PDF - THE EFFECT OF TAXATION ON BUSINESS DECISIONS OF A FIRM - researchcub.info**CHAPTER ONE**

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The two primary objectives of every business are profitability and solvency. Profitability is the ability of a business to make profit, while solvency is the ability of a business to pay debts as they come due. (Hermanson et al, 1992: 824). However, the achievement of these objectives requires efficient management of resources of the business through planning, budgeting, forecasting, control, and decision – making. Also, the strengths and weakness of the business need to be identified and necessary corrective measures applied. Interestingly, accounting provides information that facilitates these functions.

Every profit oriented organization is faced with three (3) major business decisions to make every day as far as finance is concerned. Investment, financing and dividend decisions are the major decisions firms have to tackle everyday in-order to survive. These decisions are greatly influenced by assets, liabilities, expenditures and the capital structure of an organization. Tax which is a form of liability is a broad area in management, and financial account, and it is handled with care as the financial position of every business organization will definitely be affected based on how tax matters are managed.

The ability of an organization to effectively and efficiently employ various techniques to avoid and reduce tax burden is imperative. Considering how tax can affect the success of an organization, it is therefore important for financial managers and accountants to apply efficient legal tax avoidance techniques. Reducing tax liability is similar to reducing expenses. If tax liabilities are efficiently managed, more revenue generated by the organization will be invested in other areas of the business to speed up growth and expand the business.

Just like expenses, tax liabilities incurred by an organization over a period of time affects its business decisions. Every individual and corporation within Nigeria is taxed on income incurred. Tax liabilities must be paid every year, and failure to file or pay taxes can subject an individual or organization to penalties including fines, interest and even possible jail time. For most companies and businesses, paying tax is a necessary evil and the aim is to reduce the amount of taxes owed as much as possible. Thus the impact of tax on business decision usually comes down to how to reduce taxes as much as possible on income earned.

1.1.1 COMPANY PROFILE

Guinness Nigeria, a subsidiary of Diageo Plc of the United Kingdom, was incorporated in 1962 with the building of a brewery in Ikeja, the heart of Lagos. The brewery was the first outside of Ireland and Great Britain. Other breweries have been opened over time – Benin City brewery in 1974 and Ogba brewery in 1982.

Guinness Nigeria produces the following brands – Foreign Extra Stout (1962), Guinness Extra Smooth (2005) Malta Guinness (1990), Harp Lager Beer (1974), Gordon’s Spark (2001), Smirnoff Ice (2006), Satzenbrau (2006).

Guinness Nigeria Plc's Water of Life initiative currently provides potable water to over 500,000 Nigerians spread across several rural communities, from Northern to Southern Nigeria. It funds scholarship and provides Guinness Eye Hospitals in three cities in Nigeria.

1.2 STATEMENT OF THE PROBLEM

The impact of the Nigerian tax system on businesses has been a matter of increasing interest and concern to many persons. Tax policies and the structure of taxation in Nigeria is resulting to multiple taxation on businesses, forcing most businesses to run into losses or worst collapse. Businesses make numerous decisions daily. Their inability to make the right decisions can result in their failure. Since taxation is a liability businesses have to incur, businesses are faced with the option of managing their tax liabilities in such a way their tax burden is reduced. Their inability to effectively manage taxation brings about negative effects on the financing, investment and dividend decisions of the business.

Multiple taxation and high tax rates are challenges facing businesses in Nigeria today. Tax liabilities pose two issues for a business. First each and every tax required of a business is just another business expense. An increase in tax has the same effect as would a raise in cost of goods or the electricity bill. All businesses are there to make a profit. While that profit is not a fixed number that the business must have but it is generally a controlling factor if the business is to continue.

Poorer countries have indeed shifted towards more use of the value-added tax in recent years, in part based on the advice and assistance of international organizations. But otherwise the puzzling differences remain. This leaves unanswered why poorer countries so systematically choose the wrong tax policies, and why these wrong policies have remained so stable over time. Perhaps political economy problems are more severe among developing countries, and some important domestic constituency gains from the policies that standard models find perverse. Yet these puzzling policies are found under many different types of governments, drawing their support from many different constituencies. (Coelho, Isaias, and Harris, 2001).

Perhaps poorer countries lack the best enforcement methods, e.g. based on modern information technology. Certainly computer technology helps pool information from different sources. Bird (1999) argues, however, that the key problem is acquiring reliable information, not processing it. In considering problems associated with income tax of developing economies, problems statements like the following arises:

Does government policy on company income tax affect the revenue of corporations in developing countries?

Of what relevance is tax regulation on the development of companies' in developing economies?

Does effective income tax helps in the building strong economies?

1.3 OBJECTIVES OF THE STUDY

The main aim of the study will be to critically examine the effects of taxation on business decision, using Guinness Breweries, Onitsha as a case study. Specific objectives of the study will be:

To identify the various business decisions undertaken by Guinness Breweries, Onitsha.

To appraise tax avoidance techniques adopted by Guinness Breweries, Onitsha.

To examine the effect of taxation on business decisions of Guinness Breweries, Onitsha.

To recommend various strategies that can be adopted to minimise the negative effects of taxation on business decisions.

1.4 RESEARCH HYPOTHESIS

To carry out the study effectively, the following proposed hypothesis has been formulated and will be tested using regression analysis in the course of carrying out the study:

Hypothesis:

Ho: There is no significant relationship between Taxation and business decision of Guinness Breweries.

Hi: There is a significant relationship between Taxation and business decision of Guinness Breweries.

1.5 SIGNIFICANCE OF THE STUDY

The study will be useful to financial managers in Guinness Breweries, Onitsha especially in formulating policies that will enhance efficiency in decision making for the organization and increase the profitability level of the organization.

The study will also be useful to other manufacturing companies having taxation difficulties. Findings and recommendations from this study will be of great benefits to these manufacturing firms, as the recommendations if implemented will go a long way in guaranteeing a sustainable and sound organization.

The study when carried out will also be of great benefit to student researchers who have interest in researching more into taxation and various ways it can affect an organization. It will act like a guide to student researchers who may find the recommendations and findings of the study when completed useful.

1.6 SCOPE OF THE STUDY

To get the real picture of how taxation can affect business decisions of an organization, the researcher will make use of published financial statements of Guinness Breweries Nigeria Plc, from 2009-2011 (A period of 3 years) for the study.

1.7 LIMITATION OF THE STUDY

However, there cannot be thorough research without fund. Thus, the lack of fund pose as a limitation to this work; also, time factor is included because the issue of combining lecture with research is not an easy task.

1.8 DEFINITION OF TERMS

Taxes: this is the money imposed on Individuals, groups or organizations who are engaged in business or gainful economic activities that is geared towards profit making.

Taxation: This refers to the levying of compulsory contributions by public authorities having tax jurisdiction, to defray the cost of their activities.

Business: Also known as an enterprise or a firm, is an organization involved in the trade of goods, services , or both to consumers or to other businesses.

Business decision mapping (BDM): This is a technique for making decisions, particularly for the kind of decisions that often need to be made in business. It involves using diagrams to help articulate and work through the decision problem, from initial recognition of the need through to communication of the decision and the thinking behind it.

Business Decision: This can be regarded as the cognitive process resulting in the selection of a course of action to be implemented in the daily management of a business.

Company income tax: This Tax is payable for each year of assessment of the profits of any company at a rate of 30%. These include profits accruing in, derived form brought into or received from a trade, business or investment.

Policy: can be referred to as prudent conduct, sagacity or general plan of action to be adopted by an organization.

Taxation policy: therefore**,** is the general plan of action on the pattern of arriving at a taxable amount that is considerable both to the management and shareholders or investors of the companies.

Financial obligation: it is the expected activities pertaining to the monetary accumulation, earnings and transactions records of companies. Paying taxes to government is one of such obligations.

REFERENCE

Hermanson, Roger H. James Don Edwards, & Michael W. Maher. (1992). Accounting Principles. 5th ed. Boston MA: Richard D. Irwin, Inc.

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