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IMPACT OF COMPANIES' INCOME TAX AND VALUE ADDED TAX ON REVENUE GENERATION IN NIGERIA

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Abstract

This study examined the impact of companies' income tax (CIT) and value added tax (VAT) on Federal Government revenue generation in Nigeria. The study adopted the ex-post facto research design. Time series data were sourced from Central Bank of Nigeria Statistical Bulletins, Federal Inland Revenue Service Gauge, Planning, Research and Statistics Department for a period of 15 years (2001-2016). Three hypotheses were formulated and tested using multiple regression, analysis of variance (ANOVA) and Pearson product moment correlation with the aid of SPSS 20.0. The results showed that CIT and VAT contribute positively and significantly to revenue. There is also a positive and insignificant difference between actual CIT and VAT revenue on federally generated revenue. Lastly, there is a positive and significant relationship between CIT and VAT revenue on federally generated revenue in Nigeria. The Study concluded that CIT and VAT contribute positively to revenue in Nigeria. It recommended that, government should devise a means to bring more taxpayers especially those in the informal sector who do not pay VAT into the tax net, as this, can bring about more significant contribution to revenue in Nigeria. There should be constant training and re-training of Federal Inland Revenue Service staff to bring them up-to-date with modern methods of collecting and remitting CIT and VAT revenue, as this, can result in positive and significant difference between actual and targeted revenue. Finally, the government should collaborate with professional associations to increase their support in order to reduce connivance among taxpayers to evade tax payment.

Keywords: Companies' income tax, value added tax, revenue generation, Nigeria

1. Introduction

One major challenge facing the Nigeria's economy is the diversification of its revenue base. The need to diversify from oil to the non-oil sector has become important with the decline in the price of crude oil in recent years, which have led to a decrease in funds available for use by government (Afuberoh & Okoye, 2014). It has therefore become a matter of great importance for government to generate revenue from internal sources to finance its activities and prevent the economy from stagnation or total collapse as envisioned by low revenue base. The government thus reformed its existing tax policies, laws, and administration, which are components of the tax system as a measure to tackle low revenue generation from taxes (Oriakhi & Ahuru, 2014).

Odusola (2006) asserts that though the federal government carried out some tax reforms during the military era, these did not contain adequate initiatives for sustainable revenue yield. Whichever way we view tax reforms, it aimed at eliminating or reducing loopholes to an acceptable extent and provide fiscal institutions the needed power to adhere to the tenets of fiscal responsibility and accountability.

The origin of Value Added Tax (VAT) in Nigeria can be traced to the Dr. Sylvester Ugoh Study Group on indirect taxation inaugurated on the 20th of April, 1991, and was assigned to assess Nigerian indirect tax system. Thereafter, a committee was set up under the leadership of Mr. Emmanuel Ijewere to conduct a broad study and make recommendations. A major outcome of the committee's report was the shift from foreign

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trade activity based taxes toward consumption-based tax. To this extent, VAT came into being by decree No. 102 of 1993 as a replacement of sales tax, which had been operational under the Federal Government Legislated Decree No.7 of 1986 but administered by the States and the Federal capital territory (Ugwu & Embuka, 2012). A number of factors and considerations motivated the reason behind the replacement (Ogungbesan, 2015; Soyode & Kayola, 2006). Notable among them were that; sales tax promulgated into existence by Decree No. 7 of 1986 had a narrow base and covered only nine (9) categories of goods plus sales and services in registered hotels, motels, and similar establishments. In addition, sales tax targeted only locally manufactured goods, which may not have been the intention of the law, as import was encouraged and export discouraged. Since its implementation in 1994, VAT has gone a long way in contributing to the revenue base of Nigeria. In terms of contributions to total federally collected revenue, VAT accounted for about 4.06% in 1994 and 5.93% in 1995. ₦404.5billion was collected on VAT (5.1% of total revenue) in 2008 (Adereti, Sanni & Adesina, 2011).

Subsequently, in order to reposition and bring more taxpayers into the tax net, the VAT Act of 1993 was amended in 1996, 1999 and most recently in 2007. More so, the VAT policy with respect to the sharing formula has also been reviewed. A critical examination of the current formula: Federal Government 15%, State Government 50% and Local.

Government 35%, shows clearly that VAT was targeted to favour development at the lower-tier level of government (Oriakhi & Ahuru, 2014). Attempt by government to review the VAT rate from 5%, which is one of the lowest in the world today and in the West Africa sub-region (Olaoye, 2004), to 10% on May 23, 2007, was rejected by Nigerians and the Nigeria Labour Congress went on five days strike which eventually brought the economy to an abrupt halt.

Similarly, companies' income tax (CIT) is not a novel tax in Nigeria. Its origin can be traced back to 1943 when the Nigeria Inland Revenue Department was carved out of the Inland Revenue Department of British West Africa (Aguolu, 2014). Since then, the tax laws, policies, and administration of companies' income tax have been reformed with the motive of eradicating or reducing the problems of evasion and avoidance besetting income tax in Nigeria. This, in turn, will boost the revenue yield to the government. Azubuike (2009) notes that tax reform is an on-going process, with tax policymakers and tax administrators continually adopting the tax systems to reflect changing economic, social and political circumstances in the economy. This made the government reconsider its laws in 1961 with the establishment of Companies Income Tax Act (CITA) No. 22 1961 which was a landmark law. First, because from the date of enforcement, the provisions of Income Tax Ordinance and the Income Tax Administration Ordinance together with all rules made under them ceased to be effective with respect to companies' income tax. Second, the Act established the Federal Board of Inland Revenue as a statutory body and vested in it the power to administer companies income tax, as well as all Federal taxes (Gwangdi & Garba, 2015). Further reviews were carried out in 1979, 1993, 1999, and 2007. These reforms on companies' income tax were made to diversify the economy from the oil sector, which has dominated the revenue base of Nigeria for so long to the non-oil sector.

Companies' income tax is chargeable on the total profit of all companies operating in Nigeria except those that are specifically exempted by the enabling Act. The Federal Inland Revenue Service using the Companies Income Tax Act (CITA) of 2007 (as amended) administers it. Section 40 of CITA provides that Companies income tax shall be levied and payable for each year of assessment at the rate of thirty kobos for every Naira in respect of a company's total profit. For calculating the amount of tax payable by a company, the Federal Inland Revenue Service (FIRS) normally makes use of the audited accounts of the company, which is adjusted to arrive at a taxable profit at a tax rate of 30% (Olufunke, 2012).

2. Statement of the problem

The recurrent problem of the three tiers of government in Nigeria is the decreasing revenue as portrayed by the annual budget deficits and insufficient funds for meaningful growth and viable development of projects (Onaolapo, Aworemi & Ajala, 2013). The excessive dependency of the economy on crude oil sales proceeds to the total of other revenue sources have led to the neglect of companies income tax and value added tax as viable revenue sources in Nigeria, which over time, has led to low revenue generation to the government (Oriakhi & Ahuru, 2014). Low revenue to government has made government to result in external borrowing which has grave consequences to the Nigeria's economy.

However, the main objective of tax reforms is to contribute to the well-being of all Nigerians directly through improved policy formulation and indirectly through efficient utilization of tax revenues generated for the benefit of the people (Presidential Committee on National Tax Policy, 2008). Studies have showed that developed nations of the world have continued their development through CIT and VAT. A critical example of governments that have influence their economic development through revenue from taxes include; Canada, United States, Netherland, United Kingdom and have used same to create prosperity (Oluba, 2008). Nevertheless, this has not been the case in Nigeria. Although, some studies have been carried out in Nigeria on either CIT or VAT; like the work of Abiola (2011). He carried out a research on the recent developments in company's income taxation in Nigeria. Whereas, Adereti et al (2011) carried out a study on value added tax and economic growth in Nigeria. Okafor (2012) studied the impact of tax revenue on the economic growth in Nigeria, did not separate the impact of CIT and VAT on federal revenue in Nigeria. Therefore, this study was carried out to fill in the gap in literature on the impact CIT and VAT on federal revenue generation in Nigeria, a period of 15years. In order to guide the research, the researchers put forward the following specific objectives:

i. To ascertain the contribution of companies income tax and value added tax on federally generated revenue in Nigeria.

ii. To determine the impact of variance between actual and targeted collections of revenue from companies income tax and value added tax on federally generated revenue in Nigeria.

iii. To determine the relationship between companies income tax and value added tax on federally generated revenue in Nigeria.

The hypotheses emanating from the following specific objectives are:

i. CIT and VAT do not contribute significantly to federally generated revenue in Nigeria.

ii. There is no significant difference between targeted and actual collections of CIT and VAT to federally generated revenue in Nigeria.

3. Review of Related Literature

Every country tries to display sustainable economic growth and development through the realization of funds for that purpose. Sustainable development involves all aspects of man's social, economic, political and institutional structure that keep the society working (Todara & Smith, 2004). Taxation provides that structure for the realization of revenue for the government to actualize its duties to the citizens. Every nation depends heavily on taxation as it provides a stable and consistent source of revenue to the government.

According to Ifurueze and Ekezie (2014), tax is "a compulsory levy imposed on a subject or upon his property by the government to generate the needed revenue for the provision of basic amenities and create an enabling condition or the economic well-being of the society". Adesina (2001) defines Taxation as "a compulsory levy imposed by the government on the people in a country". He defined three major characteristics of tax, which according to him are: tax is a compulsory levy, tax is a contribution to finance the cost incurred by the state and tax is not impose in return for any specific services rendered by the government to the taxpayer. He therefore said that tax is a system of imposing a compulsory levy on all income, goods, services and properties, individual, partnership, trustees, executors and companies by the government backed up by Law.

The Nigerian tax structure is classified into two types, namely, direct tax, and the indirect tax.

Aguolu (2004) defines a direct tax as taxes levied on the income of individual, business firms and is paid directly by the person or persons on which it is legally imposed on by the tax authority. Examples include personal income tax, companies' income tax, withholding tax, capital gains tax, and petroleum profit tax. When it is levied on the price of goods and services, it is called an indirect tax. Indirect tax is payable on the consumption of products and services associated with import duties/tariffs, export duties, value added tax and excise duties (Anyaduba, 2004).

Tax reforms were borne out because of the nature of tax structure, which according to Anyanwu (1997) was complex, inelastic, inefficient, inequitable and unfair. More so, tax is dynamic, reforms are important to effect the required changes in the national economy (Ola, 2001). For the government to generate optimum revenue from a tax system among others of its objectives, it should display the following in line with (Adam Smith 1776) cannon of taxation cited in Nightingale (2002): Equitability, Neutrality, efficiency, flexibility, and simplicity.

4. Overview of Tax Reforms in the Nigerian Tax System

Tax reforms in the Nigerian tax system have offered itself as an effective tool for revenue generation to the government. According to Ariyo (1997), a country's tax system is a major contributing factor of other macroeconomic index specifically for both developed and developing economies; there exist a relationship between tax structure and the level of nation's revenue in term of economic growth and development. Alli (2009) suggests the objectives of tax reforms in Nigeria are; to bridge the gap between the country's development needs and the funding of the needs, to promote taxation as a fiscal policy instrument, to improve on the level of tax revenue generation from non-oil activities in relation to revenue derived from oil activities, to facilitate efforts at constantly reviewing the tax laws to reduce and manage tax evasion and avoidance, to achieve improved service delivery by the tax institutions to the public, to improve the tax administration to make it more efficient, responsive, reliable, skilful and taxpayers friendly; and to achieve other fiscal objectives.

The government embarked upon the latest tax reform process by instituting a Study Group, headed by Prof. Dotun Phillips, an economist, to review the Nigerian tax system, consisting of individuals from business, academia, and the government to study the present tax laws and recommend the appropriate reform in general and their impact on the overall economy. The Study Group submitted its report in 2003, and it contained important recommendations. It recommended that Nigeria needed a national tax policy that is directed towards national development. Such national policy will constitute a means of attracting foreign direct investment, providing direction and focus on general tax practices, blending various opinions on taxes of different kinds as well as the issues surrounding those opinions, consolidation of several policy documents into a single document for easy reference (FIRS Hand Book, 2012).

In addition, the Study Group made certain recommendations, which among others include: taxation should henceforth be regarded as an obligation for any Nigerian citizen that expects the government to provide basic amenities and meet other statutory obligations; authorized tax administrators should only collect taxation. Hence, there is a prohibition of the act of using consultants and ad hoc tax administrators. The country should shift from direct taxation to indirect taxation, which has a less distortionary effect. Compilation of registers for individuals and corporate taxpayers, and the issuance of smart tax identity cards for all taxpayers and lastly, the reduction of company income tax from 30 per cent to 20 per cent and personal income tax from 25 to 17.5 per cent.

Subsequently, a Working Group was convened in 2004 by the former minister of finance, Dr. Ngozi Okonji Iweala and headed by Seyi Bickersteth, it was established to review the recommendations of the Study Group. Whilst the Working Group agreed with the Study Group that the Nigerian tax system had to be restructured and managed to encourage economic growth on a sustainable measure, it disagreed with the recommendation of the Study Group on the replacement of the existing tax system with a broad-based income tax and expenditure taxes (Abiola, 2011). The implementation of some of the recommendations reports led to the Value Added Tax (Amendment) Act, 2007; which intended to broaden the value added tax base and improve the machinery for its collection. Similarly, the Companies Income Tax (Amendment) Act 2007; the Federal Inland Revenue Services (Establishment) Act, 2007 and The Personal Income tax (Amendment) Act, 2011, were all designed at enhancing tax compliance and boosting tax yield (Aguolu, 2010). However, since the implementation of the tax reforms in Nigeria, there has been a significant improvement in government revenue, especially non-oil revenue. In 2005, targeted revenue was N1.3trillion but the actual revenue was surpassed and the government realized N1.7trillion. By 2006, though the actual tax revenue fell short of the projected tax revenue, but the revenue collected for that year marked an improvement over the previous year. Prior to 2004, actual collected tax revenue never exceeded N1 trillion (FIRS Gauge, 2012). In the year 2007, actual collected revenue was 105.3 per cent of targeted tax revenue. In the year 2008, tax revenue realized stood at 2.972 trillion, which was above the cumulative tax revenue for the past eight years (1996-2003) preceding the reform years. Cumulative tax revenue between 1996-2003 was N2.682trillion (Oriahki & Ahuru, 2014).

5. Structure of Tax Administration in Nigeria

According to Odusola (2006), Nigeria operates a three-tier government that is Federal, State, and Local government, with certain fiscal duties and power assigned to each. For the purpose of multiplicity in the collections and remittances of taxes to be avoided, the Joint Tax Board (JTB) was instructed to publicize the taxes each tier is empowered to levy and collect. This became operational 1 April 1997 and received statutory backing with the enactment of Decree No. 21 of 1998.

Federal Taxes

According to Okafor (2012), the federal tax system in Nigeria refers to the range of taxes over which the Federal government has exclusive control. The system also covers the machinery put in place by the government for the administration and collection of such taxes. These include personal income tax, company income tax, petroleum profits tax, value-added tax, education tax, capital gains tax, customs and excise tax, minerals and mining tax and stamp duties (Odusola, 2006).

State Taxes

Oluba (2008) posits that the State Board of Internal Revenue through its operational arm, the State Internal Revenue Service collects taxes from individuals and partnerships resident in the states. Taxes collected go to the state government and these taxes include personal income tax in respect of pay - as -you - earn (paye) and direct taxation (self-assessment), withholding tax (individual only), capital gain tax (individual only), stamp duties on instrument executed by the individual, road taxes and market taxes and levies (Prest, 2004).

Local Government Taxes

The Local Government Revenue Committee is charged with the responsibility for the assessment and collection of all taxes, fines, fees and rates under its jurisdiction and shall account for all amounts so collected in a manner to be prescribed by the chairman of the local government. PITA 1993 (S. 85D), which established the committee, directs that it shall be autonomous of the local government treasury and shall be responsible for the day-to-day administration of the Local Government Revenue Department, which is its operational arm. The committee is headed by a Chairman/CEO and is responsible for: shops and kiosks rates; tenement rates; on and off liquor license fees; slaughter slab fees; marriage, birth and death registration fees; naming of streets registration fee, excluding any street in the state capital. Right of occupancy fees on lands in rural areas excluding those collectible by the federal and state governments, market taxes and levies excluding any market where state finance is involved, motor park levies, domestic animal license fees, bicycle, truck, canoe, wheelbarrow and cart fees, cattle tax payable by cattle, merriment and road closure levy, radio and television license fees (other than radio and television transmitter),vehicle radio license fees (to be imposed by the local government of the state in which the car is registered).Wrong parking charges, public convenience, sewage and refuse disposal fees, customary burial ground permit fees, religious places establishment permit fees and signboard and advertisement (Nwosu, Tondo & Wali, 2016).

Issues in Tax Administration in Nigeria

It is worrisome that tax administration in Nigeria is still faced with some numerous problems which have hindered the collection and remittance processes. To Kiabel (2011), Soyode and Kajola (2006), tax administration is "the process of assessing and collecting taxes from individuals and companies by the relevant tax authorities, in such a way that correct amount assessed is collected efficiently and effectively with minimum tax avoidance or tax evasion. Ogbonna (2012) notes that tax administration "involves all the principles and strategies adopted by a government in order to plan, implore, collect, account and coordinate personnel charged with the responsibility of taxation". It also includes the effective use of tax revenue for efficient provision of necessary social amenities and other facilities for the taxpayers.

According to Jibrin, Blessing and Ifurueze (2006) inefficient tax administration in the collection and remittances of taxes is one of the major problems facing taxation in the world. To them, bad administration in the collection of taxes has led to tax evasion and avoidance. The problem of collection and administration are the major issues facing taxation (Udabah, 2002). Tax administration is problematic because of high rate of illiteracy, poor tax awareness and inadequate orientation (Ogbonna, 2010).

According to Soyode and Kajola (2006), problems of tax administration in Nigeria are as follows: Tax Evasion - tax evasion is a deliberate practice of not disclosing full taxable income to pay less tax. It is a contravention of tax laws, whereby a taxable person neglects to pay the tax due or reduces tax liability by making fraudulent or untrue claims on the income tax form. Refusal to register with the relevant tax authority; Failure to furnish a return, statement or information or keep records required; Making an incorrect return by omitting or understating an income liable to tax refusing or neglecting to pay tax; Overstating of expenses so as to reduce taxable profit or income are methods through which a taxpayer evade tax payment. A taxpayer may as well hides away totally without making any tax return at all and entering into artificial transactions. Tax avoidance - tax avoidance is an arrangement that allows the taxpayers' to use the tax shelters in the tax law, and avoid tax traps in the tax laws, pay less tax than what he or she would otherwise pay. Tax can be avoided through several ways. The ability to claim allowances and reliefs that are available in the tax laws in other to reduce the amount of income or profit to be charged to tax. Minimizing the incidence of high taxation by the acquisition of a business concern which has sustained heavy loss, so as to, set off the loss against future profits; are some of the ways tax payment can be avoided.

Companies Income Tax and Reforms in Nigeria

The Companies Income Tax Act (CITA) 2007 as amended defines a 'company' in section 105 as: "any company or corporation (other than corporate sole) established by or under any law in force in Nigeria or elsewhere. The tax is payable on each year of assessment on the profit of any company at the rate of 30%, these include profit accruing in, derived from or brought into or received from a trade, business or investment.

The first legislative law on Companies Income Tax in Nigeria was introduced in 1939 through the instrumentality of the Companies Income Tax Ordinance. Before the law came into existence, the regulation of personal and business taxation was vested in the same legal act.

The Companies Income tax Ordinance vested administration of the tax in a commissioner to be appointed for that purpose by the Governor and the proceeds from the tax were to be remitted to the government treasury to form part of the general revenue of Nigeria. This ordinance was found to be unproductive as it failed to bring individuals into the tax net (Gwangdi & Garba, 2015). The government in 1961 established the Companies Income Tax Act 1961 due to the weakness of the various ordinances. This Act, which was aimed at the exclusive taxation of companies in order to boost revenue yield was still ineffective, as further reviews were carried out in 1979 and 1993. On returning to democracy in 1999, the Obasanjo's administration quickly saw the need to broaden the revenue base of the nation, which led to reform in companies income tax.

In 2007, CITA 1979 was further amended by the Companies Income Tax (Amendment) Act 2007 to reflect some of the recommendations of the 2002 Study Group. The following changes were reflected in the 2007 amendment: Section 1 to 8 of the principal Act relating to the establishment, powers and proceedings of the Federal Board of Inland Revenue have been repealed by section 2 (1) of the 2007 Amendment Act. This repeal is consistent with the establishment of the Federal Inland Revenue service as the successor to the defunct Federal Board of Inland Revenue (FBIR). Section 4 of the 2007 Amendment Act requires an insurance company that engages the service of an insurance agent, loss adjuster or broker to include a schedule in its annual returns showing details of name, address, duration of employment and payments made to such agent, adjuster or broker. Section 5 of the Amendment Act exempts profits of companies operating in Export Processing Zone (EPZ) or Free Trade Zones from tax under the Act,100 percent of the company's production is for export otherwise proportionate tax is payable on local sales.

Section 14 of the amendment repealed section 56 of the principal Act, which provided for one per cent bonus of payable tax to a company that filed its return within the stipulated time. The fine payable as a general penalty has been increased from 200 naira to 20,000 naira while the fine payable for failure to furnish statements or keep records has been increased from 40 naira to 2000 naira. The power to vary or revoke the rate of companies income tax earlier vested in the president by section 100 is now vested in the National Assembly (Gwangdi & Garba, 2015).

Value Added Tax Evolution

Simply called the Goods and Services Tax (GST), it is levied on the value added that results from each exchange. It is an indirect tax collected from someone when goods are purchased or when services are rendered (Ochei, 2010). It was invented by a French Economist Maurice Laure in 1954 and was first introduced in France on April 10, 1954.

Value Added Tax (VAT) is a consumption tax payable on the goods and services consumed by any person, business organizations or individuals. It can also be defined as a tax on consumption levied at every stage of the transaction but eventually borne by the final consumer of such goods and services (Ugwu & Embuka, 2012). Bird (2005) defines value added tax as a multi-stage type of tax imposed on the value added of goods and services as they move through various stage of production and distribution and is eventually borne by the final consumer but collected at each stage of production and distribution. Jones (2003) also describes VAT as a tax levied at each stage of the distribution process when supply changes hands. In the case of manufactured items, this could be at the primary producer, manufacturer, wholesaler and retailer stages. It is ultimately borne by the consumer who after being registered for VAT purposed is unable to reclaim it. The definition by Jones suggests that there are intermediaries through which goods must pass before they reach the final consumer. Each time goods are moved from one stage to the other, value is being added to it. This value is taxed and borne by the final consumer. Adesola (2000) describes value added tax as a consumer tax and is charged before selling the goods. He said, value added tax is often defined as the sum of wages and profit.

VAT as a consumption tax is relatively easy to administer and difficult to evade (Owolabi & Okwu, 2011). These made several countries of the world to adopt it. The growing concern about economic efficiency and tax simplicity in a competitive and integrated economy (Jenkins & Kuo, 1995). Its adoption in Nigeria can be traced to the report of the committee set up by the Federal government in 1991 to review the entire tax system with a view of expanding the financial base for revenue generation. This need arose because sales tax could not guarantee wider and better tax administration, as many states were resentful of its uniform nature due to differences in their political orientation. The reasons behind the adoption of VAT in Nigeria can be summarized as the need to achieve Simplification of indirect tax system, enhancement of tax neutrally in international trade, reduction in tax evasion and expansion of tax base promotion and investment (Onaolapo, Aworemi & Ajala, 2013). Gendron (2005) who argues that consumption tax, such as VAT, is increasing being favoured as a tax base over income and allied items further amplified these points. Nairayan (2003) supports the introduction of VAT in Nigeria because it serves as an instrument for the engineering of balance of payments.

VAT was implemented in Nigeria in 1994 and prospective VAT payers, manufacturers, wholesalers, importers suppliers of taxable goods and services were required by decree No 102 of 1993 to register with the Federal Inland Revenue Services (FIRS), which centrally administers VAT. Certain goods and services have been exempted from the payment of VAT, it includes: all exported goods, medical and pharmaceutical products, products meant for kids, basic food items, commercial vehicles and their spare parts, books and other educational materials, fertilizer, farming machines, agricultural products, farming transportation equipment and veterinary medicines and magazines and newspapers (Owolabi & Okwu, 2011).

Administration of Valued Added Tax in Nigeria

According to Unwabuike (1998), the success or failure of any tax depends largely on the extent of how it is properly managed. The extent of a tax is being interpreted by its implementation as well as the publicity brought into it will determine how that particular tax is able to meet its objectives. Hence, one of the acid tests in the determination of the success of a tax is the management of the policy. Richard (1993) concluded that "the successful executions of fiscal policies depend not only on the quality of public administration but also on the formulation of policies that are realistically adapted to the available resources". The Value Added Tax (VAT) may be complicated to administer but it is not complex as personal or company income tax.

A new administrative structure was announced by the new Chairman of the FIRS in September 2004. As a first step, collection was integrated as a function of the ICT and PRS Division. Further, the different VAT and Area Tax Offices were collapsed into one-stop tax offices under the name Integrated Tax Offices (ITOs). As a follow up on these initial steps, the FIRS Management after due consultations with internal stakeholders identified seven strategic flanks upon which to drive the reform agenda. One of the earliest departments to be established in the era of reforms was the Process Operations Department (POD), which had five units, including, (i) Information Communication and Technology Unit; (ii) Bank Collection Services Unit; (iii) The Return and Payment Processing Unit; (iv) Tax Refund Processing Unit; and, (v) Procurement and Due Process Unit.

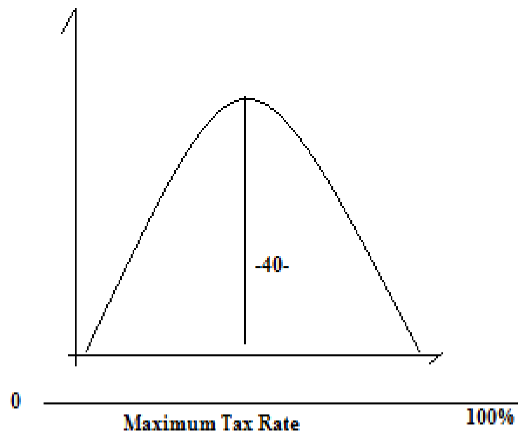
However, these new processes and unit faced serious challenges in the light of the existence of fraud syndicates and the absence of a secure electronic system. Yet another department was established. This was the Audit Department, because the new leadership realized that tax audit and investigation were core operational priorities of a modern system of administration. The existing units and processes in the pre-reform era lacked the requisite funding, training, independence and spread to function optimally. Added to these changes was the creation of the Tax Policy Research and Development Department (TPRD), which functions as the focal point of tax policy analysis, formulation and evaluation (FIRS HandBook, 2012).

6. Theoretical Framework

This study examined the Laffer curve theory, optimal tax theory, benefit received theory, Ibn Khaldun's theory and expediency of taxation.

Laffer Curve Theory

Professor Arthur Laffer propounded this theory; the theory explains the relationship between government revenue raised through taxation and all possible rates of taxation. The theory demonstrated with a curve (i.e. the laffer curve) which was constructed through experiment.



Source: Laffer Curve (2004, www.heritage.org)

It considers the amount of tax revenue raised at extreme tax rates of 0% and 100%, he concluded that at 100% tax rate no revenue is raise in the same way that 0% tax rate raises no revenue. This is because, at 100% rate, there is no incentive for companies or individuals to earn any income, thus, the revenue raised will be 100% of nothing. It follows that there must exist at least one rate in between where tax revenue would be a maximum. Laffer attributes the concept to Khaldun and Keynes. One potential result of this theory is that, increasing CIT and VAT rates beyond a certain point will become counter-productive for raising further tax revenue because of diminishing returns (Laffer, 2004).

Optimal TaxTheory

Another dimension to theory of tax reforms is the optimal tax reform theory. Under this theory, the best way to raise revenue is through taxing goods or factors with inelastic demand or supply. Taxing goods and services that individuals and companies regularly make use of, and do not have substitute, will make it difficult for taxpayers to evade tax payment. This is beneficial to the government because it would help them realize optimum revenue from taxpayers (Oriakhi & Ahuru, 2014).

Benefit Received Theory

This theory is based on the assumption that there is an exchange relationship between taxpayers and the state. The state provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received (Bhartia, 2009). Anyanfo (1996) argues that taxes should be allocated on the basis of benefits received from government expenditure. When taxpayers see what their realized revenue from CIT and VAT are used for, they comply more with tax payment, because they are assured government uses the realized revenue to provide essential services for their benefit.

This study is anchored on the Laffer curve theory of taxation. This theory explained that there is a maximum tax rate which government is sure to generate adequate revenue. Increasing the tax rate below or above the maximum rate becomes counter-productive, as no revenue would be earned from CIT and VAT.

7. Empirical Review

Abiola and Asiweh (2012) examined the impact of tax administration on government revenue in a developing economy a case study of Nigeria. The study made use of 121 online survey questionnaires containing 25 relevant questions. Descriptive statistics were used to analyze 93 usable responses. The study found among other things that increasing tax revenue is a function of effective enforcement strategy which is the pure responsibility of tax administration. Nigeria lack enforcement machineries which include among other things, adequate manpower, computers and effective postal and communication system. The study has clear practical implications for tax practitioners and governments policy makers in developing countries in particular.

Umoru and Anyiwe (2013) examined tax structure and economic growth in Nigeria by employing co integration and error correction as methods of empirical estimation with an empirical strategy of disaggregation. The results indicate that while the policy of direct taxation is significantly and positively correlated with economic growth, indirect taxation proved insignificant with its negative impact on economic growth in Nigeria. The study indeed ascertained that the tax-based revenue profile in Nigeria is skewed towards direct taxes. By implication, the global transition from direct taxation to indirect taxation lack empirical justification in developing countries such as Nigeria. Thus, it was recommended that rather than expand the indirect tax structures, the government should expand the structures of direct taxes in Nigeria.

Onaolapo, Aworemi and Ajala (2013) carried out a study to examine the impact of value added tax on revenue generation in Nigeria. The Secondary Source of data was sought from Central Bank of Nigeria statistical Bulleting (2010), Federal Inland Revenue Service Annual Reports and Chartered Institute of Taxation of Nigeria Journal. Data analysis was performed with the use of stepwise regression. Findings showed that value added tax have statistically significant effect on revenue generation in Nigeria. The study recommends that there should be dedication and apparent honest, on the parts of all agents of VAT with respect to the collection and payment and that government should try as much as possible to improve on the way of collecting value added tax.

Omesi, Teerah and Nzor (2014) carried out a study on Nigerian tax system and administration and the implications of multiple taxation on the economy. Their study revealed that some of the implications of multiple taxation in Nigeria include: constitution of illegal and inappropriate taxation and legislation, crippling of some sectors of the economy such as telecommunication industry and Nigeria waterways, it is a hindrance to investment in the country as well as displays of lawlessness in the process of tax collection contrary to the procedures laid down in the relevant tax laws for collection. The study recommended among others that the Joint Tax Board in the course of discharging its statutory functions should embark on new mass and awareness campaign on tax compliance and to advise Federal government to prevail on the State and Local governments to desist from collection of double taxation from manufacturers and other entrepreneurs.

Oriakhi and Ahuru (2014) carried out a study on the impact of tax reforms on tax revenue generation in Nigeria. The study employed annual time series data spanning the years (1981- 2011). The various income taxes were used as a proxy for tax reforms. By way of preliminary test, the Augmented Dickey fuller was employed to test for unit root. All the time series variables were non-stationary at levels but became stationary after first differencing. The Johansen's co-integration test shows that long-run relationship exists between tax reform and federally collected revenue in Nigeria. The Granger causality shows that custom and excise duties and value-added tax granger causes federally collected revenue. The Partial Stock Adjustment Model shows that the various income taxes were statistically significant and have positive relationship with federally collected revenue. The coefficient of the Error correction model showed that 66.2940 percent of the deviation of federally collected revenue from its long-run equilibrium value could be reconciled yearly. The study concluded that tax reform by improving the tax system and reducing tax burden enhances the ability of the government to generate more revenue. The study proposed that VAT and CED provides good tax handle for the government to maximize its revenue. However, to maximize revenue from these taxes, their administration should be improved upon with effort directed towards reducing tax avoidance and evasion.

Studies have showed that developed nations of the world have continued their development through CIT and VAT. A critical example of governments that have influence their economic development through revenue from taxes; Canada, United States, Netherland, United Kingdom and have used same to create prosperity (Oluba, 2008). Nevertheless, this has not been the case in Nigeria. Although, some studies have been carried out in Nigeria on CIT or VAT. They are often linked to economic growth; like the work of Abiola (2011) carried out a research on the recent developments in company's income taxation in Nigeria. Whereas, Adereti et al (2011) carried out a study on value added tax and economic growth in Nigeria. Okafor (2012) studied the impact of tax revenue on the economic growth in Nigeria, did not separate the impact of CIT and VAT on federal revenue in Nigeria. Therefore, this study was carried out to fill in the gap in literature on the impact of CIT and VAT on federal revenue generation in Nigeria for a period of 15years.

8. Methodology

The study used the ex-post facto design. The ex-post facto was used because all the data for the analysis are historical in nature and it is not within the reach of the researcher to manipulate figures that were obtained from CBN statistical bulletin and Federal Inland Revenue Service summary for the years under review. For the purpose of this research, secondary source of data were used. Secondary information were sourced from the publications of the Central Bank of Nigeria (CBN) such as the CBN Statistical Bulletin and CBN Annual Statement of Accounts as well as the publications of the Federal Inland Revenue Service (FIRS) and Journals for the 2001-2016.

Hypothesis 1 was analysed using regression.
Hypothesis 2 was tested using analysis of variance (ANOVA). In order to determine the relationship between the dependent and the independent variables, hypothesis 3 was tested using Pearson Product Moment Correlation. This study involves analysis of both dependent and independent variables. The dependent variable is revenue generation while the independent variables are companies' income tax and value added tax.

This study adopted a model by Oriahki and Ahuru (2014) which state that FCR = F (PPT, VAT, CED, CIT). This was however modified to suit the two independent variables, CIT and VAT. The model is stated as:

$$TFGR = F\ (VATCIT) \quad (1)$$
$$FGR = \beta0 + \beta1VAT\ CIT + \mathcal{E} \quad (2)$$

Where
βo = Intercept
β1 = Coefficient of the explanatory variable
VAT = Value added tax
CIT = Companies income tax
TFGR = Total Federally generated revenue
Ɛ = Stochastic disturbances/ variables
Based on apriori expectations, CIT and VAT are expected to contribute positively and have positive relationship with total federally generated revenue. Thus, βi>o where i = 1, 2.

Test of Hypotheses
Ho_1: CIT and VAT do not contribute significantly to federally generated revenue in Nigeria.

Descriptive Statistics

	Mean	Std. Deviation	N
TFGR	6081304.9240	3278347.39816	15
CITVAT	814479.33	646159.761	15

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.893[a]	.797	.781	1533059.87882	1.406

a. Predictors: (Constant), CITVAT

b. Dependent Variable: TFGR

Coefficients[a]

Model	Unstandardized	Standardized	T	Sig.

		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	2392310.117	650702.707		3.677	.003
	CITVAT	4.529	.634	.893	7.143	.000

a. Dependent Variable: TFGR

Source: SPSS 20.0

From the table above, the mean of total federally generated revenue is 6081304.9240 and that of CIT and VAT is 814479.33. The standard deviation for total federally generated revenue is 6081304.9240 and that of CIT and VAT is 814479.3. The regression equation above revealed that there has been a positive and significant increase in total federal generated revenue over the years. This is shown by the constant term showing a positive and significant value of 2392310.117. The coefficient value of CIT and VAT is at 4.529 which implied that, for 1 unit change in CIT and VAT, there is 4.529units increase in revenue generated by the government. The value of R-Squared and the F-Statistic show the statistical fit of the estimated model. The R-Squared which is the coefficient of determination is used to ascertain the goodness of fit as well as to explain variation of the explanatory variables of the model. From the table, 79.7% of the variation in revenue is explained by CIT and VAT. The result of the Durbin-Watson stat of 1.406 indicates the likely absence of autocorrelation in the model. Apriori signs indicate a positive and significant impact of CIT and VAT on federally generated revenue in Nigeria. P value of the F-Stat is (0.000) and indicates that the overall regression is statistically significant.

Decision Rule

The decision to accept or not to accept the null hypothesis is based on the test of significant from the result of the analysis. The test of the statistics indicates that the probability value of (0.000) < 0.05. On this note, we reject the null hypothesis and accept the alternative and conclude that CIT and VAT contribute positively and significantly on federal revenue generation in Nigeria.

Hypothesis Two

Ho_1: There is no significant difference between actual and targeted collection of CIT and VAT on federally generated revenue in Nigeria.

Table 2 Analysis of Variance (ANOVA) Result for Hypothesis Two

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	14163147372669.398	2	7081573686334.699	.623	.553[b]
	Residual	136302715910102.270	12	11358559659175.190		
	Total	150465863282771.660	14			

a. Dependent Variable: TFGR

a. Predictors: (Constant), TARGET, ACTUAL

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.307[a]	.094	-.057	3370246.23124

a. Predictors: (Constant), TARGETCITVAT, ACTUALCITVAT

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2569163.850	4107492.608		.625	.543
	ACTUAL_CIT_VAT	-104644.818	163374.737	-.289	-.641	.534
	TARGET_CIT_VAT	179390.145	168502.042	.481	1.065	.308

a. Dependent Variable: TFGR

Decision Rule

The decision to accept or not to accept the null hypothesis is based on the test of significant from the result of the analysis. The test of the F- statistics of the probability value indicates that the 0.553 > 0.05. On this note, we reject the alternative hypothesis and accept the null hypothesis and conclude that there is no significant difference between actual and targeted collections of CIT and VAT to total federally generated revenue. Although, the value of R=0.307 is positive but it is insignificant. Therefore, we concluded that, there is a positive but not significant difference between targeted CIT and VAT revenue to actual CIT and VAT revenue.

Discussion of Results

The findings of this study were discussed in this section. From the test of hypotheses, the following are the findings:

1. From hypothesis one, the results revealed that companies income tax and value added tax contribute positively and significantly to total federal generated revenue in Nigeria from 2000 to 2014. The value of the R-Squared explained that about 79.7% of the contribution on federally generated revenue in Nigeria for the period under reviewed is explained by companies income tax and value added tax. In other words, the higher the collections from companies income tax and value added tax in Nigeria, the higher the revenue. These results are in line with the works carried out by Eneojo and Gabriel (2014), Afuberoh and Okoye (2014), Onwuchekwa and Aruwa (2014). However, Okoli and Afolayan (2015) found out a negative contribution on federal revenue. This could be as a result of using custom and excise duties on federally generated revenue.

2. From hypothesis two, the result revealed that there is positive and insignificant difference between actual CIT and VAT collections to targeted CIT and VAT collections. This was observed from the chart. R=0.307 confirmed the above expectation. The probability value of the F-stat calculated is greater than the F-stat tabulated which is 0.553 > 0.05, which implied we accept the null hypothesis. These results are in line with Okafor (2012) and Oriahki and Ahuru (2014). FIRS gauge (2012) found out that actual revenue has always exceeded targeted revenue.

9. Conclusion and Recommendations

Government uses taxation as a medium of generating revenue all over the world. Nigeria is not an exception to this trend as government continually generates revenue from companies' income tax and value added tax despite the problem besetting income taxes. The twin problem of evasion and avoidance constitute a serious threat to revenue in Nigeria in spite of the various reforms undertaken by the government to reduce the problem besetting income taxes, as to bring more taxpayer to the tax net especially those in the informal sector.

Evidence from the study revealed that companies' income tax and value added tax contributes positively and significantly to revenue in Nigeria, there is a positive and insignificant difference between actual CIT and VAT revenue to targeted CIT and VAT revenue. Lastly, there is no positive and significant relationship between CIT and VAT revenue to federally generated revenue in Nigeria. The overall result of this study revealed that, companies' income tax and value added tax contributes positively and significantly to revenue in Nigeria.

Based on the findings of this study, the following recommendations were made:

1. Government should devise a means to bring more taxpayers especially those in the informal sector who do not pay VAT into the tax net, as this, can lead to more revenue generation from VAT to finance government deficit budget.
2. There should be constant training and re-training of Federal Inland Revenue Service staff to bring them up-to-date on modern methods of collecting and remitting CIT and VAT revenue, as this, will promote positive and significant difference actual and targeted revenue.
3. Government should collaborate with professional associations to increase their support in order to reduce connivance among taxpayers to evade tax payment.

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