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Corporate Profitability and Sustainability of Agribusiness Industries in Nigeria: The Tax Effect

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Abstract
Basically, the Companies Income Tax (CIT) policy regimes in Nigeria are divided into two phases, namely, pre-1992 and post-1992 regimes. The CIT policies in the pre-1992 era were narrowly based and characterized by increasing tax rates and overburdening of the taxpayers, which induced negative effects on savings and investment. By constitutional arrangement, the taxation of companies' in Nigeria is vested in the Federal Tax Authorities (Items 58 & 59 of Part I of 2nd Schedule of 1999 Constitution). Thus, irrespective of where a company is domiciled or located in Nigeria, it falls under Federal Tax jurisdiction. Relevant data for the study were provided by accounting/finance officials of seven quoted agribusiness companies in Nigeria. The test of reliability of the research instrument yielded a coefficient of 0.89, which is very high. Data analysis was carried out using tables, frequencies, percentages, correlation, and regression methods. The results indicated that the prevailing tax rate has moderate effect on the profit after tax of quoted agribusiness companies in Nigeria. It is recommended that the relevant tax authorities should provide more efficient incentive reforms to prevent significant adverse effect on the returns agriculture and other peculiar critical sectors of the Nigerian economy.

Key Words Agribusiness, Corporate profitability, Tax structure, Tax system

1. Introduction

Companies' income tax (CIT) was introduced in Nigeria in 1961. The enabling law which is the Companies' Income Tax Act (CITA) has been amended many times. The administration of taxation in the Nigerian nation was originally directed by the Federal Inland Revenue Board (FIRB). However, by the provision of Section 62 of the Federal Inland Revenue Service (FIRS) Establishment Act 2007, the Federal Board of Inland Revenue (FBIR) operates through the agency referred to as FIRS. By virtue of the new law, the agency was made autonomous by the government, making it a body corporate or legal entity that could sue or be sued (Kiabel, 2007). CITA 1990 is under the care and management of the federal tax body which is the FBIR. The FBIR has an operational arm known as the Federal Inland Revenue Service (FIRS) which assists with tax assessment, collection, accounting and administration. The FBIR also has a technical committee which provides professional and technical advice to the FBIR and also makes recommendation where necessary.

Since 1992, measures have been taken to address these structural problems. For instance, excess profit tax was eliminated in 1991, and the capital transfer tax scrapped in 1996. Tax rates on company profits, payable on trade profits and investment income, fell from 45% during 1970 to 1986, when the structural adjustment programme (SAP) was introduced) to 40% between 1987 and 1991, further to 35% for the period 1992-95 and to 30% from 1996 to date. There is, however, a 20% tax concession for certain companies, those engaged in agricultural production or mining of solid minerals with a maximum turnover of N0.5 million and those in manufacturing or the export promotion sector with a turnover not exceeding NI million. The rates on capital allowances have also been reduced continually to reflect the economic realities of the country. The appropriation of all categories of corporate tax by the federal government is also seen as negating the spirit of decentralization, particularly in a federal system such as Nigeria's (Ironkwe, 2011). The taxation of companies' operating at a loss is not only grossly inequitable but also destructive to business enterprise. Nonetheless, it is argued that the penalty for non-compliance within the provision of the Act is low and counter-productive to the goals of the Act. In the light of these sensitive corporate profitability and sustainability issues, this study examined the tax effect on the returns of agribusinesses in Nigeria. The research hypothesis formulated for this purpose is:

RH_0: There is no significant relationship between prevailing CIT rate and profitability of agribusiness companies in Nigeria.

With respect to global competitiveness, the prevailing 30% tax rate for companies is still regarded as one of the highest in the world.

2. Literature Review

Tax rate refers to the amount of tax (usually expressed as a percentage) which is levied per unit of base. The tax base as used here refers to the object upon which a tax is levied Kiabel & Nwikpasi, 2001; Dhaliwal, Erickson & Trezevant, 1999; King, 1974). Thus, the total amount of the tax is equal to the base, times, the rate that is:

$B \times R = T$ and $R = {}^{T}/_{B}$

Where:

R represents the rate,

B represents the base, and

T represents the amount of tax

Rate structure, thus, deals with the behaviour of the rate (R) when the base (B) increases or decreases (Kiabel & Nwikpasi, 2001; Ivkovic, Poterba & Weisbenna, 2004; Fama & French, 1998; Yahia, 1996). Tax rate may, therefore, be classified as *progressive*, *proportional*, *regressive* or *digressive*. In this segment of the review, the progressive and regressive classifications are of critical interest. Essentially, on the one hand, *progressive taxation* exists if the tax rate (R) increases as the base (B) increases. In other words, tax is progressive if the ratio of tax to income increases as income rises. It is a system which taxes on increasing proportion of income as income rises. In most cases, it increases more than proportionately with income. Since progressive taxation helps to redistribute income, it is adjudged to be equitable to some extent. Graphically, progressive taxation is presented herein as Figure 1 below:

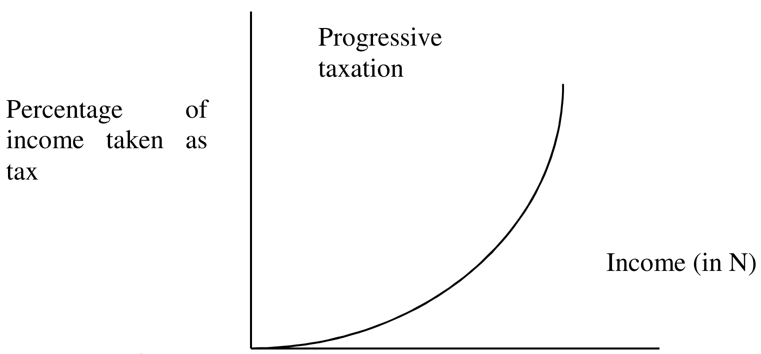

Figure 1: Progressive Taxation

The arguments in favour of progressive taxation are that:

i. It conforms with the ability-to-pay and equal sacrifice principles;

ii. It is advocated on the grounds of social justice as manifested in the ability-to-pay characteristics;

iii. It is a built-in-stabilizer in a market economy;

iv. It is helpful in warding off the ill-effects of social and political unrests, weak health and low productivity of the masses and misuse of a nation's productive resources; and

v. It is administratively convenient.

On the other hand, *regressive taxation* exists if the tax rate (R) decreases as the base (B) increases. In other words, tax is regressive if the ratio of tax to income declines when moving on the income scale. That is, a system which taxes a decreasing proportion of income as it increases (Ironkwe, 2011; Kiabel & Nwikpasi, 2001; Joulfaian & Rider, 1998). Under this system of taxation, a higher amount is taken from the poor than from the rich. The rich pays lower proportion than their poor counterparts. For example, an individual on income base of N500.00 pays N10.00 or 2% while another of on income base of N2,000.00 pays N 10.00 or only 0.5%. As the system manifests, regressive taxation works against the poor in the society. It is as graphically presented in Figure 2 below:

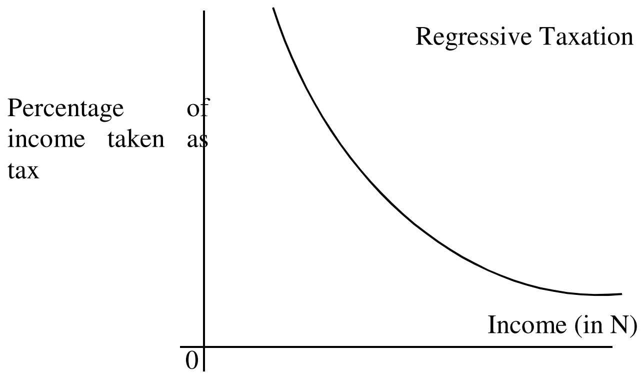

Figure 2: Regressive Taxation

The adoption of the regressive approach relates to property taxes and consumption or sales taxes. The income examined in this study is that which pertains to corporate bodies, which has to do with CIT.

3. Methodology

Seven quoted agribusiness firms operating in Nigeria were involved in this study. They are Afprint Nig. PLC, Ellah Lakes PLC, FTN Cocoa Processors PLC, Grommac Industries PLC, Okitipupa Oil Palm PLC, Okomoko Oil Palm PLC, and Presco PLC. The research instrument administered on key officials of these firms was duly subjected to validity scrutiny. Validity refers to the ability of a research instrument to measure what it is purported to measure. The validity of the scales used in this study was assessed in content and construct. The content validity of a measuring instrument is the extent to which it provides adequate coverage of the investigative questions guiding the study (Ironkwe, 2011; Sidhu, 2002; Zikmund, 1991). If the instrument contains a representative sample of the universe of subject matter of interest, then content validity is good. For this study, content validity is enhanced through the combined processes of logical validation and expert opinion. A careful attempt was made to ensure that the research instrument contains what it is supposed to contain by applying the theoretical knowledge in the field of study and thus being convinced that the items or questions in the questionnaire are logically reflective of the study variables.

This logical validation led to the process of validation through seeking the opinion of experts in the field. To this end, the questionnaire was pretested on accounting officers, internal auditors and accounting lecturers, who are not part of this study population. Through the pretesting, gray areas in the questionnaire such as ambiguity, complex questions, or unclear instructions, among others were detected and addressed. The reliability of this instrument was determined through a pilot survey of 21 respondents drawn from accounting officers and internal auditors as well as accounting lecturers who are not part of the study population. Twenty-eight (28) relevant questions were posed and a test-retest method adopted to ensure suitability. The reliability test result is highlighted in Table 1 below:

Table 1: Reliability Test of Research Instrument

X_1	X_2	X_1-X_2	$(X_1-X_2)^2$
45	52	-7	47
47	47	0	0
38	42	-4	16
0	84	-84	7056
63	0	63	3969
84	42	42	7056
52	21	31	961
47	0	47	2209
38	63	-25	625
42	84	-42	1762
63	21	42	1762
84	0	84	7056
47	21	26	676
83	6	77	5929
3	80	-77	5929
66	21	45	2025
41	84	-43	1849
0	68	-68	4624
6	52	-46	2116
84	5	79	6241
47	21	26	676
80	6	74	5476
31	66	-35	1225
63	6	57	3249
84	21	63	3969
0	66	-66	4356
5	68	-63	3969
28	63	-35	1225
			86053

Source: Survey Data

$$w = 1 - \frac{12(86053}{21^2 x 28(28^2 - 1)}$$

$$w = 1 - \frac{1032636}{9668484}$$

Coefficient of reliability (w) = 0.89

4. Results

From the questionnaire responses, the results are enumerated and provided in Tables 2, 3, and 4. The respondent officials comprising general managers, finance managers, chief accountants, chief internal auditors, external auditors and tax administrators are designated as *a, b, c, d, e,* and *f* respectively; while the response options are strongly agree (SA), agree (A), Disagree (D), strongly disagree (SD), and indifferent (I).

Table 2: Profit After Tax & the Tax Effect

	SA	A	D	SD	I	Average Response	Percentage Response
No of Respondents	**4**	**3**	**2**	**1**	**0**		
a,b,c,d,e,f	A b	c d	e	f	-	2.83	56.67%
a,b,c,d,e,f	B	a c	d	e f	-	2.33	46.67%
a,b,c,d,e,f	B c	a	f	e	d	2.33	46.67%
a,b,c,d,e,f	a b c	d	-	e f	-	3.00	60.00%
a,b,c,d,e,f	a b c e	-	d	-	f	2.17	43.33%
a,b,c,d,e,f	a	b c e	-	-	d f	2.17	43.33%
a,b,c,d,e,f	b c	a	-	-	d e f	1.83	36.67%

Source: Survey Data

Table 3: Return on Investment & the Tax Effect

	SA	A	D	SD	I	Average Response	Percentage Response
No of Respondents	**4**	**3**	**2**	**1**	**0**		
a,b,c,d,e,f	-	a b c	d e	f	-	2.33	46.67%
a,b,c,d,e,f	b c	e	f	-	a d	2.17	43.33%
a,b,c,d,e,f	b c d	a	e f	-	-	3.17	63.33%
a,b,c,d,e,f	a	b	c	d	e f	1.67	33.33%
a,b,c,d,e,f	c	b d	e	-	a f	2.00	40%
a,b,c,d,e,f	-	a b c d e	-	f	-	2.67	53.33%
a,b,c,d,e,f	b c	a	-	-	d e f	1.83	36.67%

Source: Survey Data

Table 3: Return on Equity & the Tax Effect

	SA	**A**	**D**	**SD**	**I**	**Average Response**	**Percentage Response**
No of Respondents	**4**	**3**	**2**	**1**	**0**		
a,b,c,d,e,f	B C	-	a d	E F	-	2.33	46.67%
a,b,c,d,e,f	C	b	a d e f	-	-	2.50	50.00%
a,b,c,d,e,f	A B	c f	d e	-	f	3.00	60.00%
a,b,c,d,e,f	A b c	d	e	F	-	3.00	60.00%
a,b,c,d,e,f	D	a b c	e f	-	-	2.83	56.67%
a,b,c,d,e,f	A B	-	-	E F	c d	1.67	33.33%
a,b,c,d,e,f	-	b c	d	e	a f	1.50	30%

Source: Survey Data

The results of the test of the research hypothesis are as follows:

Variables	*Statistics*
R	0.660
R^2	0.436
t	-2.37
P-value	0.822
Partial regression	6.716

5. Discussion

Generally, income taxes are usually progressive in nature. Thus, if N1,000 income base is taxed at a 1% rate, N10,000 income may be taxed at 3%, N20,000 income at 6% and so on. Rate structures in Nigeria tax laws are rather complicated by the use of the bracket system, by which rather than one rate applying to a total; different rates are applied to different parts of income. For instance, the progression scale applicable to the Federal Republic of Nigeria regarding personal income tax (PIT) over the years is highlighted below:

Taxable income		*Percent*
First	N2,000.00	10
Next	N2,000.00	15
Next	N2,000.00	20
Next	N2,000.00	25
Next	N2,000.00	30

Next	N5,000.00	35
Next	N5,000.00	40
Next	N10,000.00	45
Next	N10,000.00	50
Next	N40,000.00	55

This bracket system is adopted in order to obtain a smooth progression. The *notch problem* or operational challenge that the government experiences when it graduates a tax by totality usually intensifies without such a bracket system (Kiabel & Nwikpasi, 2001; Eichner & Sinai, 2001; Uwieo, 1999; Welkazi, 2006). There are principally three ways of measuring the degree of progression, viz:

i. The average rate progression, which is the ratio of change in effective rate to change in income;

ii. The liability progression, which is the ratio of percentage change in liability to percentage change in income; and

iii. The residual income progression, which is the ratio of percentage change in after-tax income to percentage change in before tax income).

When applied to discrete income intervals the corresponding formulae for the average rate, liability, and residual income progressions are as specified below:

a. $$\frac{\frac{T_1}{Y_1} - \frac{T_0}{Y_0}}{Y_1 - Y_0}$$

b. $$\frac{T_1 - T_0}{T_0} \frac{Y_0}{Y_1 - Y_0}$$

c. $$\frac{(Y_1 - T_0) - (Y_0 - T_0)}{(Y_0 - T_0)} = \frac{Y_0}{Y_1 - Y_0}$$

In the above functions, Y_0 and Y_1 are the lower and higher levels income and T_o and T_1 are the corresponding tax liabilities. The proportional and digressive classifications of taxation are equally of interest to analysts. Basically, *proportional taxation* exists if the tax rate (R) remains constant as the base (B) increases. In other words, tax is proportional if the ratio of tax to income remains constant when moving up the income scale. That is, a tax which is levied at the same rate at all income levels. Thus, each person pays the same proportion of his income, irrespective of amount of his income. For example, a person on N1,000.00 income base per annum pays 10% (N100.00) and another person on N10,000 income base per annum pays 10% (N1,000.00). This system of taxation is not equitable since it fails to redistribute income in favour of the poor. Graphically the proportional taxation is as shown in Figure 3 below:

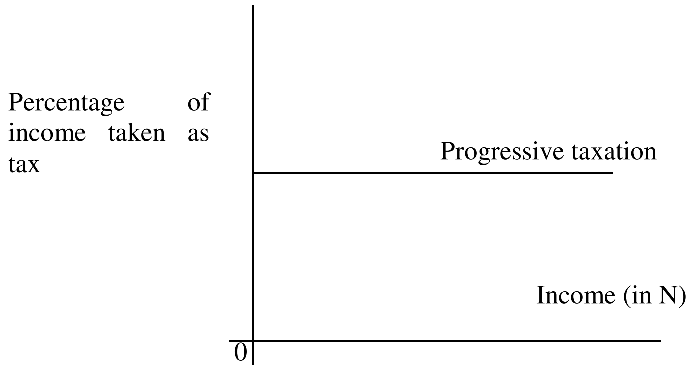

Figure 3: Proportional Taxation

Arguments in favour of proportional taxation are that:

i. It is advocated mainly because of our inability to decide upon a precise and appropriate degree of progression.
ii. It is administratively simple, easily decided and enforced, especially because complicated rate schedules and a degree of progression in each tax is not to be worked out.
iii. It does not change the relative position of different taxpayers. It is *neutral* in terms of allocation of resources of the economy to different uses.

The *digressive taxation* is in a class of its own. It exists if the tax rate increases at a decreasing rate as the base increases. In other words, a tax is digressive if the acceleration rate becomes constantly less as the base increases.

6. Conclusion

In practice, income tax schedules are usually digressive since they flatten out at the top, applying higher rates to wider brackets until finally all income over a certain figure become taxed at a constant marginal rate. This is the case with the Nigerian income tax structure as indicated by prevailing approved rates. In accordance with Section 8 (1) of CITA 1990, tax shall be paid for each year of assessment upon the profits of any company accruing in, derived from, brought into or received in Nigeria in respect of the following:

i. Any trade or business;
ii. Rent or any premium arising from property;
iii. Dividends, interest, royalties, discounts, charges or annuities;
iv. Any profits or gains not falling within the preceding categories;
v. Any amount deemed to be income or profit is under a provision of CITA 1990 or, with respect to any benefit arising from a pension or provident fund of the Personal Income Tax Decree (PITD) 1993;
vi. Fees, dues and allowances (wherever paid) for services rendered; and
vii. Profits or gains arising from the acquisition and disposal of short-term money instruments such as Federal Government Securities.

In line with the provisions of Section 19(1) of CITA 1990, it is recommended that relevant tax authorities should enhance the financial fortunes and prospects of agribusiness by upholding the relevant exemption of profits so specified. The comprehensive related statutory provisions specify that:

i. The profits of any company being a statutory or registered friendly society, provided such profits are not derived from any business carried on by the society;
ii. 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 business carried on by such societies;
iii. The profits of any company engaged in ecclesiastical, charitable or educational activities of a public character provided such profits are not derived from a business carried on by such company;
iv. The profits of a company formed for the purpose of promoting sporting activities, provided such profits are wholly expendable for such purpose;

v. The profits of any company being a trade union, registered under the Trade Union Act, provided such profits are not derived from any business carried on by the trade union;
vi. The profits of any corporate body established by or under any local government or edict in force in any state in Nigeria;
vii. Dividends derived by any company from another company incorporated in Nigeria;
viii. 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, not being profits derived from any business carried on by that company or corporation;
ix. The interest on deposit accounts of any foreign non- resident company, provided the deposits into the account are transfers wholly of foreign currencies of Nigeria on or after 1st January, 1990 through approved government channels;
x. The profits of any company whose supplies are exclusively inputs to the manufacturing of products for export provided the exporter gives the stipulated requirements.

In the light of the outcomes of the study, meaningful contribution has been made towards better understanding of the impact of taxation on the financial performance of agribusiness. As agribusinesses in Nigeria continue to advance operationally, it is necessary to reexamine the dynamics of the variables considered in this study to ascertain if the tax effect has changed from moderate to significant or insignificant. Fundamentally, future research should among other things equally address the impact of tax incentives on the financial performance of agribusinesses United Nations, 2010; Yahia, 1996). This will go a long way in determining the extent to which tax incentives positively impacts on the financial performance of agribusinesses. While this study had concentrated on agribusinesses, it is that future endeavours may be directed at other key industries in the Nigerian economy, such as those relating to food and beverages, chemicals and paints, and allied commercial/industrial organizations.

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