Impact of Company Income Tax on Gross Domestic Products in Nigeria

Osho, Augustine E. *Ph.D*
Department of Accounting, Achievers University, P. M. B. 1030, Owo, Nigeria
E-mail: droshoaugustine@yahoo.com
&
Omotayo, Adebola Dorcas
Accounting Department, The Children Practice Limited, Ikoyi, Lagos, Nigeria
E-mail: adebolaoregbemi@yahoo.com
&
Ayorinde, Florence Mojisola
Accounts Department, Achievers University Limited, P. O. Box 22600, Ibadan, Nigeria
E-mail: fmmojilove@yahoo.com

Abstract
This study examined empirically the impact of company income tax on gross domestic products in Nigeria. The motive of the study was to examine how company income tax revenue has contributed to gross domestic products in Nigeria. Secondary data was obtained from relevant literatures, Central Bank of Nigeria Statistical Bulletin and National Bureau of Statistics publications. Ordinary Least Square Linear Regression model is used to test the related data extracted from the Central Bank of Nigeria Statistical Bulletin and National Bureau of Statistics. Findings revealed that company income tax revenue has a positive and significant effect on gross domestic products in Nigeria. The study concluded that company income tax revenue plays a crucial role in the economy activity and making funds available in the government purse that can be used to adequately execute massive projects to the benefit of the citizens of the country. It is recommended that Government should endeavour to support companies by providing basic public amenities to all nooks and crannies of the country as this will boost the level of tax compliance in Nigeria.
Keywords: Company Income Tax, Gross Domestic Products, Taxation,

1.0 Introduction

Tax is a levy or contribution of money enacted pursuant to legislative authority. If there is no valid statute by which it is imposed; a charge is not tax. Therefore, it is charge based on valid statute in accordance with some reasonable rule of apportionment on persons or property within tax jurisdiction. Abiola and Asiweh, (2012) support tax as an instrument of social engineering which can be used to stimulate general or special economic growth. Structure among the various tax structures in Nigerian economy is company income tax. By virtue of section 8 (1) of the Companies Income Tax Act (CITA) 1990, taxes are payable as specified upon profits of any company accruing in, derived from, brought into, or received in Nigeria in respect of amongst others, any trade or business for whatever period of time the trade or business may have been carried out. As at date, companies' income tax is 30 per cent of assessable income.

According to Adebisi and Gbegi, (2013) deemed tax is primarily payable on profits at the companies income tax rate of 30 per cent. However, as foreign companies liable to such tax do not ordinarily operate in Nigeria, and thus account to the Federal Board of Inland Revenue (FBIR) with full accounts, the FBIR is permitted by law to deem a position of the foreign company's turnover or gross income as profit.

Therefore the deemed income of the company will be 20 per cent of the turnover. Such deemed income so assessed will itself be liable to tax at the current companies tax rate of 30 per cent, which final assessment will amount to 6 per cent of total income. Effectively, the company will be assessed for income tax at 1 per cent of its turnover, as 5 per cent would have been withheld. Section 57 CITA 1990 mandates companies operating in the Nigerian Stock Exchange to file monthly returns with the Federal Board of Inland Revenue not later than 7 days after the end of each calendar month.

2.0 Literature Review

2.1 Conceptual Framework

2.1.1 Concept of Taxation

Taxation is a compulsory but non-penal levy by the government through its agent on the profits, income, or consumption of its subjects or citizens. It is also viewed as a compulsory and obligatory contribution made by individuals and organization towards defraying the expenditure of government (Ehinomen & Adeleke, 2012).

Okafor, (2012) is of the opinion that tax is a charge levied by the government on the income or wealth of a person or corporate organization for the common benefit of all. The term does not include specific charges made against a particular person or properties for current or permanent benefits and privileges accruing only to those paying such charges.

Similarly, Omotoso, (2001) defines taxation as the transfer of real economic resources from private sector to the public sector to finance public sector activities. Based on this assertion, taxation is the transfer of financial resources from private economic agents like households and corporate bodies, to the public sector to finance the development of the society. Going by the definition of taxation, Sharodi, (2010) identified four key issues which must be understood for taxation to play its functional roles in any society. First, a tax is a compulsory contribution made by the citizens to the government and this contribution is for general common use. Secondly, a tax imposes a general obligation on the tax payer. Thirdly, there is a presumption that the contribution to the public revenue made by the tax payer may not be equivalent to the benefits received. Finally, a tax is not imposed on a citizen by the government because it has rendered specific services to him or his family. Therefore, a good tax structure plays a multiple role in the process of economic development of any nation which Nigeria is not an exception (Appah, 2010).

Taxes can be structured into direct and indirect. There are different components of direct taxation which includes the personal income tax, petroleum profit tax, company income tax and educational tax. The different components of indirect taxation in Nigeria include, Value Added Tax and Custom and Excise Duty.

2.1.2 Company Income Tax Administration in Nigeria

The current enabling law that governs the collection of taxes on profits made by companies operating in Nigeria excluding companies engaged in Petroleum exploration activities is Companies Income Tax Act, 1990. This tax is payable for each year of assessment (based on actual year) of the profits of any company at a rate of 30 per cent. According to Ola, (2004), companies' income tax administration in Nigeria does not measure up to appropriate standards. He further said that company income tax is a major source of revenue in Nigeria but noncompliance with laws and regulations by tax payers is deep in the system because of weak control. There is the need for a general tax reforms in the Nigerian company income tax system.

Ogbonna and Appah (2016) defined companies income tax as a tax imposed on the profit of companies (excluding profit from companies engaged in petroleum operations) accruing in, derived from, brought into or received in Nigeria in respect of any trade or business, rent, premium, dividends, interest, loyalties and any other source of annual profit. Chigbu and Njoku (2015) denote that company income tax is a tax on profit made by companies. Company income tax is introduced in Nigeria in1961 and administered by the Federal Inland Revenue Services. Since enactment, the law on CIT has passed through series of amendment and the rate of CIT varies according to operation and size of turnover per annum.

Company income tax is imposed on the income of all companies operating in the country except those specifically exempted under the Act. Companies are taxed at a rate of 30 per cent. The income tax is imposed on;

1. The profits of Nigerian companies irrespective of whether or not they are bought into or relieved in Nigeria being Nigerian company incorporated under Companies and Allied Matters Act.

2. The profit of non-Nigeria companies operating in Nigeria. The Non-Nigerian companies are foreign companies as defined by section 54 of the Companies and Allied Matter Act as "any companies or corporation established by or under the law in force in any territory or country outside Nigeria" This means such company is not incorporated under the Companies and Allied Matters Act.

3. Dividend, interest or royalties due to non-Nigerian companies which are assessed at 10 per cent (withholding tax rate) on the net is payable to the respective companies.

On the tax chargeable, section 9 (1) of the Companies Income Tax Act 2007 provides that Subject to the provisions of this Act, the tax shall, for each year of assessment, be payable at the rate specified in subsection (1) of section 40 of this Act 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 premium arising from a right granted to any other person for the use or occupation of any property; and where any payment on account of such a rent as is mentioned in this paragraph is made before the expiration of the period to which it relates and is included for the purposes of this paragraph in the profits of a company, then, so much of the payment as relates to any period beginning with the date on which the payment is made shall be treated for these purposes as accruing to the company proportionately from day to day over the last mentioned period or over the five years beginning with that date, whichever is the shorter;

(c) Dividends, interests, royalties, discounts, charges or annuities;

(d) Any source of annual profits or gains not falling within the preceding categories;

(e) Any amount deemed to be income or profit under a provision of this Act or, with respect to any benefit arising from a pension or provident fund, of the Personal Income Tax Act;

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

(g) Any amount of profits or gains arising from acquisition and disposal of short-term money instruments like Federal Government securities, treasury bills, treasury or savings certificates, debenture certificates or treasury bills, treasury or savings certificates, debenture certificates or treasury bonds.

Certainly, the mere existence of provisions on imposition of tax by CITA is not sufficient; strict enforcement of the regulation is the key. According to the Federal Inland revenue service about 30 per cent of companies in Nigeria are involved in tax evasion and also 25 per
cent of registered companies in the country are not paying tax when this is quantified in terms of revenue loss it is worrisome.

The Act, in its provisions, has made available to the FBIR, a manageable system of tax collection. Regrettably however, the typical Nigerian taxpayer, in an attempt to continue operating in business, would rather short-circuit tax laws in any way feasible. The taxpayer often opts to negotiate with corrupt staff in return for some gratification and pay a minimal sum to the coffers of the government.

This is despite the sanctions imposed by the same Act for such conduct. The problem here seems not to be lack of adequate provisions deterring such conduct, but rather the lack of enforcement machinery for the provisions of the Act. The Act simply defined offences but failed to provide machinery for detection of offenders. A well-functioning body of tax investigation is essential for the detection and prosecution of cases of tax fraud. The lack of sufficient capacities in tax administrations reduce the probability of detection that again influences the decision of a taxpayer as to whether to evade or not. Additionally, the legal framework is an important prerequisite for any enforcement activity. For example, the size and nature of penalties that are incurred after evasion has been detected is directly connected to the level of tax compliance. The Act, as it is presently, gives a lot of room for tax evasion and many companies have exploited it to their own advantage. Also the failure of the FBIR to indict and prosecute companies for the offences stated under the Act has further exacerbated the problem. No tax payer has been successfully prosecuted for tax evasion in Nigeria. This is largely because tax authorities at the federal and state levels prefer to institute civil actions to recover any tax due with interest and penalty ostensibly with the aim of meeting their revenue target.

2.1.3 Gross Domestic Products (GDP)

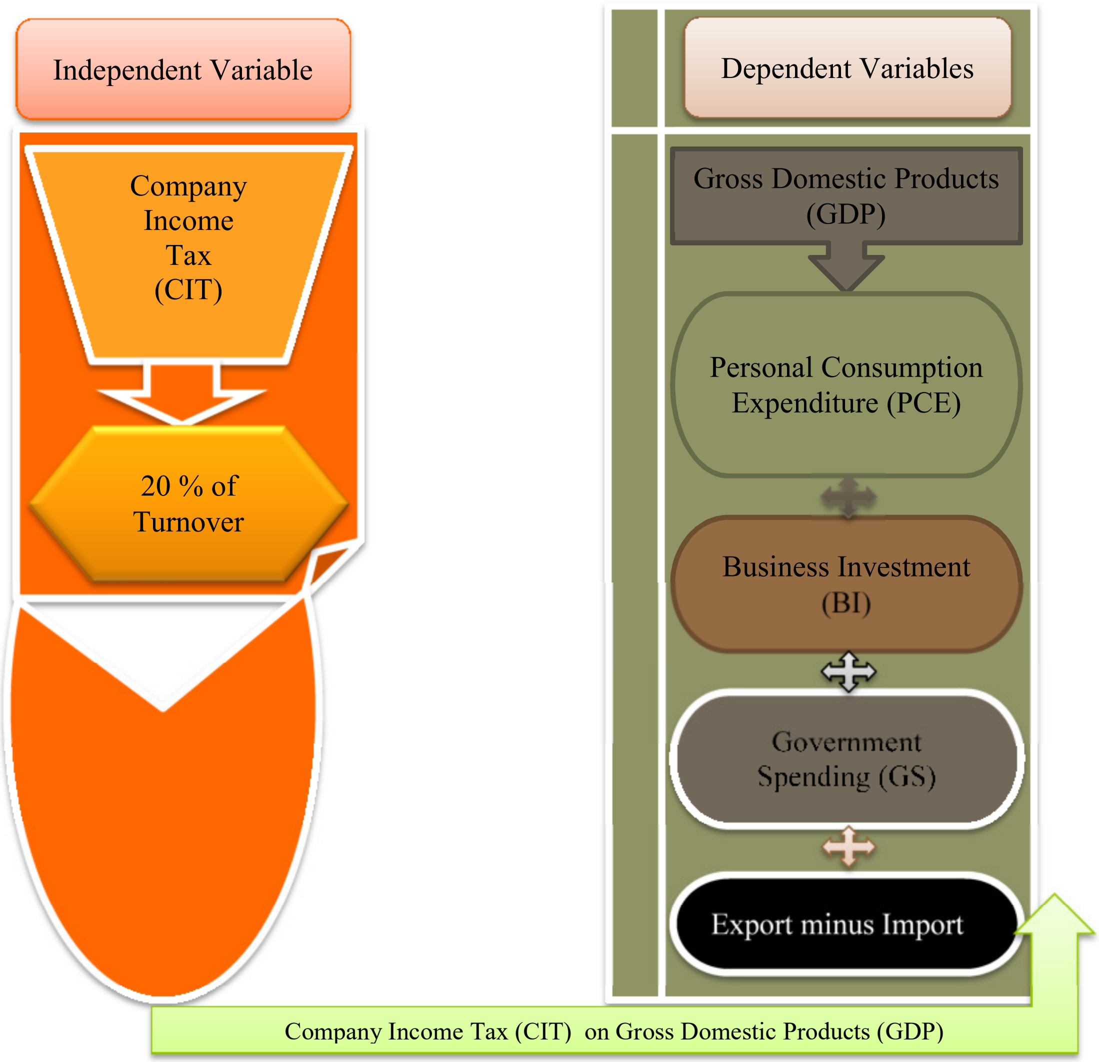
Gross Domestic Product (GDP) is a monetary measure of the market value of all the final goods and services produced in a period of time, often annually or quarterly. "An aggregate measure of production equal to the sum of the gross values added of all resident and institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs)" (OECD, 2014). An IMF publication states that "GDP measures the monetary value of final goods and services—that are bought by the final user—produced in a country in a given period of time (say a quarter or a year)" (Callen, 2016).

According to Dawson, (2006), total GDP can also be broken down into the contribution of each industry or sector of the economy. The ratio of GDP to the total population of the region is the per capita GDP and the same is called Mean Standard of Living. GDP is considered the "world's most powerful statistical indicator of national development and progress" (Lepenies, 2016).

Therefore, the best way to measure a country's economy is through gross domestic product. It is the total value of everything produced by all the people and companies in the country. It does not matter if they are citizens or foreign-owned companies. If they are located within the country's boundaries, the government counts their production as GDP. The only exception is the shadow or black economy. The components of Gross Domestic

Products (GDP) include Personal Consumption Expenditures (PCE) plus Business Investment (BI) plus Government Spending (GS) plus (Exports minus Imports).

2.1.4 Conceptual framework of Company Income Tax on Gross Domestic Products in Nigeria



Source: Researchers' Conceptual framework of Company Income Tax on Gross Domestic Products in Nigeria Model

2.2 Theoretical Framework

2.2.1 Ability to Pay Theory

The most popular and commonly accepted principle of equity or justice in taxation is that citizens of a country should pay taxes to the government in accordance with their ability to pay. Rather than the benefits principle, the "ability-to-pay principle" generally dominates modern equity discussions. Under the ability to pay principle, one with higher incomes should pay more taxes than one with lower incomes. It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual. The fact is that when this theory is put in practice, one difficulty actually begins. The trouble arises with the definition of ability to pay. The economists are not unanimous as to what should be the exact measure of a person's ability or faculty to pay (Naiyeju, 1996).

2.2.2 Diffusion Theory of Taxation

According to Sule, (1986) diffusion theory of taxation, tax is levied under perfect competition; it gets automatically equitably diffused or absorbed throughout the community. Advocates of this theory, describe that when a tax is imposed on a commodity by state, it passes on to consumers automatically. Every individual bears burden of tax according to his ability to bear it. Assuming a specific tax is imposed on cloth, manufacturer can raises prices of commodity by the amount of tax and consumers buy commodity according to their capacity and thus share burden of tax. In the words of Mansfield: It is true that a tax laid on any place is like a pebble falling into a lake and making circles till one circle produces and gives motion to another.

2.2.3 Benefit Theory of Taxation

According to Nwankwo, (1992), this theory states that the more benefits a person derives from the activities of the state, the more he should pay to the government. If, in accordance with the “benefits theory of taxation,” we conceive of taxes as payments in exchange for government benefits, perhaps states should be obliged to confer personal tax benefits on residents who contribute to their tax coffers. The benefits theory would imply that a resident should be able to collect personal tax benefits to the extent that her tax payments to the source state exceed the money value of any source state government benefits she already receives, including infrastructure, regulated labour and capital markets, and so on.

2.3 Empirical Review

Lababatu (2014) examined tax revenue and economic growth in Nigeria. The main objective of this study is to explore the relationship between taxation and economic in Nigeria. The study covered the period between 1981 to 2010. The study used petroleum profit tax, company income tax, custom and excise duty and value added tax while gross domestic product was employed as the dependent. Multiple linear regression analysis was used to analyze the data by employing the use of Vector Error Correction Model. The findings reveal that petroleum profit tax, company income tax and value added tax have a positive impact on Nigeria’s economic growth while custom excise and duties impacted negatively but overall, a significant relationship between tax revenue and the Nigeria economic growth exists. The study recommends that only skilled and professionals and trustworthy hands be responsible for tax administration.

Okoli, Njoku and Kaka (2014) examined taxation and economic growth in Nigeria using Granger causality approach. The study covered the period 1994-2012. Taxation was disaggregated into: Value Added Tax, Personal Income Tax, Company Income Tax and Petroleum Profit Tax, while the Gross Domestic Product was used as a parameter for measuring economic growth in Nigeria. The data collected were analyzed using the Granger Causality Approach and regression analysis. The results of the analysis reveal that a significant positive relationship exists between Taxation and economic growth in Nigeria. The study also found significant relationship between the disaggregated tax revenue (Value Added Tax, Personal Income Tax, Company Income Tax and Petroleum Profit Tax) and gross domestic product.

Chigbu and Njoku (2015) examined taxation and the Nigerian economy using time series data from 1994 to 2012. The dependent variables used in the model includes: Gross Domestic Product (GDP) as a parameter for measuring economic growth, inflation and unemployment. The objective of this study is to determine how taxation affects these macroeconomic variables. Ordinary least square analysis was employed to analyze the data. The results of the statistical analysis revealed that positive relationships exist between the explanatory variables (Custom and Excise Duties, Company Income Tax, Personal Income Tax, Petroleum profit tax and Value Added Tax) and the dependent Variables (Gross Domestic Product, Unemployment). The individual explanatory variables have not significantly contributed to the growth of the economy; also the explanatory variables have not significantly contributed to the reduction of the high rate unemployment and inflation in Nigeria for the period under review.

3.0 Methodology

This study adopts the exploratory and ex-post facto design. The exploratory design is used to gather relevant materials from text books, journal articles and so on while the ex-post facto design is adopted on the basis that it does not provide the study an opportunity to control the variables mainly because they have already occurred and cannot be manipulated. The data for this study were obtained mainly from secondary sources. In order to examine the impact of company income tax on gross domestic products in Nigeria, information from National Bureau of Statistics concerning Company Income Tax (CIT) and Gross Domestic Product (GDP) covering the the period of years 1993-2017 (25years) is used.

3.1 Model Specification

Guided by the perceived functional relationship between the matrixes of Gross Domestic Products (GDP) and Company Income Tax (CIT) revenue, a link is forged between the two variables. From sub-macro and micro economic perspectives, the model for this work states that Gross Domestic Products (GDP) depends on Company Income Tax (CIT) revenue. The model which is in line with the work of Owolabi and Okwu (2011) is a modified form of the model specified by Golit (2008) in his study of Nigeria's tax efforts. Thus, the functional relationship and the resultant models are as specified below.

GDP = f(CIT)……………………………..... (i)

From the above functional relationship, the stochastic model is specified below:

$GDP_{lt} = \alpha + \beta_{lt}CIT_{lt} + \varepsilon_{lt}$................................(ii)

Where:

GDP= Gross Domestic Product

CIT= Company Income Tax

α = Constant

β_{l},= coefficient of the parameter estimate

ε = error term

4.0 Results

4.1 Test of hypothesis

H_o: Company Income Tax has no significant impact on Gross Domestic Products in Nigeria.

Dependent Variable: GDP
Method: Least Squares
Date: 11/02/18 Time: 09:28
Sample: 1982-2017
Included observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CIT	2.661678	0.714451	3.725488	0.0007
C	17714963	7725191.	2.293143	0.0283

R-squared	0.657064	Mean dependent var	28624420
Adjusted R-squared	0.544733	S.D. dependent var	49660385
S.E. of regression	42292091	Akaike info criterion	38.01354
Sum squared resid	5.90E+16	Schwarz criterion	38.10242
Log likelihood	-663.2370	Hannan-Quinn criter.	38.04422
F-statistic	13.87926	Durbin-Watson stat	1.168844
Prob(F-statistic)	0.000728		

Source: Researchers' E-Views Output Result

From the analysis, the goodness of fit of the model as indicated by R-square shows a good fit of the model. R-Square value of 0.657 or 65.7 per cent indicated that the model fits the data well; the total variation in the observed behaviour of Gross Domestic Products is explained by variation in Company Income Tax up to 66 per cent. The remaining 34 per cent is accounted for the stochastic error term. To test for the overall significance of the model, the ANOVA of the F-statistics is used. To test for the individual statistical significant of the parameters, the t-statistics of the respective variables were considered. Considering their probability values which were automatically generated during the computation process by the Econometric Views (E-Views) software, the constant term is significant at 5 per cent level and GDP is significant at 5 per cent level. The priori expectations about the signs of the parameter estimates were also considered. The study also tests for auto correlation in the residual of the model. Durbin-Watson statistic result was 1.177 which showed that the model is not free from serial correlation of residual because it is less than 2. Therefore, the estimates should be taken with caution.

4.2 Discussion

The study empirically examined the effect of company income tax on gross domestic products of the Nigerian economy. It showed the relationship between incorporated variable; Company Income Tax and Gross Domestic

Products. As can be seeing in the tables above, the positive coefficient of Company Income Tax Revenue confirms priori expectation of a positive relationship between Company Income Tax Revenue and the Gross Domestic Products. In evaluating the model, the R. Squared (which is the coefficient of determination) of 0.657 means that 65.7 percent of variations in the Gross Domestic Products is explained by Company Income Tax Revenue which is impressive. With the probability (F- statistic) value of 0.00, Company Income Tax Revenue is making a unique significant contribution to the economic development of Nigeria and composition of the GDP. The results refuted that a rise in the company income tax revenue leads to an increased gross domestic products. The findings of this study are in agreement with the finding of Okafor (2012) who examined the impact of income tax revenue on the economic growth of Nigeria, adopting the ordinary least square (OLS) regression analysis technique to explore the relationship between GDP (the dependent variable) and company income tax revenue over the period 1981-2007. The regression result indicated a very positive and significant relationship between the components of tax revenue and the growth of the Nigeria economy. These findings have also been supported by Lababatu, (2014) who analysed the examined tax revenue and economic growth in Nigeria. The study used the Ordinary Least Squares Regression technique to analyse the data collected for the study. The result from the test shows that there exists a positive impact Tax Revenue on economic Growth in Nigeria.

5.0 Conclusion

This study examines the impact of company income tax revenue on gross domestic products in Nigeria. It is stated that company income tax revenue plays a crucial role in the economy activity and making funds available in the government purse that can be used to adequately execute massive projects to the benefit of the citizens of the country. The findings of this study have contributed towards a better understanding of company income tax and show it contribution towards growth and economic development of Nigeria. Apparently, the place of taxation in a nation building has been described as irreplaceable.

According to the economic analysis, company income tax revenue remains a strong socio-political and economic tool for economic growth and national prosperity. Although the issue of tax leakages is of global concern the Nigerian situation seems inimitable when viewed against the scale of corrupt practices prevalent in Nigeria. Also, the poor state of the present gross domestic products rate in Nigeria is pointing to the direction of tax leakages in the form of avoidance and tax evasion which the government could minimize if proper tax reform strategies are establish. Therefore, the provision of basic infrastructure is quite necessary for development and growth of any society, and it is only by a good and an efficient tax system can a nation achieve its social responsibility.

The study thus makes the following recommendations:

i) Government should endeavour to support companies by providing basic public amenities to all nooks and crannies of the country as this will boost the level of tax compliance in Nigeria;

(ii) To enhance the tax base of government, employment opportunities should be created and a good environment for entrepreneurship and innovation to thrive made using tax proceeds;

(iii) Government should engage in a complete re-organization of the tax administrative machineries in order reduce tolerable problems of tax evasion and avoidance and;

(iv) The culture of good governance should be embraced by the government so as to secure the loyalty of the populace to good tax culture.

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