Value added tax and the financial performance of quoted Agribusinesses in Nigeria

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Abstract

This study aimed at investigating the impact of value-added tax on corporate financial performance of quoted companies. To achieve this purpose, we developed some hypotheses and critically reviewed existing theoretical and empirical literatures. Agribusinesses quoted in the Nigerian Stock Exchange Factbook of 2009 were considered as the population for this study. The population elements include the General Managers, Chief Accountants, Finance Managers, Chief Internal Auditors, External Auditors, and Tax Administrators of the selected companies. A total of forty (42) respondents were considered for this study. A well structured questionnaire designed in five-point Likert Scale was administered on the respondents to elicit their responses. The data generated for this study were presented in tabular form and analyzed using frequencies and simple percentages while the stated hypotheses were statistically tested with the simple regression analysis and the t-test. Our findings indicated that Value-Added Tax (VAT) impacted negatively on the financial performance of agribusinesses though the impact is of insignificant value. Based on our findings, we recommended that agribusinesses should endeavour to keep appropriate source documents of all transactions for efficient VAT operations and that the governments should ensure that proper tax incentive scheme is designed and fully implemented to promote the growth of agribusinesses, in Nigeria.

1.0 Introduction

An important landmark in tax reform in Nigeria was the adoption of the value-added tax (VAT) through the VAT Act No. 102. Its implementation actually began in January 1994. Since its introduction, 15 of the 42 sections of the Act have been amended. Replacing sales tax, VAT was originally imposed on 17 categories of goods and 24 service categories. Such items as basic foods, medical and pharmaceutical products, books, newspapers and magazines, house rent, commercial vehicles and spare parts and services rendered by community and people's banks, were VAT- free. The revenue generated from VAT was to be shared 20:80 between the federal and state governments; respectively. Currently, it is shared 15:50:35 among the federal/state/local government respectively. The state's allocation was to be earmarked as 30 per cent for the state of origin, 30 per cent for consumption/destination and 40 per cent for equity of the state.

To ensure VAT's effectiveness, certain amendments were made to the existing tax structures. These include:

i. Reduction of the personal income tax burden through increased tax allowances and reduced tax rates;
ii. Monetization and taxation of fringe benefits;
iii. Deduction of R&D expenditure from the gross earnings of companies;

iv. Extension of tax-free status to companies in rural areas and granting of incentives based on the infrastructure available in the areas;
v. Reduction of company tax rate from 40 to 35 per cent, and subsequently to 30 percent; and
vi. Payment of petroleum profit tax in dollars.

Although VAT is a consumption tax, a 5 percent rate is levied on suppliers (i.e., taxable individuals) who are expected to add this amount to invoices for collection from customers, and for further remittance to the VAT authorities on a monthly basis. VAT is retained at 5 percent regardless of the stage of production or distribution. This assumes the absence of cascading effects.

Although enforced by federal legislation, VAT was excluded from federal jurisdiction by the 1999 Constitution. This was unusual because at the time of introduction, the Federal Government's tax administrative machinery was used to collect VAT on behalf of the state governments, as they had the jurisdiction over the sales tax that was being replaced by VAT. It is a non- discriminatory tax with regard to locally manufactured or imported goods. The Act designates the FIRS as the responsible authority for implementing VAT. In practice, however, the Nigerian Custom Service collects VAT imports on behalf of FIRS. An important challenge to administering VAT is the nature of the Nigerian business environment. Written records are crucial for VAT; not only do invoices need to be issued, but recordkeeping is also important. Apart from the fact that proper record keeping is not generally practiced in Nigeria yet, the economy is dominated by informal activities where traders are continually on the move'. African trading activities hinge on bargaining, and a commodity is sold at different prices, depending on the haggling power of each buyer. It is against this backdrop that this study tends to examine the impact of Value-Added Tax (VAT) on the financial performance of agribusinesses in Nigeria.

To achieve this purpose, the following hypotheses were advanced

i. Value-added tax has no significant effect on the profit after tax of agribusinesses.
ii. Value-added tax has no significant effect on return on investment of agribusinesses.
iii. Value-added tax has no significant effect on return on equity of agribusinesses.

2.0 Literature Review

Value Added Tax is theoretically a tax paid by an economic unit for the value of which one adds to goods or services during the stages of production or the distribution of those goods or services. However, in effect, VAT is a tax on the amount expended by the final consumers of goods or services. It is collected whenever goods or services are transferred for value during the production or wholesale or retail processes respectively. Whenever a trader pays for any commodity liable to VAT, he must pay the supplier a price which includes the appropriate rate of VAT on the chargeable price. In turn, the trader when selling such item to his customers includes the charge on the taxable sales price (Ofurum and Ferry, 2009).

Exemptions to this tax, at standard rate take the form of either exemption or zero rating. In respect of goods or services, which are exempt, the trade does not mean that VAT will not fall on exempt goods or services. What it means is that the purchaser does not pay tax directly on the item or purchases. The consequences of this are of two folds; viz

(i) The supplier is not able to set off any "input tax"
(ii) The supplier in this circumstance is the final consumer and the tax ends there.

However, to recover the tax he has paid, he will increase the selling price of his goods or services. When goods or services are zero rated, it means such goods or services are taxable but

the tax charged is nil. The zero-rated trader can sell his goods or services VAT - free because he can claim any input tax paid on his supplies. It is required of all chargeable and registered persons to keep such records of their dealings in chargeable goods or services as will enable them to compute the proper tax chargeable and to pay such tax. The records and procedures for purchases or sales accounting and invoicing must be adequate to:

- ❖ Calculate tax due or chargeable;
- ❖ Complete the quarterly returns; and
- ❖ Be verified by the relevant tax authority.

The periodic or yearly accounts may be either VAT inclusive or VAT exclusive. Adesola (1985), defines value added tax as "a consumer tax that is charged on the value which the seller or producer of goods adds to the good before selling the goods". Value added tax is tax charged on value added during the course of production of goods and services. VAT is a multi-staged level collected on sales at all stages and distribution.

It is viewed as a fiscal remedy for the developing country to the problem of fiscal disequilibrium or deficit financing. Although, VAT is essentially a money spinner for the government via consumption, conceptually, it is seen as a tax measure designed to raise revenue through consumption of vatable goods and services. It is not discriminating and can only be avoided by not consuming the vatable goods and services. The incidence of VAT is shifted by the successive stages of production and will finally rest with the final consumer.

Specifically, value added tax is targeted at the following:

- To provide incentives for export and enhance favourable balance of payment.
- To shift taxation towards consumption rather than saving.
- To maintain even tax incidences across the various stages of production (or in the production chain).
- To minimize the country's dependency on oil as the major source of revenue to government.
- To increase the revenue base of the government.
- To encourage voluntary compliance since it is based on self assessment.
- To inculcate the issuing of receipts for every purchases.
- The following are peculiar with VAT-
- It is a consumption tax that is easy to administer but difficult to evade.
- The input - output mechanism built into VAT makes it self policing.
- The VAT paid is equivalent to that paid by the final consumer as the output VAT is net off the input VAT.
- Although multistage in nature, it has a single effect.
- There are four basic methods of taxing value added. They are the direct additive method, indirect additive method, subtractive method and indirect subtractive method.

2.1 The Relevant Tax Authority of VAT Administration

The administration of VAT in Nigeria is shouldered by the Federal Board of Inland Revenue. This is made effective through the Federal Inland Revenue service, an operational arm of the board. It operates through a directorate located at Abuja with a network of zonal and local VAT office spread throughout the country (Nigeria). Because of the wider base, it works in collaboration with both the Nigeria custom services, and the state board of internal revenue. In effect, the state government receives 80% of the total VAT collected as 20% is used to cover the cost of administration. The FBIR are given wide powers in carrying out their duty of care and

management of VAT. The powers are largely described In relation to particular provisions as below:

First the minister of finance or secretary as it was described in the Decree is also empowered to

1. Amend the rate of VAT chargeable; and
2. Amend, vary or modify the lists set out in the schedule (1, 2 and 3) of the decree, and
3. That the board may, with the approval of the secretary make regulations for giving effect to the provisions of the decree.

Secondly, the Federal Board of Inland Revenue is also empowered to take recovery proceeding in the Value Added Tax tribunal /court to recover all outstanding VAT due.

Lastly, the Board (FBIR) is empowered to make directions, impose conditions and specify in notice the records to be kept by certain traders.

2.2 Registration of Vatable person

Section 8(1) of the decree provides that a taxable person shall within six months of the commencement of this decree or within six months of the commencement of business, whichever is earlier register with the board for the purpose of the tax.

Section (2) without prejudice to the provision of section 28 of this decree, a taxable person who fails or refuses to register with the board within the time specified in subsection (1) of this section shall be liable to pay as penalty of an amount of

a) N 10,000 for the first month in which the failure occurs; and
b) N5000 for each subsequent month in which the failure continues.

Every government ministry, statutory body and other agency of government shall register as agent of the board for the purpose of collection of tax under VAT decree. Every contractor transacting business with a government ministry, statutory body and other agency of the Federal, State or Local government shall produce evidence of registration with the board as a condition for obtaining government contract. A non-resident company that carries on business in Nigeria shall register for VAT with the Board, using the address of the person with whom it has subsisting contract, as it address for purposes of correspondence relating to tax. A non-resident shall include tax in its invoice and the person to whom the goods or services are supplied in Nigeria shall remit the tax in the currency of the transaction.

Section 9 provides that a person who is registered as specified in section 8 above shall keep such records and books of all transactions, operations, imports and other activities relating to taxable goods and services as are sufficient to determine the correct amount of tax due under this decree.

The value of vatable goods and services are determined as follows:

1. If determined by money consideration, it shall be the amount which with the addition of the tax chargeable is equal to the consideration.
2. If not determined by money, it shall be the market value of goods supplied.
3. The open market value for those involving transactions at arm's length.

2.3 Vatable Activities

By vatable activities we are referring to vatable goods and services. That is, those goods and services other than those exempted. It covers government, and the private sectors activities respectively. Exempted include the supply of any form of power, heat, refrigeration, the granting, assignment or surrender of a major interest, the process of manufacturing soaps, detergents, jeweiries, wine, liquor soft drinks, perfumes etc all import etc.

Non Vatable Goods

- Baby product

- Basic food items
- Agricultural chemicals
- Shelter and clothing
- Medical and pharmaceutical products
- Books, newspapers and magazines
- Commercial vehicles and their spare parts
- All exports'
- Educational materials
- Fertilizer, agricultural and veterinary medicine
- Agricultural equipment and machinery
- Plant and machinery import for use of export processing zone
- Plant, machinery and equipment purchased for utilization for oil exploration.

Non Vatable Services

- House rents
- Commercial transportation
- Service of community banks, peoples bank and mortgage institutions Medical services
- All exported services
- Plays and performance conducted by educational institutions as a means of acquiring knowledge.

2.4 VAT Assessment and Collection

Payment of value added tax is by self-assessment. Thus, all the VAT due on vatable goods and services are paid at the point of transacting on the aforementioned items. And it is 5% on the vatable goods and services. Section 11(1) states "that a taxable person shall on supplying taxable goods or services to his accredited distributor, agent, client, or consumer as the case may be, collect the tax on those goods and services at the rate specified in section 2 of this decree". And that the tax collected by a taxable person here shall be output VAT.

Section 12 (1) of the VAT decree of 1993 provides that the vatable person shall render to the board (FBIR), on or before the 30th day of the month following that in which the purchase or supply was made, a return of all taxable goods and services purchased or supplied by him during the preceding month in such manner as the board may from time to time determine. And that a person who imports taxable goods into Nigeria shall render to the board returns on all the taxable goods imported by him into Nigeria. Thus VAT on locally produced and imported vatable goods or services render return 30 days, from the month of the vatable transaction. The returns are made with form 002, which summarizes both the output and input VAT.

The best of judgement assessment (BOJ) method shall be applied by the board on any taxable person who refuses to render returns as stipulated in the Decree.

Section 13(1) status that "a taxable person shall, on rendering a return under subsection (1) of section 12 of this decree:

a) If the output tax exceeds the input, remit the excess to the board; or
b) If the input tax exceeds the output tax, be entitled to a refund of the excess tax from the board on production of such documents as the board may, from time to time require.

All importers of the vatable goods or services shall before clearing those goods, pay to the board the tax due on those goods. The Nigerian custom services will as part of its verification process request for VAT compliance certificate before the release of the items imported.

The net VAT remitted shall be the difference between the output VAT and the allowable input VAT. Input VAT (tax) is allowed as a deduction from output VAT, if they are payable on goods purchased or imported directly for resale and goods which form the stock in trade used for the direct production of any new product on which the output VAT is applied. Input VAT on any overhead, services and general administration of any business which otherwise can be expended through the income statement (P & L a/cs); and on any capital item and asset which is to be capitalized along with cost of the capital item and assets; shall not be allowed as deduction from output VAT.

Failure to remit VAT as specified shall attract a penalty of a sum equal to 5% per annum (plus interest at a commercial rates) of the amount of tax remittable which shall be added to the tax due. Recovery of any outstanding VAT shall be claimable through the VAT tribunal.

Theoretical Framework

Under the Value-Added Tax (VAT), the value added to goods and services is ascertained conceptually by subtracting the purchase cost of a taxable good from its selling price. That is, each firm would pay a tax on the increase in the value of an economic good, which it produces. For administrative convenience, VAT is levied on the basis of the sales value of the good at a particular stage of economic activity, not directly on the value added at that stage. Specifically, VAT was designed liberally to be levied on imported goods, locally manufactured goods, hotel services and bank transactions. In Nigeria, VAT is presently charged at a flat rate of 5 percent.

It is not every business that is affected by VAT in Nigeria. The Value-Added Tax Decree No. 102 of 1993 schedule 2 as amended specified those goods and services that are exempted from VAT. These include-medical and pharmaceutical goods and services; basic food items; books and educational materials; baby products; agricultural equipment and products; veterinary; medicine; fertilizers, agricultural chemicals, exported goods and services; religious services; services by community banks (now microfinance banks), peoples banks, mortgage banks; and plays and performances conducted by educational institutions as part of learning.

However, for those businesses affected by VAT, previous studies have shown that the burden is usually shifted to the final consumer. Considering the living standard of an average Nigerian, VAT is often seen as an enemy to the individual and industrial consumers. This is why Nigerians vehemently refused to accept the increase in VAT to 10 percent which was levied about four years ago. However, for those businesses affected by VAT, previous studies have shown that the effect is unpalatable. Businesses usually pay VAT on goods and services they purchase (input VAT) and charge VAT on goods and services they supply (output VAT (Adedeji, 2004).

Invkovic, Poterba and Weisbenner (2004) in their empirical work on "tax-motivated trading by individual investors" found that value- added tax reduces the sales volume of companies and consequently wealth maximization. In a related development, Olabisi (2004); Bradford (2000); Joulfaian and Rider (1996) in their empirical research concluded that increase in VAT rate on vatable goods and services has a negative significant effect on corporate performance. More so, Akinmayowa (2006) conducted a study among 18 banks in Osun State on the impact of increases in value-added tax on banks' effectiveness. His study revealed that increase in VAT has a negative significant effect on bank's efficiency. In view of the above, the following hypothetical statements are advanced;

Ho_1: Value-Added tax has no significant effect on the profit after tax of agribusinesses;

Ho_2: Value-Added tax has no significant effect on return on investment of agribusinesses;

Ho_3: Value-Added tax has no significant effect on return on equity of agribusinesses;

3.0 Methodology

The population of this study consists of those agribusiness quoted in the Nigerian Stock Exchange Factbook of 2009. A total of seven (7) of such companies are identified. Since taxation is a strategic issue, only the senior officers of the companies with good knowledge of taxation were considered for this study. In addition to that, external bodies with good knowledge of taxation generally and VAT in particular as it relates to the selected companies were also considered. These individuals constituted the respondents for this study and they include the- General Managers, Chief Accountants, Finance Managers, Chief Internal Auditors, External Auditors, and Tax Administrators. On the whole, forty-two (42) respondents were chosen for this study.

In order to generate the necessary data for this study, both the primary and secondary methods of data collection were adopted. The primary method employed the use of a well structured questionnaire which was administered on the chosen respondents. The secondary method on the other hand entails the use of companies' records and other published materials.

The data generated for the study were analyzed using simple percentages while the stated hypotheses were statistically tested with the regression model and the t-test. The statistical package for the social sciences (SPSS) enabled us to execute these computations.

The hypotheses stated earlier in this study are tested in this section.

Ho_1: Value-added tax has no significant effects on profit after tax of agribusinesses

In testing this hypothesis the profit after tax of the selected companies was regressed with percentage responses of the effect of value-added tax on profit after tax. The result obtained is presented in the table below.

Statistical variables	Values
Co-efficient of correlation (R)	0.324
Co-efficient of determination(R^2)	0. 105
t-statistic	-0.446
p-value	0.675
intercept	-932316.546
partial regression co-efficient	37000.804

Table 1: Effect of Value-Added Tax on Profit after Tax

Source; SPSS Version 16 Window Output

The table shows an R value of 0.324. This suggests that value-added tax has a weak effect on profit after tax. However, the intercept of the regression model is negative meaning that value-added tax has a negative effect on profit after tax. More so, the regression co-efficient (37000.804) indicates that one unit increase in value-added tax negatively affected profit after tax by 37000.804. Again the analysis shows that change in value-added tax, account for about 10.5% variation in profit after tax. The t-statistic shows an insignificant effect. Therefore, the result suggests that there is no enough statistical information to reject the null hypothesis.

Ho_2: Value-added tax has no significant effect on return on investment of agribusinesses.

In testing this hypothesis the profit after tax of the selection companies was regressed with the percentage responses of the effect of value-added tax on return on investment. The result obtained is presented in the table below

Statistical variables	Values
Co-efficient of correlation (R)	0.388
Co-efficient of determination(R^2)	0.150
t-statistic	-0.976

p-value	0.374
intercept	-39.164
partial regression co-efficient	0.832

Table 2: Effect of Value-Added Tax on Return on Investment

Source; SPSS Version 16 Window Output

The table shows an R value of 0.388. This suggests that value-added tax has a weak effect on return on investment. However, the intercept of the regression model is negative, meaning that value-added tax has a negative effect on return on investment. More so, the regression coefficient (0.832) indicates that one unit increase in value-added tax negatively affected return on investment by 0.832 unit. Again, the analysis shows that changes in value-added tax, account for 15% variation in return on investment. The t-statistic shows an insignificant effect. Therefore, the result suggests that there is no enough statistical information to reject the null hypothesis.

The table shows an R value of 0.388. This suggests that value-added tax has a weak effect on return on investment. However, the intercept of the regression model is negative, meaning that value-added tax has a negative effect on return on investment. More so, the regression coefficient (0.832) indicates that one unit increase in value-added tax negatively affected return on investment by 0.832 unit. Again, the analysis shows that changes in value-added tax, account for 15% variation in return on investment. The t-statistic shows an insignificant effect. Therefore, the result suggests that there is no enough statistical information to reject the null hypothesis.

Ho$_3$: Value-added tax has no significant effect on return on equity of agribusinesses.

In testing this hypothesis, the return on equity of the selected companies was regressed with the percentage responses of the effect of value-added tax on return on equity. The result obtained is presented in the table below.

Table 3: Effect of Value-Added Tax on Return on Equity

Statistical variables	**Values**
Co-efficient of correlation (R)	0.516
Co-efficient of determination(R^2)	0.266
t-statistic	1.079
p-value	0.330
intercept	439.385
partial regression co-efficient	-11.578

Source; SPSS Version 16 Window Output

The table shows an R value of 0.516. This suggests that value-added tax has a fair effect on return on equity. However, the regression coefficient indicates a negative effect, which implies that if value-added tax increases by one unit, return on equity will decrease by 11.578 units. More so, the analysis shows that changes in value-added tax account for about 26.6% variation in return on equity. The t-statistic shows an insignificant effect. Therefore, the result suggests that there is no enough statistical information to reject the null hypothesis.

Conclusion and Recommendations

Value-added tax (VAT) is a tax paid by an economic unit of the value it added to goods and services during the stages of production or the distribution of those goods and services. It is actually a tax on the amount expended by the final consumers of goods and services. In other words, VAT is a consumption tax. So scholars have argued that since the economic unit shifts the burden of VAT to the consumers in the form of higher prices, it has no direct bearing with corporate financial performance (Uwein, 1999).

In this study, we observed that VAT has a negative influence on the financial performance of agribusinesses in Nigeria. An increase in VAT is responsible for about 10.5%

decrease in profit after tax, 15% decrease in return on investment, and 26.6% decrease in return on equity. A detailed analysis of these findings revealed that though the burden of VAT is borne directly by the consumer and not the business, impact of VAT reduces customers' patronage of agribusinesses. Consumers that pay higher prices for certain goods and services as a result of VAT, prefer to acquire such goods and services from other businesses where the impact of VAT is not felt, and this reduces the firm's sales volume and consequently financial performance.

Our findings do not significantly differ from Invkovic et al (2004) who reported that value-added tax reduces the sales volume of companies and consequently wealth maximization. Olabisi et al (2004) found that an increase in VAT rate has a negative significant effect on corporate performance. Akinmayowa (2006) in his empirical research among 18 banks in Osun State, Nigeria observed that an increase in VAT has a negative significant effect on bank's efficiency. Although our findings revealed that VAT negatively influenced the financial performance of agribusinesses in Nigeria, the influence is rather weak and insignificant. A possible reason for such could be due to the fact that VAT operations require that invoices and receipts of purchases and sales should acknowledge the transactions and appropriate records be kept. But these are not common practices with agribusinesses in Nigeria. Based on the above, it is recommended that agribusinesses should endeavour to keep appropriate source documents of all transactions for efficient operations of value-added tax (VAT). More so, the governments should ensure that proper tax incentive scheme is designed and fully implemented to promote the growth of agribusinesses.

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