INFLUENCE OF NATIONAL TAX POLICY ON BUSINESS SUSTAINABILITY IN NIGERIA

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ABSTRACT

The study objective is to empirically examine the extent to which National Tax policy (NTP) influences business sustainability in Nigeria. The study adopts the Central bank of Nigeria quarterly National Business Index (NBI) business expectations survey database which covers 1950 SME's across the six-geopolitical zones of Nigeria. The data analysis techniques employed in the study is the descriptive statistics and correlation statistics. On the overall, the results reveals that the correlations between NTP and NBI all exhibit quite weak coefficients and none shows statistical significance at 5% and this possibly implies that the NTP may not be associated strongly with growth and performance of businesses in Nigeria. However, the study is optimistic that with the passing of the finance Act (2020) where several specific policy changes were looked into ranging from elimination of double taxation arising from excess dividend tax, an issue that plagued companies shortly before the passage of the Act, exemption of small companies from tax liability, reduction of Company income tax to 20% for medium-sized companies and then large companies to remain be 30% for CIT. These changes especially for business owners in Micro, Small and Medium Scale (MSMEs) and Medium Scale Enterprises (SMEs) are highly riveting. The study recommends among others effective implementation of the finance act across all states to eliminate a case of selective implementation.

***Key Words**:* Company income Tax, National Tax Policy, Business sustainability

INTRODUCTION

In July 2019, His Excellency, President Mohammadu Buhari, formed the Presidential Enabling Business Environment Council (PEBEC) to enact reforms that will help to improve Nigeria's business climate and make it easier for companies to become viable and sustainable. Since the Council was inaugurated, there has been some change that is believed to have resulted in progress in the ease of doing business index ranking provided by the World Bank for all countries in Nigeria. Nigeria moved from its 169th position in 2016 to 131st position out of 190 countries in 2019. Despite this, problems are still very evident and the ease of tax payments index is of particular note. The index faults the Nigerian tax system in the areas of multiple taxation and the nature and complexities of the tax policy and the provisions in the tax law.

No doubt, taxes remain a major source of government revenue and an instrument of fiscal policy (Aneke, 2007). Traditionally, taxation is a main source of revenue to governments all over the world. However, development economics scholars have pointed out that despite the indispensability of tax revenue to government, the tax environment can either be an incentive or a dis-incentive to economic progress if businesses (International Tax Dialogue, 2007). Particularly for developing economies, Tomlin (2008), argue that there is a belief that taxes and a complex tax system put disproportionate pressure on small businesses. Vasak, (2008) also stressed that most businesses especially SME's operate in an environment that is overbearing in terms of regulation, multiple taxes, that constantly exert serious burden on their operations. This type of environment harms individual businesses and the overall economy (Masato, 2009). Consequently, many businesses respond in the way the feel NBIt in order to find ways to reduce their tax liabilities using several means such as underreporting profits and employee salaries, and even refusing to file for tax declarations and this ultimately affects tax revenue. The call for reforms in the tax system has a long history especially because it is crucial to ensuring in productive business climate. In this regards, the Nigerian government initiated a number of tax policy reforms in recent times. Particularly, in 2012, an attempt was made to develop a National Tax Policy (NTP) though in retrospect, this failed to actualize as there was no legislative backing for tis enforcement even though it was already adopted by the executive. It can be concluded that the policy did not see the light of day (Enahoro & Jayeola, 2012). But in 2017, efforts were rekindled towards the development of the New NTP which was then eventually accented to by both the executive and legislature. The Finance Act was also amended to address issues that greatly affected the economic climate and tax regime of the country.

Consequently, the objective of this research is to examine the influence of tax policy on business sustainability in Nigerian. Despite the overall optimism that has heralded tax policy reform efforts in Nigeria, to the researcher's knowledge, no study exist that has examined its implications on business expectations outlook on an national level and across key sectorial areas. Therefore, this study addresses this gap and contributes incrementally to the understanding of the implications of tax policy reforms for businesses in developing countries. Using the National business expectations index developed by the CBN, the study examines the relationship between NTP and business sustainability in Nigeria. The paper is divided into the following sections; section (i) is the introduction, section (ii) covers the literature review, the methodology is presented in section (iii), section (iv) covers the presentation of results and section (v) is the conclusion and recommendations.

Literature Review

The Tax System in Nigeria

According to the National Tax policy “tax” is defined as "any payment that goes to the government that is not only compulsory but also legal. In addition, such payments do not have an expected direct benefit or return of value. Under current Nigerian legislation, the three levels of government have tax collection rights and the types of taxes that can be collected for each tier are also defined in the constitution. In particular, the Constitution provides that taxes raised by the federal government include taxes such as corporate income, withholding taxes, taxes on oil and gas production and charges, value added tax (VAT) and import duties), whereas taxpayers from state and local governments (like personal income tax, individual capital gains tax, stamp duties, urban land rentals, business premises and registration, development levy and road and gaming taxes). Local governments, specifically collect taxes on personal, social and commercial permit fees (Enahoro & Jayeola, 2012),

Tax Policy in Nigeria

The public revenue profile in Nigerian for many years has been skewed in the direction of oil revenue which for decades has been the major revenue earner for Nigeria. The formulation of the NTP was borne out of the need to improve public revenue especially those coming from the non-oil sector and to set the framework for tax administration in Nigeria. The need to formulate a National Tax Policy to define tax targets and to set specific guidelines for the administration of the Nigerian tax system has been formulated to resolve these challenges. Though in 2012, an effort was made to put in motion a NTP, it however did not materialize as it did not receive the needed legislative ratification for it to be passed into law (Enahoro & Jayeola , 2012) On 10 August 2016, another committee was inaugurated to review, update and recommend implementation strategies for the National Tax Policy and following this, on February 1st 2017, the National Tax Policy, 2017 was passed into law and has the following aims and objectives;, among others; (i) to provide guidance and framework for the review of the Nigerian tax system ; (ii) Provide the framework for tax legislation in the future (iii) to become a basis and document of reference on tax matters; (iv) Provide the guiding principles and new rules for Practitioners and hence the standard for all stakeholders; and (v) Provide direction and stipulate the roles and responsibilities of all stakeholders

The Finance Act and the Implications for Tax Policy.

The different amendments made in the Finance Act reflects certain recommendation from the Tax Policy and there are codifications of ensuring good standards of not just affecting the commercial behaviour but positively affecting the tax morale of Nigerians through effective administration. The Act in its bid to promoting fiscal equity has eliminated double taxation arising from excess dividend tax, an issue that plagued companies shortly before the passage of the Act. The situation prior was such that, where there was a declaration of dividends by a company and it was more than the taxable profits, the tax man assumed that the dividend was the taxable profit and the company was then taxed on it, the anomaly has now been addressed.

According to Bassey (2020), under the amendments introduced by the Finance Act, new businesses will now be taxed on their actual accounting periods during commencement. This will benefit shareholders hugely as it will reduce the impact of tax liability on returns for the company and provide businesses with liquidity that can be re-invested to stimulate growth. The taxation of dividends distributed under Section 19 of the Companies Income Tax Act (CITA), even if such companies are not in a taxable position either because of losses made or any other condition for the year of distribution, is another significant issue that has been paramount to company owners and investors that was also discussed in the Act. In most cases also, it is also possible that such dividends are being distributed from profits that have already been tax already. (Finance Act, 2020). With the amendment of this practice, it is expected that this could serve as an incentive for foreign direct investment into Nigeria and also encourage indigenous investors as it eliminates the practice of double taxation

According to Oyedele (2020), in the area of reforming domestic law, the act introduced thin capitalization rules to limit interest deduction on connected party loans. The act addressed the issue of threshold and VAT remittance on cash basis, reversed charge of VAT on imported and domestic transaction. As far as the financial markets are concerned, there are now provisions for the exemption of Real Estate Investment Firms from income tax and the reduction of WHT on Unit Trust income. By exempting such companies from having to deduct WHT on dividends that they pay out, the Act eliminates the existing tax law impediments to the formation of unit trusts in Nigeria. Neutral tax consequences for Regulated Securities Lending Transactions, with the exception of those transactions subject to income tax; exemption from VAT and stamp duties on Regulated Securities Lending and a lower 2.5% WHT rate for road, bridge, building and power plant construction.

Another tax implication of the finance Act is in relation to CITA amendments. Such that now, companies with 25 million annual gross turnover or less are now referred to as small companies and given exemptions from CIT while those with annual gross turnover of over N25, 000,000.00 (Twenty Five Million Naira) per annum but less than N100, 000, 000.00 (One Hundred Million Naira) are grouped as medium companies and will now pay CIT at 20% while other companies above the medium category pay CIT at 30%.These changes especially for business owners are highly riveting (Oyedele , 2020).

Tax policy and Business Sustainability

Within the contest of this study and from extant literatures business performance has being used as proxy for business sustainability. Hence existing empirical evidence clearly indicates businesses are affected disproportionately by the aftermath of tax policies as cost of compliance are higher for some than for others especially large businesses (Weichenrieder, 2007). Several studies have examines the impact of taxes and tax policy on business performance, growth foreign direct investment inflows and several other indicators. The results are quite similar to a large extent but still exhibit several uniqueness. For instance, with special focus on the Pioneer Status Tax holiday scheme, Jamani and Urhoghide (2017) examined the influence of tax incentives on FDI flows. In order to observe the relationship between FDI inflow and tax incentives calculated using the PSTH during the period 2000Q1-2016Q4, this study uses ordinary least square regression on time series results. The CBN statistical bulletins were the source of secondary data.The findings of the study reveal that it is likely that more economic fundamentals will matter more than simply tax reforms and secondly, the extent to which tax reforms will be impactful tax will also be largely moderated by industry characteristics.

The study Chukwumerije and Akinyomi (2011) looked at the effect of tax incentives on the performance of SME's in the food and beverage and manufacturing industries in Rivers State, Nigeria. The simple random sampling technique was used to select 22 SME's and primary data retrieved using structured questionnaires distributed to the respondents was used in the study. The study used chi-square analysis technique and found out that tax policy did not positively affect financial performance, growth and development of SME's in Rivers State.

A similar study was carried out by Nwamuo (2017) for SME's in Aba Metropolis which is well known as a commercial nerve center for small businesses in Nigeria. The study adopted a survey research design and looked particularly at the impact of multiple taxation on business performance. Structured questionnaire was employed in retrieving data from a sample of 80 business operators in Aba metropolis. The analysis of the data and the findings revealed that multiple taxation affects businesses negatively because it increases the operating cost and thereby bringing down profit margins in an already challenging business environment. The direct effect of all these is that businesses find it difficult to survive.

Empirical evidence from Northern-Nigeria is provided in the study of Bello (2018) which also examined the effect of multiple taxation on profitability of Businesses in Taraba State, Nigeria. A survey design was adopted on 98 respondents involving the entrepreneurs and staff sampled from the 15 bread bakeries in Jalingo metropolis. Random sampling was used in selecting the respondents. The modified Linkert's pattern of data measurement was adopted. Questionnaires were administered on the two samples of respondents namely: entrepreneurs and their employees. It was discovered that multiple taxes negatively affect sustainability of small scale business.

The role of tax policies on the performance of SME's in Ondo State was also investigated by Aribaba, Oladele, Ahmodu and Yusuff (2019). The study focused primarily on the role of multiple taxes, tax rates and tax incentives. They used a survey research design in their study and employed a sample of nine local government areas with a good number of registered SMEs in Ondo State under the Small and Medium-Scale Enterprise Development Agency of Nigeria (SMEDAN). Using questionnaires, primary data was obtained and the data collected was calculated using ordered logistic regression to evaluate the formulated hypotheses. The study findings reveal that study revealed that multiple taxation has a negative impact on entrepreneurship sustainability implying that multiple taxation increase the rate of SME mortality but in the case of tax rates and incentives the study showed a positive effect on the extent to which entrepreneurship can be sustained.

Using a more advanced statistical technique, Adefeso (2018) employed the generalized method of moments (GMM) technique to examine the nexus between corporate tax policy and the performance of listed firms in Nigeria. The study employed a sample of 54 randomly selected non-financial listed companies covering the period from 1990-2002. The findings of the study show that there is a positive relationship between corporate tax policy and the output performance in Nigeria.

Theoretical Framework

Slemrod (1990) developed the optimal tax theory, which relates to the production and implementation of tax policies that minimize market inefficiency and distortion under economic constraints (Slemrod, 1990). The standard theory of optimal taxation points out that to maximize a social welfare function subject to a collection of constraints, tax should be chosen (Mankiw et al., 2009). Furthermore, learning how to use socially efficient means to increase the number of results from a heterogeneous population when the first best result is not feasible is the design of the optimal tax theory. In the context of this research, the nature of the principle is that tax policy can be initiated purposely in such a way that it eliminates the distortion of business operations and results.

METHODOLOGY

This study employs secondary data research by adopting the CBN quarterly National Business Index (NBI). The CBN began pulling business survey data across the country in second quarter 2008 and the data is gotten from surveys which are conducted on a quarterly basis to collect information that relates to SME's in relation to their business performances. The survey is designed survey opinions of senior executives or owners of the business enterprises using the stratified sampling procedure of businesses registered with the corporate affairs commission (CAC). The survey covers several sectors such as industrial, services, financial, wholesale and retail, community and social services, hotels, construction, financial intermediation, renting and business activities. The sectors covered have been selected on the basis of their significant contribution to GDP. A total of 1950 firms nationwide, drawn from updated survey frame of both the Central Bank of Nigeria and the National Bureau of Statistics(NBS) was used for the study. The data analysis techniques employed in the study is the descriptive statistics, correlation statistics and the granger causality test.

Presentation of Results

Table 1: National Business Index (NBI) Pre and Post NTP 2017.

Year		Industrial Sector	Construction Sector	Services Sector	Financial Intermediation	Hotels and Restaurants	Renting and Business Activities	Community and Social Services
2015	Q1	7.5	-4.3	10.0	12.6	22.0	-1.7	23.7
	Q2	0.4	-8.0	7.8	4.8	8.1	-2.1	15.6
	Q3	11.8	5.6	10.6	23.2	45.1	8.5	15.5
	Q4	9.0	-2.9	11.2	9.5	9.3	7.8	9.5
2016	Q1	-10.8	-10.6	-12.0	-8.6	-17.2	-23.9	5.1
	Q2	-15.7	-19.0	-11.9	-7.5	-12.9	-18.2	4.8
	Q3	-38.7	-25.0	-26.0	-11.8	-5.3	-18.8	-11.6
	Q4	-32.4	-29.3	-28.7	-26.6	-8.3	-29.7	-30.3
2017	National Tax Policy Adoption Year							
2018	Q1	8.15	2.4	0	7.75	9.7	4.75	7.7
	Q2	26.33	40.86	22	33.3	47.533	9.56	28.433
	Q3	16.06	16.46	13.3	23.53	31.633	14.6	14.833
	Q4	24	19.83	29.73	26.9	34.4	23.86	19.46
2019	Q1	27.533	16.66	18.2	25.73	32	13.266	24.86
	Q2	28.83	26.43	27.83	28.96	37.2	20.4	25.36
	Q3	29.16	20.266	25.066	27.8	33.86	25.733	24.666
	Q4	27.966	19.766	30.8	29.7	29.93	28.666	27.26

Source: CBN (2020) Statistical Bullet

Table 1 shows the National Business Index from Q1-2015- Q4-2019 across the sectors covered in the CBN business expectations survey. As indicated earlier, the sectors are selected based on their contributions to GDP. 2015 and 2016 are examined here because they represents periods before the 2017 NTP while 2018 and 2019 are examined because they represent periods after the passing to law of the 2017 NTP. The results reveal that for industrial sector NBI in 2015 was positive across all quarters but highest in Q3 at 11.8 and lowest at Q2 at 0.4 but in 2016 we observed a downward trend with negative values across all quarters and this indicates that businesses had negative expectations regarding the economic environment and thus the sustainability of business. After the NTP in 2017, the survey shows quite optimistic business expectations for the industrial sector in 2018 across all quarters; Q1 (8.15), Q2 (26.33), Q3 (16.06) and Q4 (24) and in 2019 all quarters; Q1 (27.533), Q2 (28.83), Q3 (29.16) and Q4(27.97).

For the construction sector in 201, we observe a very pessimistic business outlook across all quarters except for Q3 (5.6) and in 2016, it was similar to that of the industrial sector with all negative values across all quarters. However, in the post NTP periods of 2018 and 2019, the survey shows quite optimistic business expectations for the construction sector in 2018; Q1 (8.15), Q2 (26.33), Q3 (16.06) and Q4 (24) and in 2019 all quarters; Q1 (27.533), Q2 (28.83), Q3 (29.16) and Q4 (27.97). For the services sector, NBI showed positive views in 2015 across all quarters with the highest at Q4 (11.2) and lowest at Q2 (7.8) but in 2016, the indicators suggest pessimistic business outlook as shown by negative across all quarters. However, the survey shows very optimistic business expectations for the services sector in 2018 starting from Q2. However, in the post NTP periods of 2018 and 2019, the survey shows quite optimistic business expectations for the services sector in 2018 beginning from Q2 (22), Q3 (13.3) and Q4 (29.4) and in 2019 all quarters; Q1 (18.2), Q2 (27.83), Q3 (25.066) and Q4(30.8).

For the financial intermediation sector in 2015 indicated optimistic view across all quarters with the highest at Q3 (23.2) and lowest at Q2(4.8) but in 2016, the indicators all suggest gloomy business outlook as indicated by negative correlation estimates across all quarters but in the post NTP periods of 2018 and 2019, the survey shows positive business expectations for the financial intermediation sector in 2018 Q1 (8.15), Q2 (26.33), Q3 (16.06) and Q4 (24) and in 2019 all quarters; Q1 (27.533), Q2 (28.83), Q3 (29.16) and Q4(27.97). For the hotels and Restaurants' a similar positive business outlook is observed in 2015 and then in 2016, we observe negative values indicating threats to business sustainability. However, in the post NTP periods of 2018 and 2019, the survey shows and upward review of business expectations as indicated by the positive values across all quarters; Q1 (9.7), Q2 (47.533), Q3 (31.633) and Q4 (34.4) and also for all quarters in 2019; Q1 (32), Q2 (37.2), Q3 (33.86) and Q4 (29.93).

For Renting and Business Activities services sector, in 2015 showed negative business expectations in the first 2 quarters Q1(-1.7) and Q2(-2.1) but then moved into positive outlook in quarters Q3(8.5) and Q4(7.8). Similar to business expectations in other sector, in the post NTP periods of 2018 and 2019, the survey shows positive index values for the Renting and Business Activities sector, in 2018 Q1 (4.75), Q2 (9.56), Q3 (14.6) and Q4 (23.8) and in 2019 all quarters; Q1 (13.27), Q2 (20.4), Q3 (25.7) and Q4(28.67). NBI showed positive market expectations for the

Community and Social Services sector in 2015 across all quarters and negative NBI values were also observed in 2016 except in Q3 and Q4, however the survey shows positive NBI values in the post NTP periods of 2018 and 2019, indicating business sustainability prospects in 2018 and 2019 across all quarters. While the overall result shows that NBI values tend to be better in 2018 and 2019, which are post-NTP periods compared to 2015 and 2016, it may still be premature to largely relate these events to the implementation of the NTP, taking into account that larger macro-economic circumstances are equally relevant but also intertwined with fiscal policy which covers NTP and thus further empirical estimations are examined.

Table 2: Correlations between NBI and NTP

	IND	CONST	W/R	SERVI	FINAN	HOTELS	ESTATE	C/S-S	NTP
IND	1								
CONST	0.8075*	1							
	(0.00)								
WHRETAIL	0.873*	0.779*	1						
	(0.00)	(0.00)							
SERVI	0.9088*	0.7849*	0.8836*	1					
	(0.00)	(0.00)	(0.00)						
FINAN	0.7655*	0.665*	0.6782*	0.7157	1				
	(0.00)	(0.00)	(0.00)	(0.00)					
HOTELS	0.8086*	0.7521*	0.8283	0.8354	0.6279	1			
	(0.00)	(0.00)	(0.000)	(0.000)	(0.000)				
ESTATE	0.7213*	0.621*	0.6816	0.6995	0.573	0.613398	1		
	(0.00)	(0.00)	(0.00)	(0.00)	(0.000)	(0.000)			
COMM	0.6058*	0.4045*	0.433	0.4881	0.4665	0.397518	0.6773	1	
	(0.00)	(0.004)	(0.002)	(0.001)	(0.001)	(0.006)	(0.00)		
NTP	0.0071	-0.008	0.0005	-0.071	0.050	-0.0586**	0.04571**	-0.0875**	1
	(0.000)	(0.956)	(0.068)	(0.6339)	(0.7351)	(0.069)	(0.0760)	(0.0558)	

Source: CBN (2020) Statistical Bullet * sig @ 5%, **sig @10%

The Pearson correlation result is presented in table 2 and of importance to this study is the correlations between National tax policy dummy variable (NTP) and the business expectations index which is used as the measure for business sustainability. As observed, we find a positive correlation between Industrial sector business outlook and NTP (r=0.0071, p=0.00) and this implies that tax policy is significantly associated with industrial sector business sustainability in Nigeria. The correlations between business sustainability outlook for the construction sector and NTP $_{is}$ negative though not significant (r=-0.008, p=0.956) at 5%. The correlations between business sustainability outlook for the wholesale and retail (W/S) sectors and NTP_{dummy} is positive and also significant (r=0.0005, p=0.038) at 5%. The correlations between business sustainability outlook for the services sectors and NTP_{is} negative and also significant (r=-0.071, p=0.038) at 5% and this suggest that the NTP may have associated with downbeat business sustainability outlook for businesses in the services sector. The correlations between business sustainability outlook for the hotel sector and NTP $_{is}$ negative and significant at 10% (r=-0.0586, p=0.069) at 5%.

The correlations between business sustainability outlook for the financial intermediation sectors (FINAN) and NTP is positive thought not significant (r=0.050, p=0.7351) at 5%. The correlations between business sustainability outlook for the estate sector and NTP is positive and significant at 10% (r=0.046, p=0.076) at 5%. The correlations between business sustainability outlook for the community and social services sector (C/S-S) and NTP is negative and significant (r=-0.087, p=0.0558) at 5%. It is important to point out that the correlations between NTP and NBI all exhibit quite weak coefficients and none shows statistical significance at 5% and this possibly implies that the NTP may not be associated strongly with growth and performance of businesses in Nigeria. In this regards, Newman (2019) pointed out that a reason for this may not be far from the fact that Federal Government lacks the constitutional powers to unilaterally formulate a national tax policy that stipulates guidelines on tax administration for all tiers of government and thus in practice most state tax authorities hardly refer to the provisions of the NTP in decision making.

Thus given that the NBI is based on data from the 6 geo-political zones in Nigeria, it may reflect the impact of NTP based also on what the situation is in the respective states.Hence, we accept the null hypothesis that NTP has no significant influence on business outlook index across all business sectors in Nigeria. The results supports that a significant amount of businesses do not think that the NTP has any significant effect on their business performance and sustainability. This may be borne out of the notion which has dominated recent narratives on NTP that there will be significant challenges relating to the implementation of the NTP recommendations on specific tax issues that deal directly with business such as multiple taxation. The NTP drafting committee accepted this fact and therefore proposed the need for tax harmonisation. They did not, however, suggest the appropriate measures to be taken in that direction. Finally, without the modification of the 1999 CFRN, the introduction of the national tax policy could not be successful in enshrining the principles of fiscal federalism and extending the taxation powers of States. This is more so because the NTP is seen by States and Local Governments as a tax reform program of the Federal Government that has not answered the concerns of state and local government authorities on the issue of taxation.

Summary, Conclusion and Recommendations

The aim of this study was to empirically examine the extent to which NTP influences business outlook index and hence business sustainability in Nigeria. The study employs the survey research methodology and, in this regards, it adopts the Central bank of Nigeria quarterly NBI survey outcomes. On the overall, the results reveals that the correlations between NTP and NBI all exhibit quite weak coefficients and none shows statistical significance at 5% and this possibly implies that the NTP may not be associated strongly with growth and performance of businesses in Nigeria. However, the study is optimistic that with the passing of the finance Act (2020) where several specific policy changes were looked into ranging from elimination of double taxation arising from excess dividend tax, an issue that plagued companies shortly before the passage of the Act, exemption of small companies from tax liability, medium-sized companies shall pay Income Tax at the rate of 20% and then to companies other than small or medium sized companies are defined as large companies and their income tax rate is stated to be 30%. These changes especially for business owners in Micro, Small and Medium Scale (MSMEs) and Medium Scale Enterprises (SMEs) are highly riveting. The study recommends effective implementation of the finance act across all states to eliminate a case of selective implementation. There is the need for tax policy to drive growth of businesses in Nigeria and thus, it is recommended that tax authorities invest in tax payer education and enlightenment as this will go a long way in ensuring that businesses take advantage of the tax policies put in place to help them

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