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ABSTRACT

The studyexamined the impact of corporate income tax on the profitability of firms inhospitality industry in Lagos State. The study succinctly explored the effectof corporate income tax on the net profit margin, profit after tax and cost ofoperations of Eko Hotel and Suites, which was used as the sample for the studybetween 2009 and 2016. Data were sourced from the financial statements of thesampled firm within the period and analyzed via the regression analysis.Results of the study revealed that corporate income tax has significant impacton profit after tax ($p<.05$); net profit margin ($p<.05$) and cost ofoperations ($p<.05$). Based on this, the study suggests that government shoulddevice means of eliminating the incidence of double taxation, which tends toweigh down the profitability of private firms in the industry.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Taxes areconsidered a problem by everyone. Not surprisingly, taxation problems date backto earliest recorded history. The basic principles of taxation are nearly asold as human society—the history of taxes stretches thousands of years into thepast. The earliest trace of taxation in Nigeria was believed to have startedfrom Northern part of Nigeria and this was before the advent of Britishadministration. The emirs had organized forms of administration and theirIslamic relation made it possible for people to contribute towards charitywhich laid a solid foundation for direct taxation in Northern Nigeria. Prior in1900, some of the levies were "Zakkat (a tax on moral property meant forcharity),Jangali (tax on livestock),Gado (death tax),Jizjah (tax on slaves) etcthese were recognized in the Northern Nigeria, (Onwubiko,1998).

Therewere also some form of taxes in Southern Nigeria (Yoruba parts) by way oftributes (isakole), totls, levies, fees and presents given to Obas (Kings),Chief in Benin, Oyo and some other Yoruba Kingdom of Western Nigeria. Howeverin the east this type of tax paying tradition was virtually non-existing butexcept fine called "Iri-iwu"due, mainly to lack of organised central authority.Inwhich the eastern Nigerians are known for their Egalitarian society. These formsof taxation come to a halt with the advent of colonial master's. The Oba's andemirs where now used in imposing taxation on their subjects and anyone foundguilty was punished,(Onwubiko,1998).

Taxation in moderntimes is said to be an economic development tool that provides the financialbase for providing public goods. It is a double-edged sword depending on whatis the interest of the government in power. Also it is a compulsory payment byindividuals and organizations to the relevant inland or internal revenueauthorities at Federal, State, or Local Government levels. Taxes perform fiscalor budgetary functions, economic function and social or redistribute functions.

Thehospitality industry which is a broadindustry covering various hosting services including restaurants, hotels, bars,cruise lines and many other related businesses. Globally it is a multi-billiondollar industry with broad offerings, in Nigeria the best of hospitalitydevelopment is found in accommodations and restaurants. The hospitality marketis booming in Nigeria and with that boom comes new found diversification in anew range of quality and classifications yet there is much more room forgrowth, diversification and standardization,(Oruruo,2014).

InNigeria, the Corporate Income tax rate is a tax collected from companies. Thisamount is based on the net income companies obtain while exercising theirbusiness activity, normally during one business year. Revenues from the Corporate Tax Rate are animportant source of income for the government of Nigeria It is also anassessment levied by a government on the profits of a company. Hereby causing extra reduction in thepossible net profit of the company after normal company expenses have beingdeducted before attaining the net profit it is the further reduction in the netprofit which is usually 30% of the net profit assessed on a preceding yearbasis.

1.2 STATEMENT OF PROBLEM

However, Players in the hospitalitybusiness in the country have said multiple taxation is stifling the developmentin the sector. The operators insisted that the current burden of taxes andlevies are heavy on them, especially when situated within the context of thehigh operating cost for business, maintaining that these charges have pushedthe sector to the brink.Some of the taxes and levies identified by theoperators included Registration of

Hospitality Premises, Stamp Duty, NigerianSocial Insurance Trust Fund(NSIT), Industrial Training Fund(ITF), NationalPension Commission(PENCOM), Nigerian Tourism Development Corporation(NTDC).Others are Company Income Tax, Withholding Tax, Liquor License, Food Handlersand Health Certificate, Visual Advert, Waste Disposal, Bill Board, Sign Post,Operation Permit, Vehicle Emission Fee, Contravention Charges, BusinessPremises, Administrative Charges for Environmental, Audit, Copyright Society ofNigeria(COSON), water supply, electricity supply, copious levies by the LocalGovernment Councils as well as other fees charged by regulatory agencies acrossthe sectors at the state and federal levels (http://nationalmirroronline.net/new/multiple-taxation-bane-of-hospitality-industry-in-nigeria/).Taking a look at all the fees, levies and forms of taxes the companies in thehospitality industry have to pay, not to mention of the corporate income taxthey have to pay after ascertaining their net profit, all pose a threat tocompanies in this sector which is a viable and very profitable industry toventure into. All these pose a threat to these companies because looking at theactual profit and the later deductions there is a wide gap between what theypay as taxes on their profit and the profit they take home.

1.3 OBJECTIVES OF STUDY

The aim of this study is to determinethe relationship between corporate income tax and the profitability of thehospitality industry in Nigeria . However, the key objectives include;

•to examine the relationshipbetween company income tax and cost of operation

•to ascertain corperateincome tax influence on PAT

•to compare the corporateincome tax influence on NPM of accommodation and restaurants

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