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CHAPTER ONE

INTRODUCTION

BACKGROUND OF THE STUDY

In the last half-century, the Value Added Tax (VAT) has beenwidely implemented in many parts of the world. This popularity can be explainedby the key features of the tax: neutrality and transparency. Tax neutrality isensured by the mechanism of deduction of input tax through the supply chain, asfar as the end consumer. This important feature helps producers to avoid thepressure for preferential nature of the product, number of transactions andstructure of the distribution chain. With regards to international trade, VATdemonstrates neutral treatment of export, as VAT taxes exports at a zero rate,or is exempt from VAT with an allowance for input tax deduction. VAT does notaffect the competitiveness of domestic firms to export, and is well suited to thedemands of a globalizing economy. The transparent nature of VAT provides asimple method of calculation and payment for consumers. It is calculated forthem at the point of sale and they make the payment as a part of the purchaseprice. Perceived as transaction-based, VAT has a high revenue-raising capacityand provides a large revenue source in almost all countries-members of theOrganization for Economic Cooperation and Development (OECD), including Norway.Considering all forms of taxation, OECD Revenue Statistics (2016b) ranks Norway9th out of 35 OECD countries with 38,1% in terms of the tax-to-GDP ratio in2015. Tax policy reform is an area that has been widely revisited byacademicians in recent times as there is an increasing need to curtail overdependenceon foreign sources of funding government expenditure. This area of reform hasbeen tackled differently by different researchers over the years. Whereas Joshiand Ayee (2009) focused their attention on tracing the history of various taxreforms instituted in less developed countries, Muriithi and Moyi (2014)emphasized the need for governments to effectively evaluate and choose betweencompeting domestic funding sources for government budgets. In a similar vein,Tyran and Sausgruber (2013) called on policy makers to replace corporate incometax (CIT) with value added tax (VAT) as firms are unable to transfer the cashflow burden associated with CIT to the final consumer. These calls are based onthe notion that firms require cash to carry on business.

Indeed, Manisha (2012) asserted that cash is the lifebloodof every successful business organization. Even though emphasis on most taxpolicy reforms in less developed countries is shifting toward VATimplementation due to its purported ability to transfer the associated taxburden to the final consumer, little effort is exerted to discover the cashflow effect across various industries. Epstein and Jermakowicz (2010) describedcash flows as “inflows and outflows of cash and cash equivalents”. A number offactors influence the cash flows of firms. Scherr (1989) argued thatorganizational cash balance is significantly influenced by its cash conversioncycle consisting of its inventories holding period, accounts receivablescollection period, and accounts payables payment period. Prior studies reliedon projected data to assess the impact of VAT on corporate cash flow (Murphy,1991). In some instances, actual data was employed to ascertain the generalcash flow effect of VAT on corporate bodies (Salia, 2016). Generally, a goodtax system should improve government revenue without hampering private sectorparticipation in infrastructure development (Ali-Nakyea, 2014). Private sectorparticipation in infrastructure development is only possible if firms have cashto finance their activities. The purpose of this study is to ascertain theeffect of VAT on the performance of corporate organizations in Nigeria.

STATEMENT OF PROBLEM

VAT was introduced in Nigeria following a study group set upby the federal government in 1991 to review the nation’s tax system. It wasthis group that proposed VAT and in that same manner, a committee was set up toconduct feasibility study on the implementation of the VAT (Thacker, 2009). Theattitude of Nigerians towards taxation is worrisome as many prefer not to paytax if given the opportunity. The economy continues to lose huge amount ofrevenue through the unwholesome practice of tax avoidance and tax evasion,these loss of revenue can change the fortune of many economy particularly,developing countries like Nigeria. This problem has been lingering for so longwhich urgent attention and solution is overdue. The cost of collecting tax inNigeria (both social and economic cost) is too high to the extent that, if leftunchecked, the cost may soon outweigh the benefit or value derived from suchoperation and that will not be appropriate for the system. The rate ofcorruption on the part of tax officials is alarming as most of them connive andcollude with supposed-tax- payer to evade and avoid tax. Sometimes, the taxofficials are not properly trained on the modern ways of tax administration andmost of the corporate organizations will fall if not properly checked. Thisstudy therefore attempts to address the issues of impact of Value Added Tax(VAT) on the performance of corporate organizations in Nigeria.

1.3 AIMS OF THE STUDY

The major purpose of this study is to examine the impact ofvalue added tax on the performance of corporate organizations. Other generalobjectives of the study are:

1. To examine the nature of value added tax in Nigeria.
2. To examine the implications of cash flow of VATremittance on corporate organizations.
3. To examine the impact of Value Added Tax on theperformance of corporate organizations.
4. To examine ways of tax administration to corporateorganizations.
5. To examine the relationship between Value Added Tax andthe performance of corporate organizations.
6. To identify the major factors influencing an effectiveVAT administration in Nigeria.

1.4 RESEARCH QUESTIONS

1. How is the nature of value added tax in Nigeria?
2. What are the implications of cash flow of VAT remittanceon corporate organizations?
3. What are the impacts of Value Added Tax on theperformance of corporate organizations?
4. What are the ways of administrating tax to corporateorganizations?
5. What are the relationship between Value Added Tax and theperformance of corporate organizations?
6. What are the major factors influencing an effective VATadministration in Nigeria?

1.5 RESEARCH HYPOTHESES

H01: There is no impact of Value Added Tax on theperformance of corporate organization.

H02: There is no significant relationship between ValueAdded Tax and the performance of corporate organizations.

1.6 SIGNIFICANCE OF THE STUDY

The study will assist the government in policy formulationas it relates to Value Added Tax and monetary policies. It will help tostrengthen the operation of the relevant government agencies such as FederalBoard of Inland revenue, Central Bank of Nigeria, Joint tax Board and others.This study will bring government attention to other sources of revenue apartfrom over dependence on revenue from petroleum. The study will be restricted tothe aspect of Value Added Tax that falls under the jurisdiction of the FederalBoard of Inland

Revenue (FBIR), Federal Inland revenue Service (FIRS).Knowledge of the cash flow implications of VAT remittance on firms in differentindustries should enhance government decisions on the application of VAT rateto various industries without having adverse effects on corporate cash flow invarious industries. It is also expected to aid corporate managers to determinewhich sectors to invest their scarce productive resources without being heavilyhit by cash flow challenges resulting from VAT imposition.

1.7 SCOPE OF THESTUDY

The study is based on impact of value added tax on theperformance of corporate organizations in Ebonyi state: A study of a corporateorganization in the state.

1.8 LIMITATION OF STUDY

Financial constraint– Insufficient fund tends to impede theefficiency of the researcher in sourcing for the relevant materials, literatureor information and in the process of data collection (internet, questionnaireand interview).

Time constraint– The researcher will simultaneously engagein this study with other academic work. This consequently will cut down on thetime devoted for the research work.

1.8 DEFINITION OF TERMS

Tax: This is the money which government has legislated thatadults should pay for the development of the country.

Tax compliance: Refers to fulfilling all tax obligations as specified by the law freelyand completely. Tax compliance means submitting a tax return within thestipulated period, correctly stating income and deductions, paying assessedtaxes by due date and paying levied taxes.

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