

TAX AS A FISCAL POLICY AND MANUFACTURING COMPANY'S PERFORMANCE AS AN ENGINE FOR ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

This study seeks to assess whether tax as a fiscal policy tool affect the performance of the selected manufacturing companies in Nigeria. To achieve the aims of the study, descriptive method was adopted and data were collected through the use of six years financial accounts of the selected companies. The hypothesis formulated for the study was tested with the ANOVA, using the Statistical Package for Social Sciences (SPSS) version 20.0 software package. The study found that Taxation as a fiscal policy instrument has a significant effect on the performance of Nigerian manufacturing companies. The implication of the finding is that the amount of tax to be paid depends on the companies' performances. Based on the findings, it was recommended among others that the government is required to be sensitive to the variables in the tax environment and other macro-environmental factors so as to enable the manufacturing sector cope with the ever changing dynamics of the manufacturing environment.

Keywords: taxation, fiscal policy, manufacturing company's performances.

INTRODUCTION

Taxation as a concept involves more than the mere imposition of the compulsory payment of sums of money by the government or its agents. It is the sum total of the assessment of tax, the imposition of compulsory sums of money by the government or its agents. It is the sum total of the assessment of tax, the imposition of compulsory sums of money by the government or its agencies on individuals and firms, the collection of and the accounting for the levied amounts and the keeping and auditing of tax records (Anyanwuocha, 1993).

One of the remarkable trends in contemporary history has been the importance in the growth of economic life. Any serious discussion of government is bound to raise the question about revenue and expenditure. Through appropriate tax, expenditure and regulatory policies, governments seek to attain certain objectives. The achievement of macroeconomic goals namely, full employment, stability of price level, high and sustainable economic growth and external balance, from time immemorial, has been a policy priority of every economy whether developed or developing, given the susceptibility of macroeconomic variables to fluctuations in the economy. The realization of these goals is not automatic but requires policy guidance. The policy guidance represents the objectives of economic policy (Olawunmi & Ayinla 2007). In a modern economy, no sphere of economic life is untouched by the government. Two major instruments or tools are used by government to influence private economic activity; taxes and expenditure. The effect of taxation covers all the changes

in the economy resulting from the imposition of a tax system. One may say that without taxation, a market economy would not attain certain production, consumption, investment, employment and other similar patterns. The presence of taxation modifies these patterns for good or for bad and such modifications may collectively be called the effect of taxation. Expenditure on the other hand, was meant to directly add to the effective demand in the market and generate a high-value multiplier by distributing income to those sections of the population which had a high marginal propensity to consume.

Government has the responsibility of preventing calamitous business depression by the proper use of fiscal and monetary policy, as well as close regulation of the financial system. In addition, government tries to smooth out the ups and downs of the business cycles, in order to avoid either large-scale unemployment at the bottom of the cycle or raging price inflation at the top of the cycle. More recently, government has become concerned with financing economic policies which boost long-term economic growth. Because of the increasing importance of government conduct in a nation's development process, fiscal policy handles the issues of resource allocation and is preoccupied with the problems of economic growth, economic stability, employment, prices, income distribution and social welfare. Fiscal policy has developed an array of instruments to handle different facets of the economics of public sector. But by the very existence of multiplicity of goals, it is often bedeviled by inherent conflict of objectives; between long-term growth and short-term stability, between social welfare and economic growth, and between income redistribution and production incentives (Samuelson & Nordhaus 2005).

In this case, most of the study had revealed on both negative and positive effects on fiscal policy as it concerned tax matters. For instance, Olusanya, Medunoye and Oluwatosin, (2012) on Taxation as a Fiscal Policy Instrument for Income Redistribution focused on whether taxation as a fiscal policy instrument can be used for income redistribution in Lagos state civil servants in 2012. Zhattau, (2013) on Fiscal Policy as an Engine of Economic Growth in Nigeria review the effect of fiscal policy in Nigeria. Omojimite and Iboma (2012) on their paper focused on Fiscal Deficit and the Productivity of the Nigeria Tax System, 1970-2010. The study however evaluates the link between fiscal deficit and the productivity of the Nigeria tax system between 1970 -2010 using tax buoyancy and elasticity as indexes.

Most studies dwelt on the impact of economic growth, its impact on capital formation, its impact on capital stock, deficit and macroeconomics variables, while studies on manufacturing sector focuses on its productivity and its performance on economic growth, there seems to be little or no attention on the relationship between the company's tax and its performance. The question that prompted this paper is whether there is a relationship between Tax as a Fiscal Policy and manufacturing company's performance in Nigeria. The objective of this study is to determine the significant effect of Tax as a Fiscal Policy on manufacturing company's performance.

REVIEW OF RELATED LITERATURE

Conceptual Review

Taxation plays a very important role in the economic life of a developing country like Nigeria. Today, Nigeria is indeed in dire need of effective and efficient tax system in order to generate enough revenue that will stimulate economic growth and development (Oji, 2000). The productivity of a tax system in yielding sufficient revenue to meet government expenditure simply relates to the concept of efficiency in tax administration and collection.

Two approaches are often used to evaluate the productivity of a tax system (Asher, 1989; Osoro, 1991). These are (1) Tax buoyancy (2) Income elasticity of tax system or simply tax elasticity.

Ariwodola (2001) described tax as a compulsory levy imposed by the government authority through its agents on its subjects or his property to achieve some goals. Arnold and McIntyre, (2002) define tax as a compulsory levy on income, consumption and production of goods and services as provided by the relevant legislation. Tax is a charge imposed by government authority upon property, individuals, or transactions to raise money for public purposes. This definition is however imperfect. The study of the teachings of Christianity, Islamic and other prominent religions in the world shows that tax is a religious duty based on social and civil responsibilities (Agbetunde, 2004).

Geoff (2012) contended that fiscal policy involves the use of government spending, taxation and borrowing to affect the level and growth of aggregate demand, output and jobs creation. It is the government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending, in an effort to control the economy. Fiscal policy is the means by which a government adjusts its levels of spending in order to monitor and influence a nation's economy.

Peter & Simeon (2011) define fiscal policy as the process of government management of the economy through the manipulation of its income and expenditure and to achieve certain desired macroeconomic objectives. Central Bank of Nigeria (2011) defined fiscal policy as the use of government expenditure and revenue collection through tax and amount of government spending to influence the economy. Samuelson and Nordhaus (2002) defined fiscal policy as a government's program with respect to the purchase of goods and services and spending on the transfer of payments, and as well the amount and type of taxes. In finance, fiscal policy is the use of government revenue collection (taxation) and expenditure (spending) to influence the economy. The two main instruments of fiscal policy are government taxation and expenditure. Changes in the level and composition of taxation and government spending can affect aggregate demand and the level of economic activity; the pattern of resource allocation; and the distribution of income (David, 2005; Mark and Asmaa, 2009; Chirag, 2010). This implies that Fiscal policy refers to use of the government budget to influence economic activities for the country.

Empirical studies

Quite number of studies has been discussed about fiscal policy and tax issues on economic growth of the country. In a study by Enahoro and Jayeola on Tax Administration and Revenue Generation of Lagos State Government, Nigeria, the paper examines the overall effectiveness of tax administration in relation to assessment, collection and remittance of tax in Lagos State, Nigeria. A survey questionnaire of the machinery of tax administration was carried out where 130 questionnaires were administered to analyze the opinion of civil servants directly connected with tax administration in the five Local government areas of Lagos State (Somulu, Mushin, Ikeja, Kosofe & Surulere). Hypothesis tested for the relationship which exists between tax administration, tax regulation and revenue generation. The Kendall measure was adopted and finding is that the tax administration in Lagos state is not totally efficient. Hence, tax administration affects the revenue generated by the government; also, there is a significant relationship between tax administration, tax policies and tax laws. The study therefore recommends that Lagos State Government could put in

place a tax system that can enhance better administration of tax systems and tax collections should be left in the hands of private organizations.

In a related study by Nwabueze (2000) in his paper presentation on the topic "stimulating economic growth through an efficient tax system" asserts that the use of tax in national development is increasing and that further introduction of new technology will ensure its continued growth and influence in stimulating economic growth and development. He stressed further that "the real purpose of taxation is to take purchasing power from tax payers so that tax payers relinquish control over economic resources and make them available to state. In this direction taxes have an important effect on the redistribution of income among the poor and better-off household of the community". One of the objectives of taxation is to ensure the redistribution of income and wealth (Olakunrin, 2000). Thus, taxation is used as a tool to achieve socially desirable goals (Olakunrin, 2000). Olakunrin stressed further in a talk delivered by her during the second Annual Tax conference of the Chartered Institute of Taxation of Nigeria (CITN) that taxes are generally based on the principle of ability to pay and that citizens who are well endowed invariably assessed for more taxes than their less fortunate compatriots. According to her, the taxes paid by the rich are used by government to provide social amenities for the poor. This is the essence of the principle of progressive tax that seeks to reduce inequality and redistribute income and wealth.

Dickson (2007) critically examine the recent trends and patterns in Nigeria's industrial development using descriptive study. The study indicates that the level of manufacturing industry in Nigeria is concentrated in the southern part of the country and that the spatial pattern could change if industrialists adopt the strategy of industrial linkage. This finding did not support any school of thought as it suggests that policy on privatization of industry in Nigeria should be enhanced. Ajayi (2008) in a study of the collapse of Nigeria's manufacturing sector on economic growth. He used cross-sectional research design and found out that the main cause of collapse in the Nigerian manufacturing sector is low implementation of Nigerian budget especially in area of infrastructure. This means that low implementation of fiscal policy affects the level of growth in Nigerian manufacturing sector. Rasheed (2010) investigated the productivity in the Nigerian manufacturing subsector using co-integration and an error correction model. The study indicates the presence of a long-run equilibrium relationship index for manufacturing production, determinants of productivity, economic growth, interest rate spread, bank credit to the manufacturing subsector, inflation rates, foreign direct investment, exchange rate and quantity of graduate employment. This finding has research gap on the area of factors that affect manufacturing sector in Nigeria. Sangosanya (2011) used panel regression analysis model and gibrat's law of proportionate effect in investigating firm's growth dynamics in Nigerian manufacturing industry. The study observed that the manufacturing firms finance mix, utilization of assets to generate more sales, abundance of funds reserve and government policies are significant determinants of manufacturing industry growth in Nigeria.

Charles (2012) investigated the performance of monetary policy on manufacturing sector in Nigeria, using econometrics test procedures. The result indicates that money supply positively affect manufacturing index performance while company lending rate, income tax rate, inflation rate and exchange rate negatively affect the performance of manufacturing sector. This means that monetary policy is vital for the growth of the manufacturing sector in Nigeria which in turn would lead to economic growth. According to Zee, Stotsky and Ley (2002), ITC pertains to new manufacturing plant and equipment purchased for first-time use in manufacturing or processing. Consequently, corporations earn 10% non-refundable tax

credit which can be applied against CIT in the year earned, with unused credits usually available for a 10-year carry forward and a 3-year carry – back. In manufacturing firms, ITC permits extension of the definition of qualified property to include used building and plant, as well as new equipment's. Despite this argument, many countries, including Nigeria, restrict ITC to new equipment and buildings. Gugl and Zodrow (2006) also contend that ITC is only earned in the year that the property was actually acquired, and only applies to new properties. The affected property is eligible to attract a rate of 10% of capital cost of the property (although capital cost of an item must be reduced by any grants received on that purchase). The ITC earned in any particular year is then used to reduce federal income tax due in that year. Bloom, Griffith and Van Reenen (2002) posit that failure to use tax credits within 10 years of earning them will result in the loss of the incentive. Auerbach and Hines (1988) equally submit that 40% of unused ITC generated in a tax year may be claimed in the year that it was actually earned, and this grant is for the purpose of enhancing performance of the firm and boosting overall national economic growth.

The gap in this study is that the authors did not identify those factors that measures manufacturing sector performance like turnover and taxes. This paper utilized turnover and taxes to make a comparison between the two to find the significant relationship.

Hypothesis

Ho: There is no significant effect between Tax as a Fiscal Policy on manufacturing company's performance.

Research Method

Due to the nature of the study, descriptive design was adopted. In order to achieve the aim of this study, the audited accounts of selected companies listed in Nigerian Stock Exchange were analyzed. The study covered five years (2008 to 2012) annual reports and accounts of six (6) companies in Nigeria.

The hypothesis formulated for the study was tested with the ANOVA, using the Statistical Package for Social Sciences (SPSS) version 20.0 software package.
Software_Description

Statistical Package for Social Sciences (SPSS) is a software solution utilized in data analysis after carefully inputting the variables used in the study.

Decision rule

Using SPSS, 5% is considered a normal significance level. The accept reject criterion was based on the computed F-Value.

If F-value is equal or greater than "Sig" value there is significant interaction effect i.e. F-value value \geq sig value we reject Null and accept alternate hypothesis.

Table 1: Data analysis

Holley-Well	Tax	Turnover	Guinness Nig. Plc	Tax	Turnover
2008	73,498	18,773,815	2008	5,232,070	69,172,852
2009	470,037	25,964,192	2009	5,450,573	89,148,207
2010	1,154,351	28,483,098	2010	6,252,376	109,366,975
2011	1,023,388	29,310,102	2011	8,249,032	123,663,125
2012	960,703	32,949,173	2012	6,403,755	126,288,184
UAC	Tax	Turnover	Vitafoam	Tax	Turnover
2008	2,005,000	53,652,000	2008	315,423	8,172,005
2009	1,899,000	56,605,000	2009	270,139	9,758,542
2010	1,643,000	52,314,000	2010	310,125	10,538,440
2011	3,587,000	59,638,000	2011	297,224	13,979,353
2012	3,642,000	69,632,000	2012	168,305	7,264,510
Uninever	Tax	Turnover	Dangote Cement	Tax	Turnover
2008	1,548,316	37,377,492	2008	8,664,675	61,906,088
2009	1,567,230	44,481,277	2009	2,258,711	129,797,087
2010	1,971,235	46,807,860	2010	5,270,941	202,565,699
2011	2,502,902	54,724,749	2011	7,635,957	235,704,876
2012	2,588,374	55,547,798	2012	16,285,624	2 98,454,068

Test of hypothesis**Table 1.1 ANOVA^a**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	624057779019.912	1	624057779019.912	9.666	.053 ^b
1 Residual	193687516601.288	3	64562505533.763		
Total	817745295621.200	4			

a. Dependent Variable: HolleywellTax

b. Predictors: (Constant), HolleywellTurnover

Table 1.2 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1289592.060	661483.559		-1.950	.146
	HolleywellTurnover	.075	.024	.874	3.109	.053

a. Dependent Variable: HolleywellTax

In table 1.1 above, (F value =9.666 and Sig value =0 .053) thus, indicating that there is a significant difference and alternate hypothesis is accepted while null hypothesis is rejected. Therefore, there is a significant effect between Tax as a Fiscal Policy and performance of Holley-well Nig. Plc.

Table 2.1 ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3472500179429 .041	1	3472500179429 .041	4.736	.118 ^b
	Residual	2199717437497 .759	3	733239145832. 586		
	Total	5672217616926 .800	4			

a. Dependent Variable: GuinnessTax

b. Predictors: (Constant), GuinnessTurnover

Table 2.2 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2333332.475	1870442.271		1.247	.301
	GuinnessTurnover	.038	.018	.782	2.176	.118

a. Dependent Variable: GuinnessTax

In table 2.1 above, (F value =4.736 and Sig value =0 .118) thus, indicating that there is a significant difference and alternate hypothesis is accepted while null hypothesis is rejected. Therefore, there is a significant effect between Tax as a Fiscal Policy and performance of Guinness Nig Plc.

Table 3.1 ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2735228860550 .697	1	2735228860550 .697	7.627	.070 ^b
	Residual	1075943939449 .304	3	358647979816. 435		
	Total	3811172800000 .000	4			

a. Dependent Variable: UACTax

b. Predictors: (Constant), UACTurnover

Table 3.2 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4438977.677	2546764.900		-1.743	.180
	UACTurnover	.120	.043	.847	2.762	.070

a. Dependent Variable: UACTax

In table 3.1 above, (F value =7.627 and Sig value =0 .070) thus, indicating that there is a significant difference and alternate hypothesis is accepted while null hypothesis is rejected. Therefore, there is a significant effect between Tax as a Fiscal Policy and performance of UAC Nig Plc.

Table 4.1 ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3930200362.72 6	1	3930200362.72 6	1.092	.373 ^b
	Residual	10800942982.0 74	3	3600314327.35 8		
	Total	14731143344.8 00	4			

a. Dependent Variable: VitafoamTax

b. Predictors: (Constant), VitafoamTurnover

Table 4.2 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	152267.610	117923.770		1.291	.287
	VitafoamTurnover	.012	.012	.517	1.045	.373

a. Dependent Variable: VitafoamTax

In table 4.1 above, (F value =1.092 and Sig value =0 .373) thus, indicating that there is a significant difference and alternate hypothesis is accepted while null hypothesis is rejected. Therefore, there is a significant effect between Tax as a Fiscal Policy and performance of Vitafoam Nig Plc.

Table 5.1 ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	883990541594.684	1	883990541594.684	26.284	.014 ^b
	Residual	100898718816.515	3	33632906272.172		
	Total	984889260411.200	4			

a. Dependent Variable: UnineverTax

b. Predictors: (Constant), UnineverTurnover

Table 5.2 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-936031.849	585409.279		-1.599	.208
	UnineverTurnover	.062	.012	.947	5.127	.014

a. Dependent Variable: UnineverTax

In table 5.1 above, (F value =26.284 and Sig value =0 .014) thus, indicating that there is a significant difference and alternate hypothesis is accepted while null hypothesis is rejected. Therefore, there is a significant effect between Tax as a Fiscal Policy and performance of Uninever Nig. Plc.

Table 6.1 ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	30605682450686.230	1	30605682450686.230	1.162	.360 ^b
	Residual	79027678254272.950	3	26342559418090.984		
	Total	109633360704959.190	4			

a. Dependent Variable: DangotecemTax

b. Predictors: (Constant), DangotecemTurnover

Table 6.2 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12694318.785	4903952.709		2.589	.081
	DangotecemTurnover	-.034	.032	-.528	-1.078	.360

a. Dependent Variable: DangotecemTax

In table 5.1 above, (F value =1.162 and Sig value =0 .360) thus, indicating that there is a significant difference and alternate hypothesis is accepted while null hypothesis is rejected. Therefore, there is a significant effect between Tax as a Fiscal Policy and performance of Uninever Nig. Plc.

CONCLUSION AND RECOMMENDATIONS

Manufacturing sector is a very strategic industry whose input has far-reaching contribution to the economy. This is particularly of interest, in view of the fact that one has to consider its vast implications on the broader segments of the economy to which it applies.

However, it can be said that tax as a fiscal policy instrument has effect on effectiveness and efficiency on Nigerian Manufacturing industries. This means that the performance of the fiscal policy on tax in Nigeria has significantly impacts on the output of manufacturing sector. Hence tax policies enable government to collection revenue (taxation) and expenditure (spending) to influence the activities of manufacturing industries in economy.

It is therefore, no gainsaying the fact that only a manufacturing outfit in a conducive tax-friendly environment can remain competitive, relevant and an active player within the domestic economy and in the global arena. Having gone through this, the researcher has safely concluded that fiscal policy on taxation is very crucial and must be carefully managed, if investors are to truly remain competitive and viable.

RECOMMENDATIONS

The recommendations which are designed to promote confidence and sound investment climate among entrepreneurs include the following:

- (1) Government is required to be sensitive to the variables in the tax environment and other macro-environmental factors so as to enable the manufacturing sector cope with the ever changing dynamics of the manufacturing environment.
- (2) In view of the numerous findings made in this study, it is strongly recommended that the government should introduce measures to control indiscriminate tax extension often done, without recourse, to the inherent consequences on investment decisions.
- (3) The study principally recommends that government fiscal policy should place greater emphasis on the principles of effective taxation, aimed at promoting industrial growth and attraction of foreign direct investment in Nigeria.

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