided the study. The null hypothesis H_0 is subdivided into H_{01} t H_{06} representing each of the table in tables 1- 6 respectively.

The chi-square measure of each cross tabulation was calculated.

Research Question 1

What are the major reasons for choosing a particular form of finance in capital structure?

Hypothesis H_{01} = Responses are independent of the size of companies.

The alternative with the highest percentage in Table 1 for small scale company is availability of finance with 29.67 percent. For medium scale company, the alternative with the highest percentage was the cost of the particular finance with 31.46 percent. The distribution on the table 1 had a bimodal percentage for overall total of 25.56 and 25.56 for availability of finance and cost of particular finance respectively for small scale and medium scale companies.

The chi-square statistic resulted in a calculated statistics of $X^2_{cal} = 15.02$ and $X^2_{crit} = 14.90$ critical (table) value at the degree of freedom (df) = 4 and significant level, $\alpha = 0.05$. Since X^2_{cal} of 15.02 is greater than X^2_{crit} of 14.90, the null hypothesis is rejected. There is a significant difference in the alternatives accepted by small scale and medium scale companies. Therefore, the responses are not independent of the size of companies.

Research Question 2

Would tax system influence management attitude to equity financing?

Hypothesis H_{02} = Responses are independent of the size of companies.

Table 2 shows graduated alternatives from “very seriously” to “not at all”. The influence of tax system towards equity is a serious one. The overall total percentage of 38.34 accepted “serious influence” and above. Therefore, the popular alternatives were “very seriously” + “seriously” with 38.32 percent.

The chi-square statistics shows the calculated statistics $X^2_{cal} = 5.76$ and the critical (table) value, $X^2_{crit} = 14.9$ at degree of freedom (df) = 4 and significant level, $\alpha = 0.05$. Since the X^2_{cal} of 5.76 is less than X^2_{crit} of 14.9, the null hypothesis is accepted. Therefore, responses are independent of the size of companies. Both small and medium scale firms agreed that tax system seriously influence management attitude to equity financing

Research Question 3

If the importance of tax in raising finance is compared with other factors, is taxation considered to be important?

Hypothesis H_{03} = Responses are independent of the size of companies.

In Table 3 also alternatives were graduated. Both small and medium scale companies accepted that tax is very important and should be considered when raising finances. While 49.45 percent of the small scale companies agreed with this, [extremely imp.=21.98% + very imp.=27.47%] about 4719 percent of the medium scale companies toed the same line if “extremely important” of 19.10% and “very-important” of 28.09% alternatives are added together. The overall percentage of 48.34 accepted that tax is very important and should be considered in raising finance.

The chi-square statistics showed that calculated statistics, $X^2_{cal} = 0.358$ and the critical (table) value, $X^2_{crit} = 14.9$ at a degree of freedom (df) = 4 and significant level $\alpha = 0.05$. Since X^2_{cal} of 0.358 is less than the X^2_{crit} of 14.90, the null hypothesis is accepted. The implication is that if the importance of tax in raising finance is compared with other factors, taxation is considered very important. Therefore responses are independent of the size of companies.

Research Question 4

Does tax system encourage management to rely more heavily on debt than it would if dividend and interest payments were tax deductible?

Hypothesis H₀₄ = Responses are independent of the size of companies.

Table 4 shows the responses under each alternative. Both small and medium scale agreed with the alternative that “policy depends on other factors apart from taxation.” While 57.14% of small scale satisfied with this alternative, 60.67% of medium scale accepted the same alternative. On the total, 58.89% would accept that policy depends on other factors apart from taxation. The chi-square statistics showed that calculated statistics, $X^2_{cal} = 5.0$ and the critical (table) value, $X^2_{crit} = 12.8$ at a degree of freedom (df) = 4 and significant level $\alpha = 0.05$. Since the X^2_{cal} of 5.0 is less than X^2_{crit} of 12.8, the null hypothesis is accepted. Therefore, responses are independent of the size of companies. Both small and medium scale company chose the alternative that policy depend on others factors apart from taxation.

Research Question 5

If company income tax was reduced by, say 10 percent, how would the surplus be used?

Hypothesis H₀₅ = Responses are independent of the size of companies.

Table 5 shows the responses under each alternative. While 34.66 of small scale companies preferred to use the surplus to purchase current assets, 53.93 of the medium scale went for using the surplus on the purchase of fixed assets (investments). The chi-square statistic showed that calculated statistics, $X^2_{cal} = 25.87$, and the critical (table) value, $X^2_{crit} = 12.8$ at a degree of freedom (df) = 3 and significant level $\alpha = 0.05$. Since the $X^2_{cal} = 25.87$ is greater than the $X^2_{crit} = 12.8$, the null hypothesis is therefore rejected. Therefore the choice of the use of the surplus from reduction in company income tax rate is not independent of the size of companies.

Research Question 6

If tax is held constant, what are the other factors considered in raising finance?

Hypothesis H₀₆ = Responses are independent of the size of companies.

The alternative with the highest percentage in Table 6 was the cost of raising finance. Both small scale and medium scale companies agreed with this. While about 31 percent of the small scale company accepted this alternative, 32, 58 of medium scale company did the same. The overall highest percentage was 31.67.

The chi-square statistics from the table showed that $X^2_{cal} = 13.32$ was less than $X^2_{crit} = 18.5$ at the degree of freedom (df) = 6 and the level of significance $\alpha = 0.05$. The null hypothesis is accepted since X^2_{cal} of 13.32 was less than $X^2_{crit} = 18.50$, and it is concluded that responses were independent of the size of companies.

Summary of Findings

1. The reason for choosing a particular form of finance for small scale company depend on availability of finance representing about 30 percent of responses. For medium scale company, reason accepted was the cost of the particular finance making up 31.46 percent of responses.
2. Tax system seriously influence management attitude to equity financing. This option represents 38.32 of responses. Both small and medium scale companies accepted this alternative
- 3 The importance of tax in raising finance compared with other factors revealed that small and medium scale companies agreed on the alternative of “Very important” (at least when extremely important is added). The overall highest response percentage is 48.
- 4 About 58.89 percent of both small scale and medium scale companies, agreed that debt policy depended on other factors apart from taxation.
- 5 If company income tax rate was reduced, 34.66 percent of small scale companies would use the surplus to purchase current assets, while 53.93 percent of medium companies would invest the surplus on fixed assets.
6. The other factors considered in raising finance apart from CIT were the “cost of raising finance”. This alternative was accepted by both small and medium scale companies at 30.77 and 32.58 percent respectively.
7. For hypotheses H₀₂, H₀₃ H₀₄, and H₀₆, responses were independent of the size of companies. The reverse is the case for hypotheses H₀₁, and H₀₅, because the size of companies affects responses.

Discussion of Results

The objective of this paper is to find out whether company income tax is relevant in capital structure decisions. This is more pronounced in medium scale companies than the small scale companies. In most of the cases, both small and medium scale companies responded along the same line. The only two critical areas of company income tax relevance were the views that tax seriously influence management attitude to equity financing. The other side was that tax was very important when compared with other factors in raising finance. Another supplementary finding justifying tax relevance was that all the companies used the surpluses from tax reduction to increase assets thereby reducing debt ratio. The daisy role of CIT in capital structure planning in this study was only vindicating Myers (1984:588) saying that no study has clearly demonstrated that a firm’s tax status has predictable, material effects on its debt policy. Likewise, the empirical submission credited to Berk and De Marzo (2010); Brealey, Myers and Allen (2010), that the empirical evidence linking CIT rates and

capital structure had been weak at best; was also a clear reflection of the present study. Conformation of the underlying theory had proved elusive, while some studies seemed to find support for the views that capital structure decisions are influenced by taxation, together with other factors. This was exactly the evidence in research question 1 and 6 where availability of finance was considered the popular factor apart from taxation in choosing a particular form of finance; and cost of raising finance was considered the best alternative factor, if tax was held constant, in raising finance, respectively.

The hypothesis tested was to ensure whether there is a significant difference in the responses of small scale and medium scale companies, whether the responses are affected by their sizes. [small or medium] The chi-square test had been used to check the consistency of companies' attitude towards taxation and to assess the extent to which companies declared belief in the importance of taxation in small and medium scale companies practice. Both companies agreed in most cases on the status of CIT on capital structure decisions. Results from four out of the six test-items showed that responses were independent of the size of the companies.

Conclusion

This study has beamed its searchlight on whether company income tax was really relevant in capital structure decisions. Unlike some empirical studies that had supported significant relevance, this study has not been able to pin down the significance of CIT with capital structure decisions. Tax effect in the study had been dais, and out of about six (6) test-items putting tax status on probe, only two (2) aspects supported tax relevance. This showed that there were other factors in play when capital structure decisions were under consideration.

Recommendation

The following recommendation was based on the findings from this study. Managers should not concentrate too much on the effect of CIT on capital structure but leap beyond tax factor to evolve a dynamic approach in incorporating other observable and implicit factors with a dovetail analysis for the consideration of optimal capital structures for their companies.

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Appendix

Table 1; What are the major reasons for choosing a particular form of finance in capital structure Decisions?

Alternative	Small		Medium		Total	
	Freq.	%	Freq.	%	Freq.	%
To maintain a reasonable pattern of gearing	6	6.59	18	20.22	24	13.33
Availability of finance	27	29.67	19	21.35	46	25.56
Deduction of interest rates	3	3.0	8	8.99	11	6.11
Favorable market conditions	12	13.18	13	14.61	25	13.89
To reduce borrowing and increase reserves	21	23.08	3	3.37	24	13.33
Cost of particular finance	18	19.78	28	31.46	46	25.56
No response	4	4.39	-	-	4	2.22
Total	91	100	89	100	180	100

Table 2; Would Tax System Influence Management's Attitude to Equity Financing?

Alternative	Small		Medium		Total	
	Freq.	%	Freq.	%	Freq.	%
Very seriously	13	14.28	10	11.2	23	12.78
Seriously	23	25.27	23	25.8	46	25.56
Moderately	27	29.67	36	40.4	63	35.0
Not very seriously	20	21.98	10	11.2	30	16.67
Not all	91	100	89	11.2	18	10.0
Total	91	100	89	100	180	100

Table3; If the Important of Tax in Raising Finance is Compared with Other Factors, is Taxation Considered Important?

Alternative	Small		Medium		Total	
	Freq.	%	Freq.	%	Freq.	%
Extremely important	20	21.98	17	19.10	37	20.56
Very important	25	27.47	25	28.09	50	27.78
Moderately important	34	37.36	36	40.45	70	38.89
Not very important	9	9.89	6	6.74	15	8.33
Not at all important	3	3.30	5	5.62	8	4.44
Total	91	100	81	100	180	100

Table 4; Whether Tax system encourage Management to Rely Heavily on Debt than it would if Dividend and Interest Payment were Tax Deductible

Alternative	Small		Medium		Total	
	Freq.	%	Freq.	%	Freq.	%
Will borrow less	16	17.58	10	15.73	30	16.67
Would still borrow not with standing	19	20.88	10	11.23	29	16.11
Policy depends on other factors apart from taxation	52	57.14	54	60.67	106	58.89
Company policy upheld irrespective of tax incentives	4	4.39	10	12.36	15	8.33
Total	91	100	89	100	180	100

Table 5; If Company income Tax was reduced by, Say 10 Percent, How Would the Savings be used?

Alternative	Small		Medium		Total	
	Freq.	%	Freq.	%	Freq.	%
On fixed assets	21	23.08	48	53.93	69	38.33
On current assets	31	34.66	17	19.10	48	26.67
To reduce liabilities	29	31.87	20	22.47	49	27.22
To pay dividends	10	10.99	4	4.49	14	7.78
Total	91	100	89	100	180	100

Table 6; If tax is held constant, what are other factors considered in raising finance?

Alternative	Small		Medium		Total	
	Freq.	%	Freq.	%	Freq.	%
Proper balancing of debt and equity	9	9.89	20	22.47	29	16.11
Cost of raising finance	28	30.77	29	32.58	57	31.67
State of capital market	16	17.58	11	12.36	27	15.0
Volume of money required	18	19.78	22	24.72	40	22.22
Possible change in the controlling interest of the company	15	16.48	7	7.86	22	12.22
Others	2	2.20	-	-	2	1.11
No response	3	3.30	-	-	3	1.67
Total	91	100	89	100	180	100

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