



Taxation of First Bank Holdings Plc: Human Resource Accounting Perspective

Ngozi Ben Anuonye (PhD)¹, Sunday Mlanga (PhD)², and Owolabi O. Adebawo (PhD)³

¹Department of Accounting & Finance, Crawford University, Igbesa, Ogun State

²Department of Accounting, Federal University, Abakaliki, Ebonyi State

³Executive Director, Wemabod Estates, Lagos.

ABSTRACT

This study evaluates the extent to which human resource accounting measurement (HRAM) can affect the amount of taxes collectible by governments in Nigerian banks. The study observes that the inadequate measurement of human resource accounting processes negatively affect the quantum of taxes collectible from banks in Nigeria. To analyse the variables, simulation modeling design was used. Simulation modeling design involves the use of real life situations to depict a model in an environment. The financials of First Bank Holdings was analysed for a ten year period (2006 to 2015). The comparative result showed that total taxes due from First Bank Holdings Plc. from 2006 to 2011 and 2012 to 2015 were 55% and 45% respectively higher than tax liabilities as computed by the audited accounts of the bank over the same periods without the adoption of HRAM. This result clearly indicates that the inadequate or non-measurement of human resource assets dwindles the tax revenues accruable to the government from banks. The study concluded that human resource accounting measurement (HRAM) has a significant positive effect on the tax accruable to the government in Nigeria. It is recommended that banks should adopt human resource accounting processes in their financial reporting. This will enable them to measure and record their intellectual capital values in their financial reports.

Keywords: Banks, financial performance, taxation, human resource accounting measurement, simulation modeling.

1.1 Introduction

Human resource accounting is the process of measuring and recording intellectual capital so that the financial records shall show at any time the accurate and aggregate of human efforts of an enterprise. The measurement and systematic recording of all human endeavours in monetary terms in the workplace is what is referred to as human resource accounting.

Taxation involves the imposition, collection and administration of levies through government agencies for the purpose of providing essential services to the citizenry. Taxes are inflows to the government. An increase in collectible taxes will bring about a corresponding increase in the essential services to be provided by the government to its citizens, all things being equal.

For several decades, the accounting profession has

not been able to measure the outcome of human efforts adequately. More than that, no universal agreement exists on the recording of such transactions in a company's books of accounts. However, recent researches have shown that the awareness for human resource accounting and measurement is now becoming universal and widely acceptable.

Taxation therefore is the compulsory financial charge on the income and profits of individuals and corporate bodies imposed by the government. The main purpose of taxation is to utilise its proceeds for the financing of public goods and services. The quantum of revenue realisable from corporate taxation in an economy is determined by the volume of profits made by firms in that economy. There is also an inverse relationship between amounts realisable from taxation and the 'quantity and quality' of public goods and services provided by

the government (even though taxes are levied without *quid pro quo*).

Invariably, for governments to derive maximum revenue from taxation, the human capital efficiency of the citizenry must be fully harnessed. This is incidental to the adequate measurement of human resources and its application in any economy (Anuonye, 2014).

1.2 Statement of the problem

Inadequate measurement and valuation of intellectual capital has brought about inaccurate assessment of income taxes payable by firms, especially banks. The inadequacy in the measurement of intellectual capital emanates from the fact that monies spent on workers as salaries, wages, trainings and development costs are not recognised as 'contributory' assets to the organisations' growth. In other words, such costs should not be recorded as recurrent expenditure in the Income Statements but should be capitalised in the Statement of Financial Position (SOFP) as assets. This would invariably increase taxable profits and by extension increase tax revenue to the government. But, as a result of improper accounting for human resource assets, appropriate corporate taxes are not paid to the government. Corporate taxes from banks are therefore grossly under-assessed because intellectual capital costs are expensed out in the Income Statements instead of capitalising them in the Statement of Financial Position.

1.3 Objectives of the study

The main objective of this study is to determine the extent to which inadequate measurement of intellectual capital adversely affects taxes collectible from banks in Nigeria.

Other objectives are: to ascertain the relevance of human resource accounting measurement with respect to taxes in banks and to evaluate the contribution of human resource accounting measurement to corporate taxes in Nigeria.

1.4 Research Questions

- (1) How relevant is human resource accounting measurement to taxation in Nigerian banks?
- (2) What is the contribution of human resource accounting measurement to corporate taxation?

1.5. Operationalization of the Variables

The dependent variable to be measured is: (i) Corporate tax

Using stepwise regression analysis:

$$Y = f(X)$$

Where,

Y = Income tax

$$Y = f(y_1)$$

The independent variable to be measured is:

Human resource accounting measurement (using human capital costs)

X = human resource accounting

$$\text{measurement } X = f(x_1)$$

$$\text{CIT}_t = a + \hat{\alpha}_1 x_1 + \mu_t$$

Where,

CIT = company income tax

$\hat{\alpha}_1$ is the slope coefficient multiplied by the growth in x_1 .

a = constant (i.e. intercept which is not affected by the changes in the predictor variable).

x_1 = monetary measurement of human resource accounting

x_1 = independent variable whose growth or decline will affect the dependent variable of CIT.

μ = stochastic error level incorporating omitted variables (i.e. other forms of taxes).

i = taxpayer (corporate body)

t = time (number of years of assessment)

HUMAN RESOURCE ACCOUNTING MEASUREMENT MODEL

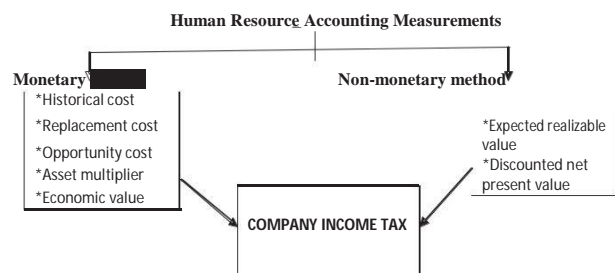


Figure 1.1 - Source: Researcher's model, 2017

2.1 REVIEW OF RELATED LITERATURE

2.2 Conceptual framework

At the beginning of the 20th century, scholars of management and accountancy began a quest to ascertain the value placed on workers. They sought to conceptualise the relevance of the worker in monetary terms as opposed to the generalised claim that "workers are the greatest assets of the organisation" without a measurable standard for such an assumption.

2.2.1 Historical background

In 2002, Eric Flamholtz and Wei Hua concluded that remarkable events occurred between 1960 to date in human resource accounting measurement. In addition, Ante Pulic developed the Value Added Intellectual Coefficient (VAIC) model in year 2000. These became yardsticks for intellectual capital and human resource accounting measurement models.

2.3 Theoretical framework

2.3.1 Intellectual capital measurement theories

Some theories which relate to human resource accounting and intellectual capital measurements also became relevant as stated by Anuonye, (2014) include: Stakeholders' Theory, Intellectual Property Theory, Intelligence Quotient (IQ) Theory, Equity Theory, Stewardship Theory, Agency Theory, and Human Capital Theory.

2.3.2 Taxation theories

Furthermore, theories on taxation were also developed. Such theories include: Laffer Curve (extreme value theorem): The proponents of the theorem were of the view that increases in tax rates beyond a certain point will become irrelevant or counter-productive for raising further tax revenue from taxpayers.

Optimal taxation theory (Peter A. Diamond & James A. Mirrlees [Diamond-Mirrlees Efficiency theorem]) stipulates that taxes can be structured in such a way as to derive the greatest benefit from them. This means that the elements of progressive tax must be put into consideration with respect to the imposition of taxes.

Benefit theory (its modern equivalent is the Voluntary Exchange theory which was developed by Erik Lindahl). This theory affirms that the amount of tax paid should be proportionate to the benefits derivable by the taxpayers. This was further illustrated in the Lindahl and Bowen models.

Ability to pay theory (presented by Arthur Cecil Pigou) stipulates that taxes should be levied on taxpayers according to their ability to pay. This means that persons or companies who earn more should pay higher taxes. The theory also aligns with the progressive tax system approach.

Cost of service theory asserts also that the benefits derived by taxpayers should be commensurate to the taxes they pay. The benefits derived by individuals from the services provided by governments should be proportionate to the taxes the individuals or organisations pay.

3.1 Methodology

3.2 Research Design

The ex post facto survey research design was used for the analyses. This design was used because data for the research were obtained from already published financial reports of banks. These documents included annual reports and accounts, NSE facts book, newspaper reports, internet reports as well as other relevant financial and business publications.

3.3 Population

The population of study consists of First Bank Holdings Plc registered in Nigeria.

3.4 Sampling method and sample size

For the purpose of taking into consideration some typical cases which will appropriately aid the study, the purposive or judgement sampling method was used. Purposive or judgment sampling technique is used (Patton, 1990; Asika, 1991) where the sample population for the research has a strategic feature and the researcher wishes to take into consideration some typical cases which will appropriately aid his work. The criterion for the sample size is bank capitalisation.

Going by the above analogy, the single sample size of this study is First Bank Holdings Plc. The reason for choosing FBNH Plc is because it is the most capitalised bank in Nigeria as at 31st December 2015 in terms of balance sheet size. The bank had a total balance sheet value of N4.51 trillion as at 31st December 2015.

3.5 Measurement of Variables

The dependent and independent variables were measured as follows:

Variable	Measurement
Human resource accounting measurement (HRAM)	Monetary (M) plus Non-monetary (NM)
Monetary value	Historical + replacement + opportunity + asset multiplier + economic costs
Non-monetary value	Expected realizable value + discounted net present value
Company income tax	Income tax payable by corporate bodies

4.1 data Analyses, Results and Discussion of Findings

The Simulation design model was used to analyse data. The analyses included the use of simulated models which were compared with actual data to ascertain the relationship between the real-life situations and the simulated models. This method was chosen because of its representative nature and its ability to broadly explain the results of the phenomena from the tests. Simulation design model gives a clear state of an analysis of events which can be easily comprehensible.

4.2 Test of simulation model

The data from the simulation model was analysed as stated below:

4.3 Simulation Model results

The simulation model of this study consists of an actual statement of profit or loss account and a statement of financial position as well as a simulated profit or loss account and a statement of financial position which show the results of the operations of First Bank Holdings for a ten-year period.

4.3.1 Income Tax

From Appendix I, (before accounting for human resource capital measurement), the total tax liability for FBNH Plc for the period under review was N57.259m. However, from Appendix III, the total tax liability for FBNH Plc for the same period under review increased to N184.867m. This result was obtained after accounting for the human resource capital measurement of the bank. This represents a 69% increase in the tax liability payable to the Federal Inland Revenue Service (FIRS).

4.3.2 Profitability

The increment in tax liability was of course due to the increase in the profitability of the company. From Appendix I, it was observed that the profit before tax of the company was N556.104 million over the ten year period of the study but before applying the human resource capital measurement. But from Appendix III, the profit before tax of the company rose to N662.644 million over the same period after accounting for the human resource capital effect.

4.3.3 Asset size

The application of the human resource capital measurement showed a positive effect on the size of the asset of the company over the ten year period under review. From 2006 to 2015, the total asset size of FBNH was N14.280m (Appendix II). This was before the human resource capital of the firm was measured. However, during the same period, after accounting for human resource capital measurement in Appendix IV, the total asset of the company increased to N14.391m. This showed a total increase of 7.7% in the value of assets over the period. One of the ways of measuring the growth of an enterprise is through its asset or balance sheet valuation.

5.1 Conclusion And Recommendations

5.2 Conclusion

The study sought to identify the relationship between human resource accounting measurement and corporate income taxation of banks in Nigeria. From the study the following were deduced:

- 1) Human resource accounting measurement (HRAM) is not adopted in the financial reports of First Bank Nigeria Plc. for the period under consideration.
- 2) Though it is often mentioned in companies' directors' reports as the most important asset, human resource assets are not measured for inclusion in the financial assets of the bank.
- 3) Inadequate measurement and non-inclusion of human resource assets give inaccurate picture of taxes accruable to the government.

5.3 Recommendations

Sequel to the findings above, the following recommendations are made:

- 1) Human capital measurement is recommended for all firms. Adequate measurement of human resources will show the true and fair view of the activities of an enterprise.
- 2) Consequently, it is further recommended that all expenditure on human capital be capitalised. When capitalised, such expenditure should be included in the Statement of Financial Position (SOFPP) and expensed through periodic amortisation in the Statement of Profit or Loss (Anuonye, 2014).
- 3) Training and development programmes for workers are recommended as a matter of corporate policy.

- 4) The International Financial Reporting Council should issue accounting standards on human resource accounting.

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Appendix I

STATEMENT OF PROFIT OR LOSS OF FIRST BANK HOLDINGS PLC											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm
Net interest income	29,468	38,008	57,527	88,933	112,926	138,180	212,893	1,848	2,886	12,288	694,957
Net commission income	53,493	66,062	80,945	24,547	35,475	47,584	59,964	-	-	-	368,070
Foreign exchange income	-	-	-	3,025	9,508	7,497	2,448	-	42	31	22,551
Other income	82,961	104,070	138,472	116,505	157,909	193,261	275,305	79,610	6,791	12,319	1,167,203
	165,922	208,140	276,944	233,010	315,818	386,522	550,610	81,458	9,719	24,638	2,252,781
Staff costs	(7,087)	(8,704)	(13,075)	(14,704)	(22,553)	(30,674)	(40,356)	(349)	(445)	(567)	(138,514)
Overheads	(26,661)	(32,742)	(49,185)	(55,312)	(84,839)	(115,390)	(151,815)	(1,309)	(1,672)	(2,129)	(521,054)
Operating expenses	(55,233)	(76,016)	(59,644)	(113,843)	(152,293)	(188,434)	(263,039)	-	-	-	(908,502)
Other operating expenses	(4,357)	(2,439)	(12,319)	(41,462)	(22,596)	(16,161)	(2,699)	(9,169)	(1,919)	(19,762)	(132,883)
Profit before tax	73,324	88,159	146,337	7,689	33,537	35,863	92,701	70,631	5,683	2,180	556,104
Taxation	(3,038)	(3,822)	(3,126)	(6,414)	(6,601)	(17,227)	(17,031)	-	-	-	(57,259)
Profit after tax	70,286	84,337	143,211	1,275	26,936	18,636	75,670	70,631	5,683	2,180	498,845

Appendix II

STATEMENT OF FINANCIAL POSITION OF FIRST BANK HOLDINGS PLC											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm
ASSETS											
Cash & balances with CBN	49,444	60,881	88,302	67,576	74,894	199,228	300,531	-	-	-	840,856
Loans & advances to banks	175,657	219,185	437,768	1,022,486	1,017,411	1,715,318	1,953,116	1,549	3,341	4,855	6,550,686
Other assets	253,005	313,766	584,380	1,182,666	1,197,537	1,454,238	1,581,223	4,503	5,850	7,693	6,584,861
Fixed assets	13,952	16,850	29,155	46,302	52,616	65,874	75,386	1,072	1,519	1,192	303,918
TOTAL ASSETS	492,058	610,682	1,139,605	2,319,030	2,342,458	3,434,658	3,910,256	7,124	10,710	13,740	14,280,321
LIABILITIES											
Deposits and other current accounts	390,846	581,827	661,624	1,244,030	1,330,771	2,134,821	2,489,047	-	-	-	8,832,966
Other liabilities	4,148	5,710	5,091	14,948	4,238	2,159,075	2,512,275	-	-	-	4,705,485
Tax liability	4,148	5,710	5,091	14,948	4,238	24,254	23,228	-	-	-	81,617
TOTAL LIABILITIES	399,142	593,247	671,806	1,273,926	1,339,247	4,318,150	5,024,550	-	-	-	13,620,068
CAPITAL & RESERVES:											
Share capital	2,619	16,316	9,945	14,504	16,316	16,316	16,316	16,316	16,316	17,948	142,912
Share premium	15,858	15,858	254,524	254,524	254,524	254,524	254,524	254,524	254,524	252,892	2,066,276
Statutory reserve	10,699	13,452	18,023	23,476	27,516	32,144	-	-	-	-	125,310
Retained earnings	-	-	-	9,789	27,971	41,587	(819)	37,180	6,968	5,885	128,561
	29,176	45,626	282,492	302,293	326,327	344,571	270,021	308,020	277,808	276,725	2,463,059
Other reserves & liab.	63,740	(28,191)	185,307	742,811	676,884	(1,228,063)	(1,384,315)	(300,896)	(267,098)	(262,985)	(1,802,806)
TOTAL	492,058	610,682	1,139,605	2,319,030	2,342,458	3,434,658	3,910,256	7,124	10,710	13,740	14,280,321

Appendix III

STATEMENT OF PROFIT OR LOSS OF FIRST BANK HOLDINGS PLC (SIMULATED)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm
Net interest income	29,468	38,008	57,527	88,933	112,926	138,180	212,893	1,848	2,886	12,288	694,957
Net commission income	53,493	66,062	80,945	24,547	35,475	47,584	59,964	-	-	-	368,070
Foreign exchange income	-	-	-	3,025	9,508	7,497	2,448	-	42	31	22,551
Other income	82,961	104,070	138,472	116,505	157,909	193,261	275,305	79,610	6,791	12,319	1,167,203
	165,922	208,140	276,944	233,010	315,818	386,522	550,610	81,458	9,719	24,638	2,252,781
*Staff costs	(1,417)	(1,740)	(2,615)	(2,940)	(4,510)	(6,134)	(8,071)	(69)	(89)	(113)	(138,514)
Overheads	(26,661)	(32,742)	(49,185)	(55,312)	(84,839)	(115,390)	(151,815)	(1,309)	(1,672)	(2,129)	(521,054)
Operating expenses	(55,233)	(76,016)	(59,644)	(113,843)	(152,293)	(188,434)	(263,039)	-	-	-	(908,502)
Other operating expenses	(4,357)	(2,439)	(12,319)	(41,462)	(22,596)	(16,161)	(2,699)	(9,169)	(1,919)	(19,762)	(132,883)
Profit before tax	78,254	95,203	153,181	19,453	51,580	60,403	124,986	70,911	6,039	2,634	662,644
Taxation	(23,476)	(28,561)	(45,954)	(5,836)	(1,547)	(18,121)	(37,496)	(21,273)	(1,812)	(790)	(184,867)
Profit after tax	54,778	66,642	107,227	13,617	50,033	42,282	87,490	49,638	4,227	1,844	477,777

Appendix IV

STATEMENT OF FINANCIAL POSITION OF FIRST BANK HOLDINGS PLC (SIMULATED)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm
ASSETS											
Cash & balances with CBN	49,444	60,881	88,302	67,576	74,894	199,228	300,531	-	-	-	840,856
Loans & advances to banks	175,657	219,185	437,768	1,022,486	1,017,411	1,715,318	1,953,116	1,549	3,341	4,855	6,550,686
Other assets	253,005	313,766	584,380	1,182,666	1,197,537	1,454,238	1,581,223	4,503	5,850	7,693	6,584,861
HR assets	5,670	6,964	10,460	11,764	18,043	24,540	32,285	280	356	454	110,816
Fixed assets	13,952	16,850	29,155	46,302	52,616	65,874	75,386	1,072	1,519	1,192	303,918
TOTAL ASSETS	497,728	617,646	1,150,065	2,330,794	2,360,501	3,459,198	3,942,541	7,404	11,066	14,194	14,391,137
LIABILITIES											
Deposits and other current accounts	390,846	581,827	661,624	1,244,030	1,330,771	2,134,821	2,489,047				8,832,966
Other liabilities	4,148	5,710	5,091	14,948	4,238	2,159,075	2,512,275	-	-	-	4,705,485
Tax liability	4,148	5,710	5,091	14,948	4,238	24,254	23,228	-	-	-	81,617
TOTAL LIABILITIES	399,142	593,247	671,806	1,273,926	1,339,247	4,318,150	5,024,550	-	-	-	13,620,068
CAPITAL & RESERVES:											
Share capital	2,619	16,316	9,945	14,504	16,316	16,316	16,316	16,316	16,316	17,948	142,912
Share premium	15,858	15,858	254,524	254,524	254,524	254,524	254,524	254,524	254,524	252,892	2,066,276
Statutory reserve	10,699	13,452	18,023	23,476	27,516	32,144	-	-	-	-	125,310
Retained earnings-Financial	-	-	-	9,789	27,971	41,587	(819)	37,180	6,968	5,885	128,561
Retained earnings-Human capital	5,670	6,964	10,460	11,764	18,043	24,540	32,285	280	356	454	110,816
	34,846	52,590	292,952	314,057	344,370	369,111	302,306	308,300	278,164	277,179	2,573,875
Other reserves & liab.	63,740	(28,191)	185,307	742,811	676,884	(1,228,063)	(1,384,315)	(300,896)	(267,098)	(262,985)	(1,802,806)
TOTAL	497,728	617,646	1,150,065	2,330,794	2,360,501	3,459,198	3,942,541	7,404	11,066	14,194	14,391,137