Effect Of Company Income Tax (CIT) on Economic Development of Nigerian Economy

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Abstract

This study centered on effect of Company Income Tax (CIT) on economic development of Nigerian economy. The main objective of this study was to assess the effect of company income tax on economic development of Nigerian economy. Ex-facto research design was used in the study as the researcher relied heavily on secondary data that covered 20 years period (1999-2018). The formulated null hypotheses were analyzed using simple linear regression. Result from the study showed that Company Income Tax (CIT) has insignificant effect on economic development of Nigerian economy (R^2 = 0.144257, which translate to 14.4257 percent). It was concluded that Company Income Tax (CIT) has insignificant effect on economic development of Nigeria within the period under review. It was recommended that Company Income Tax (CIT) in the state should be properly structured in such a way that it will encourage both indigenous and foreign firms in the state to engage in business operations.

Keywords: *Company Income Tax (CIT), Economic Development, Foreign Direct Investment (FDI), Human Development Index (HDI).*

1.1 Background of the Study

A significant amount of capital crosses international borders as a result of the globalization of the economy, the liberalization of exchange rates, and the opening of markets. Most countries support the free flow of capital between nations, which frequently facilitates this. According to Grossman and Helpman (2015), this promotion is justified on the grounds that the free flow of capital also helps to diversify assets and lessen risks for capital owners. According to Akujuobi and Ejitagha (2021), the transfer of investment is encouraged by global capital mobility, particularly in nations that are classed as developing nations. Similarly, Company Income Tax (CIT) could as well determine the flow and direction of investment into a country. Due to this cognizance, research on Company Income Tax (CIT) and national economic development has grown over time.

Company Income Tax (CIT) is a mandatory tax assessed on a company's profits in a specific region (Adejare, 2015). Despite the fact that most businesses view corporation taxes as a burden, particularly when the rate is high, Okoi and Edame (2013) found that the rate of taxation on company earnings influences both the direction of foreign direct investment (FDI) and the rate of economic development of a nation.

Accordingly, different authors have varied perspectives on economic development. It suggests a rise in each citizen's per capita income. According to Castells-Quintana and Royuela (2012), economic development refers to the ongoing, coordinated efforts of communities and policymakers to raise the standard of life and economic health of a certain region. The Human Development Index, which takes into consideration life expectancy and literacy rates that affect productivity and may contribute to economic growth, is the most accurate means of gauging development.

One of the reasons a foreign investor would wish to invest in Nigeria is that the Naira should be weaker than the currency of their own country. Other considerations include exchange rates, interest rates, and corporation income tax. It is evident that FDI would flow into a country if its currency is weaker. The impact of interest rate volatility for foreign direct investment into a developing country like Nigeria is also quite substantial. The present actual exchange rate will climb as interest rates rise. As a result, changes in corporate income tax are regularly correlated with increase or decrease in foreign direct investment, which in turn has boosted economic development. Nigeria's economy is developing, just like those of other emerging nations. To grow, it need both internal and external investments. Once Company Income Tax (CIT) is seen as being favourable, it is anticipated that it would aid in the economy's development. Given the significance of the topic, this study attempts to evaluate the impact of Company Income Tax (CIT) on the national economic development.

1.2 Statement of the Problem

Nigeria as a nation qualifies to be a significant recipient of FDI in Africa due to her natural resource base and sizable market. A country may attract FDI because of her economic possibilities. As a result, this might lead to an exponential increase in foreign investment. But when compared to the country's resource base and potential demands, Nigeria's amount of FDI is negligible. When investors in the country become aware of this information, they may decide to sell their holdings, which will inevitably encourage capital flight. Business cycle disturbances, an increase in corporate income taxes will result from this, all of which have an impact on economic growth. Due to this concern, this study is an attempt to assess the effect of Company Income Tax (CIT) on the economic development of Nigeria.

1.3 Objectives of the Study

The main objective of this study this study is to assess the effects of Company Income Tax (CIT) on economic development of Nigerian economy. Here, economic development was assessed using Human Development Index (HDI). Thus, the specific objective of the study is:

i. To evaluate the effect of company income tax on economic development of Nigerian economy.

1.4 Research Questions

The research question developed for this study is:

i. What is the effect of company income tax on economic development of Nigerian economy?

1.5 Research Hypotheses

The following null hypothesis was formulated for this study:

i. **H_{01}**: Company income tax has no significant effect on economic development of Nigerian economy.

1.6 Significance of the Study

The federal government, national policy makers, domestic investors, and students who would be doing a study in this area might all profit from the study's findings. The results of this study assist Nigeria's federal government and policy makers in expanding their efforts to entice foreign investors, which will enhance technology transfer, expand job possibilities, and boost economic productivity. The study's findings could be equally beneficial to domestic investors because their input is required to develop policies that could entice and inspire current and potential domestic investors in Nigeria. The study's findings could be beneficial to students because they could serve as useful resources for them as they go through their study.

1.7 Scope and Limitations of the Study

The focus of this study was on how Company Income Tax (CIT) affects the growth of the Nigerian economy. The notion of Income Tax (CIT), the concept of economic development, and how Income Tax (CIT) influence economic development of the Nigerian economy are covered in this study. Geographically, Nigeria was the location of this study. In this study, corporate income tax was used as the independent variable, while Gross Domestic Product (GDP) was also used to gauge economic growth.

2.0 Review of Related Literature

2.1 Conceptual Framework

2.1.1 Company Income Tax (CIT)

Company income tax is a structure among the various tax structures in Nigerian economy. In fact, Section 57 CITA 1990 mandates companies operating in the Nigerian Stock Exchange to file monthly returns with the Federal Board of Inland Revenue not later than 7 days after the end of each calendar month. By virtue of section 8 (1) of the companies income tax Act 1990, taxes are payable as specified upon profits of any company accruing in, derived from, brought into, or received in Nigeria in respect of amongst others, any trade or business for whatever period of time the trade or business may have been carried out (Adegbie and Fakile, 2011). Company Income Tax is the revenue generated from tax levied on registered companies in the country (Solanke *et al.*, 2019). Company Income Tax in Nigeria is collected from both Nigerian as well as foreign companies.

Tax revenue mobilization, including Company Income Tax (CIT), is a source for financing development activities in Nigeria has been a difficult issue primarily because of various forms of resistance, such as evasion, avoidance corrupt practices attending to it (Festus and Samuel, 2007). These activities are considered as sabotaging the economy and are readily presented as reasons for the underdevelopment of the country. Ideally, government at all levels of the country exists in order to effectively collect taxes from available economic resources and make use of same to create economic prosperity such that available and willing human and other resources are gainfully employed, infrastructures provided and essential public services are provided. However, tax resistance such as Company Income Tax (CIT) only makes the provision of these public goods unattainable, while complying with it could be used to influence or achieve macroeconomic stability.

2.1.2 The Concept of Economic Development

Feldman and Francis (2003) opined that, economic development entails combined action and all-encompassing, long-term investment. Easterly (2021) posit that for the country to lay claim on development through taxation, there must be an improvement of the quality of life of the citizens, as measured by the appropriate indices in economic social, political and environmental terms. Economic development is the development of economic wealth of countries or regions for the well-being of their inhabitants (Ironkwe and Agu, 2019). In that sense, economic development implies improvements in a variety of indicators such as literacy rates, life expectancy, and poverty rates. It equally encompasses policies that governments undertake to meet broad economic objectives such as price stability, high employment, expanded tax base, and sustainable growth.

To Todaro (1981), economic development is a multi-dimensional process involving the reorganization and reorientation of the entire economic and social systems. To him, economic development is a physical reality and a state of mind in which the society has through some combinations of social, economic and political process secured the way of obtaining a better life. Rogers (1990) defines economic development as a long participatory process of social change in the society whose objective is the material and social progress for most of the population through a better understanding of their environment. Perroux (1978) sees economic development as the combination of mental and social changes among the people which decide to increase its real and global products, cumulatively and suitably. Also, Tayebwa (1992) sees economic development as a broad term not limited to economic growth, welfare or material well-being but the inclusion of economic, social and political aspects of the entire society like security, culture, social activities and political institutions.

2.1.3 Company Income Tax (CIT) and Economic Development in Nigeria

Accordingly, Company Income Tax (CIT) is a source of public revenue to government. The higher the rate, the higher the government revenue, which usually would translate to more robust purse and ability to carry out capital projects and other public expenditure. The whole process can be used to stimulate and directly impact the economy via employment creation, investment creation, among others. More so, Company Income Tax (CIT) reduction benefits the high income tax-payers to low income tax payers. A tax reduction on Company Income Tax (CIT) would mostly benefit the public who usually bear the burden of increase in Company Income Tax (CIT) through their purchases.

Accordingly, FDI do not influence economic development haphazardly. Thus, Multinational Enterprises (MNEs) and their activities is another means through which a country can attract FDI. Lall and Narula (2004) argue that due to their access to production and knowledge economies, MNEs can encourage productivity in host countries resulting in externalities or spillovers from their activities. However, for MNEs to successfully and effectively contribute to the performance of the domestic economy, the host institution must have an internalization' strategy to interact effectively with the country's capabilities and resources. Another major MNEs-Foreign Direct Investment (FDI) activity, which provides the possibilities of economic development and growth in most emerging countries, is with the privatization of State-Owned Enterprises (SOEs) and their acquisitions by MNEs. As championed by Portelli and Narula (2006), the gains from MNEs' acquisitions in most developing countries produce positive gains in the economy for specific industries, particularly through enhanced backward linkages.

2.2 Theoretical Framework

The institutional FDI fitness theory was used in this study. The theories and their relevance to the study are considered as shown hereunder:

2.2.1 The Institutional FDI Fitness Theory: Wilhems and Witter created this hypothesis in 1998. The concept of FDI fitness centers on a nation's capacity or resources to draw, accept, and hold onto FDI. This means that a country's capacity to meet both the internal and external expectations of its investors is explained by Wilhem and Witter's institutional FDI fitness hypothesis, which gives countries the advantage in utilizing FDI inflows. This implies that nations, particularly developing nations, do more than only draw FDI. They are able to do that thanks to some important factors.

The theory's proponents used a method they called a 'pyramid' to examine the important factors. The oldest and most complicated of all institutions, according to Wilhelms and Witter (1998), are socio-cultural variables, which are listed first on the pyramid. The authors state that education is crucial in establishing a favorable environment for FDI since educated human capital improves R&D inventiveness and information processing skills. Although education is not a need for FDI to enter a particular region, it is a crucial ability for projects that might draw FDI to be done.

The efficacy and efficiency of FDI operations in the country are therefore equally achievable if educational skills may positively improve production. These educational influences, including other educational skills and the capacity to talk, hear, and understand, are essential for drawing foreign direct investment. The market, which is represented by machinery (physical capital) and credit (financial capital), provides for a sizable portion of both the economic and financial components of institutional FDI fitness, and is the third point on the pyramid. Therefore, a key component of the MNC's investment decision-making process is the existence of well-developed and functional financial markets. The Government is the fourth and most crucial element in the pyramid. The main factor in attracting FDI is a country's political clout.

After taking these ideas into account, the institutional FDI fitness theory was chosen as the study's foundation. Globally, nations struggle to draw FDI if they lack the fundamental elements that would entice MNCs or international investors. According to the idea, the availability of certain determinants, including level of education, trade liberalization, market openness, and infrastructure development, among others, is a key factor in the flow of FDI into particular nations. Based on this analogy, MNCs or foreign investors relocate to nations that have the aforementioned characteristics. These nations are viewed as desirable locations for FDI. In the light of this, it is believed that the institutional FDI fitness theory best explains the connection between brain drain and the provision of healthcare services at tertiary institutions.

2.3 Empirical Review

Previous studies have been carried out in this direction. In this section of the study, few of such studies were considered are shown hereunder:

2.3.1 Summary of Literature Reviewed

S/N	Authors/Year	Topic	Methodology	Major Findings	Gap in Knowledge
1.	Sunday *et al.* (2016).	Foreign Direct Investment and Economic Growth in Nigeria: An Empirical Investigation.	Unit root test, co-integration, error correction model and multiple regression.	FDI has significant positive impact on the growth of Nigerian economy.	Both studies differ in the area of variable assessed and methodology used.
2.	Adeleke *et al.* (2016).	Impact of foreign direct investment on Nigeria economic growth over the period of 1999-2013.	Ordinary least square (OLS).	FDI is statistically significant at 5% level which implies that a good performance of the economy is a positive signal for inflow of foreign direct investment.	Both studies differ in terms of variables assessed and methodology used.
3.	Maimuna (2015).	Impact of Foreign Direct Investment (FDI) on Economic Growth in Nigeria.	*Ex-Post Facto* research design.	FDI is a key ingredient for successful economic growth in developing countries.	Both studies differ in the area of variable studied, research

					design, method of data analysis and geographical scope used.
4.	Ugwuegbe *et al.* (2013).	The Impact of Foreign Direct Investment on the Nigerian Economy.	Ordinary Least Square method.	FDI has a positive and insignificant impact on the growth of Nigerian economy for the period under study.	Both studies differ in the area of variable studied and method of data analysis.
5.	Adegbite *et al.* (2011).	The Role of Foreign Direct Investment in Economic Development: A Study of Nigeria.	Simple OLS regression.	FDI is beneficial to economic development in Nigeria.	Both studies are similar in terms of variables assessed but differs in terms of method of data analysis used.

Source: Researchers Compilation (2023).

3.1 Method of Data Analysis

To analyse the data obtained for this study, the descriptive statistics was used to trace the trends in the study variables over the years. This include computations like mean, standard deviation, range, minimum and maximum values. Simple linear regression model was used to test the hypotheses of the study as earlier formulated in chapter one of the study. All the computations (descriptive and inferential) were done with the aid of Statistical Package for Social Sciences (SPSS) application package version 23.

3.2 Method of Data Analysis

The primary data used for this study will be analyzed using descriptive and inferential analysis. Tables, frequencies and percentage analysis formed part of descriptive analysis that will be used in testing data on demographic information of the respondents. Simple linear regression formed part of the inferential analysis that will be used in analyzing data generated for testing the formulated null hypotheses.

The Simple linear regression models is presented thus:

Company Income Tax (CIT) = f (HDI) Equation 1

Each Independent Variables and Regression parameters are presented and coded thus:

HDI = Human Development Index (Y)
CIT = Company Income Tax (X_1)
β_0 = Regression Intercept
β_1 = Regression Parameter

e = Stochastic Term

The functional model will be presented as:

$Y = f(X_1)$ Equation 2

Where:

HDI = f (CIT) Equation 3

The simple linear regression model with parameter estimates is decomposed thus:

$Y = \beta_0 + \beta_1 X_1 + \ldots\ldots\ldots\ldots\ldots\ldots.. e_0$ Equation 4

Recoded according to the variables in use:

$PS = \beta_0 + \beta_1 CIT + \ldots\ldots\ldots\ldots e_0$ Equation 5

4.1 Data Analysis, Interpretation and Discussion of Findings

Hypothesis 1

H_{01}: Company Income Tax (CIT) has no significant effect on economic development of Nigerian economy.

Table 4.1: E-Views Linear Regression Result of Hypothesis 1

Dependent Variable: HDI
Method: Least Squares
Date: 10/04/23 Time: 07:02
Sample: 1999 2018
Included observations: 20

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.703967	0.022869	30.78315	0.0000
CIT	-1.49E-05	8.53E-06	-1.741941	0.0986

R-squared	0.144257	Mean dependent var	0.666950
Adjusted R-squared	0.096716	S.D. dependent var	0.039759
S.E. of regression	0.037788	Akaike info criterion	-3.619034
Sum squared resid	0.025702	Schwarz criterion	-3.519461

Log likelihood	38.19034	Hannan-Quinn criter.	-3.599597
F-statistic	3.034359	Durbin-Watson stat	0.244999
Prob(F-statistic)	0.098580		

Source: E-views Computed Result (2023)

Table 1 shows the regression result of hypothesis 1. Table 4.4 shows that HDI would remain constant at an average of 1% if the independent variable, CIT is held constant, that is CIT =0. This is an indication that the magnitude of HDI would remain positive even when there are no changes to the level of CIT. Again, a 1% change in the level of CIT will lead to a 1.49 % increase in HDI. This is an indication that increased level of VAT has the capacity to lead to increased level of infrastructural development. This direct relationship between CIT and HDI is shown to be statistically insignificant given the negative value of the computed t-statistic of -1.741941 and a probability value of 0.0986. This probability value is not within the acceptable region off the 5% level significance. Furthermore, VAT was shown to have a very low predictive in explaining the variations in HDI with the coefficient of determination (R^2) value of 0.144257. Finally, since the computed F-statistic value obtained is 3.034359, and the probability value is 0.098580, the model for this hypothesis lacks goodness-of-fit, hence, the null hypothesis will be accepted. In line with that, the alternative hypothesis that Company Income Tax (CIT) has a significant effect on economic development of Nigerian economy.

4.2 Discussion of Findings

The major findings from this study were discussed in this section of the study. The discussion were done as shown hereunder:

4.2.1 Company Income Tax (CIT) and Economic Development of Nigerian Economy

Company Income Tax (CIT) is an integral aspect of business regulation in Nigeria. In fact, in Companies Allied Matters Act of 1990, Section 57, mandates companies operating in the Nigerian Stock Exchange to file monthly returns with the Federal Board of Inland Revenue not later than 7 days after the end of each calendar month. This presupposes the fact that firms-whether indigenous or foreign-that engages in business operations in Nigeria are expected to pay tax. Overtime, the money generated through CIT serves as revenue, which could be injected into the economy to enhance the standard of living and wellbeing of the people.

Nevertheless, the rule of thumb is that, the higher the CIT, the greater the revenue that accrues to government. Such revenue accrual implies more money into the purse of government to engage in capital projects and public expenditures. The resultant effect will be the stimulation of the economy in the form of employment creation, investment creation, among others. More so, Company Income Tax (CIT) reduction benefits the high income tax-payers to low income tax payers. A tax reduction on Company Income Tax (CIT) would mostly benefit the public who usually bear the burden of increase in Company Income Tax (CIT) through their purchases. The regression result of hypothesis 1 showed R square value of 0.144257, which translate that CIT affects HDI by 14.4257 percent. More so, a β value of -1.49, t-value of -1.741941 and p-value of 0.0986 clearly demonstrate that the regressed model is insignificant. This formed the rationale to accept the null hypothesis in favour of the alternative hypothesis. In a sense, Company Income Tax (CIT) has significant effect on HDI within the period under review.

5.1 Conclusion

Company Income Tax (CIT) is an important determinant of economic development of a state. Thus, in a developing economy such as Nigeria, the relevance of Company Income Tax (CIT) in boosting the economic development of the country cannot be under estimated. However, poor administration could result yield a negative effect on economic development of a country just as the finding has revealed. Thus, in line with the finding of this study, CIT has insignificant effect on economic development of Nigeria within the period under review.

5.2 Recommendation

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

i. Company Income Tax (CIT) in the state should be properly structured in such a way that it will encourage both indigenous and foreign firms in the state to engage in business operations.

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