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**Effect of Taxation on Retained Earnings of Manufacturing firms in Nigeria (2006-2015)**

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**ABSTRACT**

The study examined the effect of taxation on retained earnings of listed manufacturing firms in Nigeria. The study is an ex post facto research design by which covering the period 2006 to 2015. Secondary data was extracted from annual report and accounts of selected manufacturing firms listed in the Nigerian Stock Exchange for the period 2006-2015. The data were analyzed using multiple regression technique. Findings indicate that retained earning is affected negatively by all the taxes levied on these manufacturing firms in Nigeria. Value added tax is the only tax that has significant effect on retained earnings. The adjusted R<sup>2</sup> reveals strongly that about 80% of the variations in retained earnings could be explained by company income tax, value added tax and education tax, while about 20% could be explained by other factors not explained in the study. The implication of the findings is that value added tax is a dependable tax for predicting movement in retained earnings in Nigeria manufacturing sector. Manufacturing firms in Nigeria should devise a means of increasing their revenue as it relates to cost of input. This is because company income tax is a rate that cannot be reduced as far as the company is making profit, hence the costs that is associated with revenue should be reduced so as to have an increased earnings reserved. The government should also reduce the rate of company income tax levied on these firms so as to encourage local manufacturers and continuity in the industry. The government should also reduce the amount levied on value added tax as it affects manufacturing firms negatively. They should harness other sources of fund available to them other than value added tax. Furthermore, it is the sole responsibility of the government to ensure that the level of education within the country is maximised hence, they should reduce drastically or scrap education tax since it affects the savings of firms in Nigerian manufacturing industry.

**Keywords:** Taxation, retained earning, manufacturing and firms.

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**INTRODUCTION**

[1] defined tax as a compulsory payment levied by government on individuals and corporate bodies to meet the expenditure which is required for public welfare. [2] opine that tax is a compulsory levy imposed by a public authority on the income and properties of individuals and companies as stipulated by government decree, acts or laws irrespective of the exact amount of services received by the payer in return. [3] submits that tax payment is not for the direct exchange of goods and/or services but a transfer of resources and income from the private sector to the public sector in order to

achieve some of the nation's economic and social goals. These goals according to [4] includes: provision of employment, price stabilization, rapid growth of gross national product, favourable balance of payment position, promotion of a free market economy, satisfaction of collective demands, equitable income redistribution, promotion of infant industries, encouragement of priority sector, encouragement of balanced population development and promotion of labour and capital development. In line with the goals of taxation by [5] posit that the main objective of taxation is to provide services such as health services and education services, among others so as to redistribute income and wealth which can be achieved by graduating the tax rate in a progressive manner; to discourage the consumption of harmful goods; to harmonize diverse trade and economic objectives of different countries so as to provide for the free movement of goods and services, capital and people between member states; to help in economic management such as planning for savings and investments. In addition, taxation can be used to achieve specific economic objectives of nations. In Nigeria, governments oftentimes introduce tax incentives and attractive tax exemptions as an instrument to attract and retain local and foreign investors. It is also a devise to improve gross domestic product, induce economic development and influence favourable balance of payment with other countries [6].

[7] posit that a good tax should have the qualities of equitability, efficiency, neutrality, flexibility and simplicity. These principles still hold and even act as a guide for policy formulation. However, the ability to achieve all in a single tax policy is practically impossible; hence [8] stated that there is no good tax. because an efficient tax might be inequitable. According to [9] an efficient tax may not be considered fair and one that is considered equitable may not be efficient. People also abhor tax payment due to its effect on their income. [10] stated that tax as are levied by government on the income and transactions of individuals and corporate bodies and those taxes may be direct or indirect and may be imposed on individuals' incomes and corporate entities incomes, assets and transactions.

For the purpose of this study, only company income tax, value added tax and education tax are used. [11] defined value added tax as a tax paid at each stage of value added. It is a multi-stage tax which applies whenever goods and services are supplied by the producers. It is one of the indirect taxes collected by the government. In this case, the incidence of tax is borne by either the producer or the final consumer or shared by both. In Nigeria, VAT started in January 1994 to replace the former sales tax imposed on luxury goods. VAT is basically a consumption tax levied at a flat rate of 5%.

### **Statement of the Problem**

Firms retained earnings as an important source of fund is not without some challenges in Nigeria. The greatest challenge is the implication of taxes imposed on companies' income and the ability of the business to sustain itself and expand. Some authors argue that taxes discourage capital formation and affect savings adversely. This is because those investors with great capacity to save and at the same time invest are heavily taxed, which will affect their savings and investment potentials. Nigerian companies are faced with high tax rates, multiple taxation and complex tax regulations. Currently, the company income tax rate is as high as 30% of the operating profit of the organization. This adds to the numerous taxes that are as well levied on companies which is not limited to education tax, withholding tax, capital gain tax, value added tax and stamp duties. Consequently, this study evaluates the effect of high tax rates on retained earnings of manufacturing firms in Nigeria.

### **Objectives of the Study**

The primary objective of this study is to examine the effect of taxation on retained earnings of manufacturing firms in Nigeria, while the specific objectives include:-

1. To determine the extent to which company income tax affects retained earnings of manufacturing firms in Nigeria.
2. To ascertain the extent to which value added tax affects retained earnings of manufacturing firms in Nigeria.
3. To assess the extent to which education tax affects retained earnings of manufacturing firms in Nigeria.

### **Research Question**

1. To what extent does company income tax affect retained earnings of manufacturing firms in Nigeria?
2. To what extent does value added tax affect retained earnings of manufacturing firms in Nigeria?
3. To what extent does education tax affect retained earnings of manufacturing firms in Nigeria?

### **Statement of the Hypotheses**

1. Company income tax does not significantly affect retained earnings of manufacturing firms in Nigeria?
2. Value added tax does not significantly affect retained earnings of manufacturing firms in Nigeria?
3. Education tax does not significantly affect retained earnings of manufacturing firms in Nigeria?

### **Conceptual Review**

#### **Concept of Company Income Tax**

According to [12], company income tax is a levy imposed by the Federal government on the chargeable income generated by companies during a year of assessment. The Federal Board of Inland Revenue is responsible for the assessment and to tax the limited liability companies throughout Nigeria. Section 47 of Company Income Tax Act (CITA) 1979 empowers the Board to assess every company chargeable with tax soon after the expiration of the time allowed to the company for the delivery of the audited accounts. Most often, assessment by the board is based on the audited accounts or returns submitted by the company. [13] submits that when company income tax is collected by the Federal Inland Revenue Service, these collections will be paid into federation account. All money collected and allocated will be used by the government to carry out its functions in form of providing social amenities to the citizens of the country. He further stated that when good roads, electricity, schools and hospitals are provided, there will be growth in productive activities, since good roads will enable traders to penetrate into rural areas/markets to buy from farmers which will help the farmers to increase productive activities the next coming year.

#### **Concept of Value Added Tax (VAT)**

[14] opine that VAT is a consumption tax levied at each stage of the consumption chain and borne by the final consumer of the product or service. Each person is required to charge and collect VAT at a flat rate of 5% on all invoiced amounts, on goods and services not exempted from paying VAT under the Value Added Tax Act 1993 as

amended. Where the (output VAT) in a particular month is more than the VAT paid to other persons (input VAT) in the same month, the difference is required to be remitted to the government on a monthly basis, by the taxable person [15]. Where the reverse is the case, the tax payer is entitled to a refund of excess VAT from the government. Every person, whether resident in Nigeria or non-resident in Nigeria who sells goods or render services in Nigeria under the VAT Act (as amended) is obligated to register for VAT within six months of its commencement of business in Nigeria. VAT is an indirect tax collected from someone who actually bears the cost of the tax, [16]. VAT is a Federal tax which is managed by the Federal Inland Revenue (FIRS). It is charged on most goods and services produced in Nigeria and also on goods imported into Nigeria. This study's interest on VAT is as a result of it been a component of indirect tax and also because it involves goods and services.

### **Concept of Education Tax**

Nigeria Education Tax Act was promulgated as Education Tax Decree No 7 of 1993. This tax Act imposes a 2% tax levy on profit of firms registered in Nigeria including those operating within the oil sector. This tax is used in provision of amenities that relates to education. This tax can go a long way in ensuring quality education in Nigeria if the revenue derived from it is managed effectively. This tax is viewed as a social obligation placed on all companies in ensuring that they contribute their own quota in developing educational facilities in the country.

### **Firms Retained Earnings**

Retained earnings refer to the percentage of net earnings not paid out as dividends, but retained by the company to be reinvested in its core business, or to pay debt. It is recorded under shareholders' equity on the balance sheet ([www.investopedia.com](http://www.investopedia.com)). [17], stated that a company's dividend policy is its long term financial strategy with regards to deciding how much earnings to pay out as against retaining them for investment in the company. This according to him leads to division of profits between dividend payment to shareholders and reinvestment in the company. There are no transaction and bankruptcy costs associated with retained profits [18]. Thus, retained earnings constitute a major source of finance for companies. Payment of earnings as dividend is associated with agency cost and an opportunity for existing shareholders is lost to reinvest their earnings for growth of the company.

### **Theoretical Review**

The study anchors on Benefit Received Theory by and Cost of Service Theory and Cost of Service Theory.

#### **Benefit Received Theory:**

Benefit Received theory was propounded by [19] and [20]. It was based on the assumption that there is basically an exchange relationship between taxpayers and the State. The State provides certain goods and services to the members of the society who contribute to the cost of these supplies in proportion to the benefit received [21] argues that taxes should be allocated on the benefit of received from government expenditure.

#### **Cost of service theory**

Cost of service theory which was propounded by Adam Smith in 1776 implies that the Government should tax the citizens according to the cost of service rendered by it. It is

then obligatory that as Government renders certain services to citizens the cost of such services should be collectively met by the citizens Hence the tax, an individual should bear, must be equal to the cost of benefit he or she receives.

## **Empirical Review**

### **Company Income Tax and Retained Earnings**

The relation between the firm cost of equity and corporate tax avoidance was examined by [22] using three measures that capture less extreme forms of corporate tax avoidance: book-tax differences, permanent book-tax differences, and long-run cash effective tax rates. The study found that less aggressive forms of corporate tax avoidance significantly reduce a firm's cost of equity. Further analysis reveals that this effect is stronger for firms with better outside monitoring. It is also applicable to firms that likely realize higher marginal benefits from tax savings, and firms with better information quality.

[23] explored the impact of company income tax revenue on the government capital expenditure. The ordinary least square (OLS) regression analysis was adopted to explore the effect exerted on Total Capital Expenditure (the dependent variable) by federal government income tax revenue over the period 1981-2007. A simple hypothesis was formulated in the null form which states that company income tax has no significant effect on government capital expenditure in Nigeria. The regression result indicated a very positive and significant effect. [25] concentrated on the Company Income Tax and Nigeria Economic Development relationship. Using Chi-square and Multiple Linear Regression analysis in analyzing the primary and secondary data respectively they concluded that there is a significant relationship between company income tax and Nigerian economic development, and that tax evasion and avoidance are major hindrances to revenue generation.

### **Value Added Tax and Retained Earnings**

[26] tested the effect of value added tax on government capital expenditure in Turkey. The empirical finding of their study holds that value added tax has no significant effect on economic growth. [27] examined the relationship between value added tax and government capital expenditure [28]. The result found negative relationship between value added tax and government capital expenditure in the sampled countries. The analysis is based on the neoclassical growth model extended with human capital. The default is a panel regression analysis. The sample consists of EU member states. [29] in their study, value added tax and capital expenditure, explored how value added tax affect a country's capital expenditure, using cross-country data during 1970-1997. Their findings revealed that value added tax rates are significantly but negatively correlated with cross-sectional differences in average capital expenditure. And also, that in fixed-effect regression increases in corporate tax rates lead to lower capital expenditure by the governments within countries [30].

[31] are of the opinion that larger companies endure higher effective tax rates (ETR) in the examination of Malaysian public companies listed on Bursa Malaysia. This conclusion was established during official assessment system and self assessment system tax regimes. The study also concluded that lower ETRs are significantly related to highly leverage companies, greater investment in fixed assets and lower investment in inventory.

### **Education Tax and Retained Earnings**

The results of the investigation by [32] which sought to know the relationship between tax planning savings of firms and their value utilized the regression model was negative. Indeed, relationship between firm value and tax planning activities from the perception that as tax planning activities increase, the tax costs and risks outweighs the benefits. On the other hand [33] found that tax savings enhanced after tax earnings of Ghanaian firms but does not reflect in the firm's value. The result is consistent with the Agency theory notion that not all management strategies tends towards the achievement of wealth maximization objectives. In a similar vein, the adoption of the Generalized Least Squares (GLS) regression model by [34] to examine the relationship between firms' value and tax planning with firm size, leverage, capital intensity, dividend and earnings management as control variables found a significant and negative relationship between firm value and tax planning also supports the Agency cost theory of tax planning. [35] estimates a negative relationship between budget revenue accumulated by income taxes and economic activity growth. According to her conclusions, the predictions of conventional wisdom for negative effect of indirect taxes on economy are not confirmed. The empirical results from analyses of [36] indicate a negative effect of corporate taxes on the productivity of firms and industries, based on large data sets of firms and industries across OECD countries. The significant negative correlation between statutory corporate tax rates and growth for 70 countries during 1970-1997, found by [36], is noted as a similar result.

#### **Research Design**

This study research is an ex-post factor research design as it relied on already existing data devoid of manipulation and bias.

#### **Area of Study**

The research is conducted in Nigeria; in the manufacturing sector of the economy with 25 private and publicly quoted firms as at 31<sup>st</sup> December, 2015.

#### **Sources of Data**

The research made use of secondary data. Time series data from 2006 - 2015 was extracted from the annual reports and accounts of the selected listed manufacturing firms in Nigeria.

#### **Population of the Study**

The population for the study centered on the performance indices of the sixteen (9) firms in Nigerian computer and equipment sector, selected from the Nigeria Stock Exchange at the end at the end of 2014.

#### **Sample Size and Selection Technique**

Most firms were unable to provide data for a period of ten (10) years, this necessitated selecting five (5) manufacturing firms. The study selected the following firms from the twenty five (25) registered with Nigeria Stock Exchange, they include: Vita foam Nigeria Plc, Unilever Nigeria Plc, Nestle Nigeria Plc, Union Dicon Salt Nigeria Plc and Cadbury Nigeria Plc.

### Analytical Technique

The analytical technique used for the study was multiple regression as underlying statistical tool. The four functional forms of multiple regression analysis were employed in the test of the effect of each of the independent variables (i.e. the indices of taxation) on the dependent variables (i.e. retained earnings).

### Analytical Procedure

The objectives of the study are accomplished in the following manner: A regression equation is estimated to evaluate the effect of the selected tax variables on retained earnings of manufacturing firms in Nigeria.

### Model Specification

To analyze the respective effects defined in prior sections multiple regressions analysis is performed based on the following general models as applied in previous studies. The composite multiple regression (prediction) model is statistically formulated as;

$$RE_{ti} = \beta_0 + \beta_1 CIT_t + \beta_2 VAT_t + \beta_3 ET_t + \varepsilon_t \quad - \quad [\text{Equation (1)}]$$

Where,

RE	Retained Earnings
CIT	Company Income Tax
VAT	Value Added Tax
ET	Education Tax
$\varepsilon$	Stochastic disturbance (Error) Term
$\beta_0$	= Coefficient (constant) to be estimated
$\beta_1 - \beta_6$	= Parameters of the independent variables to be estimated
t	= Current period

### Description of Model Variables

The research variables are structured into dependent and independent variables for the purpose of the analysis. The dependent variable of the study is retained earnings while the independent variables are company income tax, Value Added Tax, and Education Tax.

**Table 1: Description of Variables**

Short Form(Acronym)	Details	Source of Data
RE	Retained Earnings	Annual Report and Accounts
CIT	Company Income Tax	Annual Report and Accounts
VAT	Value Added Tax	Annual Report and Accounts
ET	Education Tax	Annual Report and Accounts

**Source: Author's Arrangement.**

**Table 2: Time Series Data of Vitafoam Nigeria Plc**

YEARS	RE	ET	CIT	VAT
2015	3,548,710	19,871	289,547	29807
2014	3,337,504	18,526	266,421	27,789
2013	2,857,813	12,283	219,472	18,425
2012	2,707,967	17,470	311,135	26,205
2011	2,271,805	19,405	297,224	29,107
2010	1,844,481	16,736	310,125	25,104
2009	1,547,716	15,970	270,138	23,954
2008	1,239,934	20,274	315,423	30,412
2007	787,338	13,046	212,970	19,569
2006	552,774	6,051	27,446	9,077

Source: Company's Annual Reports and Accounts.

**Table 3: Time Series Data of Unilever Nig Plc**

YEARS	RE	ET	CIT	VAT
2015	6,065,887	35,421	578,697	53132
2014	5,541,442	57,465	460,892	86197
2013	7,410,556	135,872	2,069,186	203808
2012	7,896,863	163,720	2,588,374	245580
2011	7,697,284	160,362	2,502,902	240543
2010	6,397,861	123,037	1,971,235	184556
2009	6,265,368	113,221	1,567,230	169832
2008	4,744,187	82,897	1,548,316	124345
2007	1,910,392	40,263	716,615	60394
2006	1,778,720	42,405	745,870	63607

Source: Company's Annual Reports and Accounts

**Table 4 : Time Series Data Of Nestle Nig Plc**

YEARS	RE	ET	CIT	VAT
2015	22,458,765	509,752	3975,405	764,628
2014	21,785,346	535,125	3609,643	802,687
2013	20,765,298	520,952	3789,311	781,428
2012	20,456,785	501,003	3912,897	751,505
2011	22,855,689	370,793	1732,905	566,190
2010	14,316,327	370,793	5642,345	566,190
2009	9994,909	364,889	399,966	547,334
2008	8482,214	27,665	3530,614	41,497
2007	5687,495	233,244	3021,889	3,497,866
2006	4568,235	169,276	2995,678	253,914

Source: Company's Annual Reports and Accounts



**Table 5: Time Series Data Of Union Dicon Salt Nig Plc**

YEARS	RE	ET	CIT	VAT
2015	1,934,575	845	10,565	4,226
2014	1,833,755	839	10,482	1,048
2013	1,791,538	1,767	22,092	2,209
2012	1,702,881	2,009	25,109	2,511
2011	1,606,230	4,,057	50,716	5,072
2010	1,401,415	3,763	47,044	4,704
2009	1,702,881	1,960	24,506	2,451
2008	1,606,230	4,057	50,716	5,072
2007	1,402,316	3,763	47,044	4,704
2006	1,212,951	2,835	35,438	3,544

Source: Company's Annual Reports and Accounts

**Table 6 :Time Series Data of Cadbury Nig Plc**

YEARS	RE	ET	CIT	VAT
2015	7,056,785	151271	1,890,866	226,906
2014	7,421,477	148,288	1,853,594	222,431
2013	5,361,692	70,292	878,645	105,437
2012	5,053,022	73,542	91,274	110,313
2011	4,865,456	97,527	1219,089	146,291
2010	4,238,765	81,524	1019,052	122,286
2009	3,789,534	80,692	1008,647	121,038
2008	3,056,742	77,931	974,143	116,897
2007	2,568,743	71,619	895,239	107,429
2006	2,496,784	61,351	766,884	92,026

Source: Company's Annual Reports and Accounts

## DATA ANALYSIS

**Table 7:Descriptive Statistics**

	RE	CIT	VAT	ET
<b>Mean</b>	5797589.	1216020.	233025.5	113154.4
<b>Median</b>	3669122.	731242.5	89111.50	59408.00
<b>Maximum</b>	22855689	5642345.	3497866.	535125.0
<b>Minimum</b>	552774.0	10482.00	1048.000	839.0000
<b>Std. Dev.</b>	6011342.	1371189.	522991.9	151845.5
<b>Skewness</b>	1.833858	1.277398	5.085937	1.712478
<b>Kurtosis</b>	5.354780	3.886980	31.74739	4.793071
<b>Jarque-Bera</b>	39.57736	15.23690	1937.248	31.13632
<b>Probability</b>	0.000000	0.000491	0.000000	0.000000
<b>Sum</b>	2.90E+08	60801016	11651277	5657719.

<b>Sum Sq. Dev.</b>	1.77E+15	9.21E+13	1.34E+13	1.13E+12
<b>Observations</b>	50	50	50	50

Source: Eviews 9.0 Software

The table above shows that the data variables for retained earnings, company income tax, value added tax and education tax has skewness coefficients that are above one. This shows that all the data for the variables mentioned above are not normally distributed. That is to say that they are abnormally distributed. Also, the probability for the Jaque-Bera statistics for retained earnings, company income tax, value added tax and education tax is significant. This indicates a normal distribution.

**TABLE 8 : CORRELATION ANALYSIS**

	RE	CIT	VAT	ET
RE	1.000000	0.773956	0.410970	0.944779
CIT	0.773956	1.000000	0.509461	0.794845
VAT	0.410970	0.509461	1.000000	0.534077
ET	0.944779	0.794845	0.534077	1.000000

Source: Eviews 9.0 Software

The correlation result shows that there is a strong positive relationship between retained earnings, company income tax and education tax. The relationship between retained earnings and value added tax is positive also but weak. The relationship between the variables is strongest between retained earnings and education tax. This is shown by 0.944779 correlation coefficient.

**Table 9: Regression Analysis**

Dependent Variable: RE

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1437306	357578.3	4.019556	0.0002
CIT	-0.417805	0.327407	1.276104	0.2083
VAT	-1.635610	0.616118	-2.654701	0.0109
ET	-37.41227	3.009195	12.43265	0.0880
R-squared	0.308120	Mean dependent var	5797589.	
Adjusted R-squared	0.802128	S.D. dependent var	6011342.	
S.E. of regression	1880617.	Akaike info criterion	31.80872	
Sum squared resid	1.63E+14	Schwarz criterion	31.96168	
Log likelihood	-791.2179	Hannan-Quinn criter.	31.86696	
F-statistic	151.5516	Durbin-Watson stat	1.142670	
Prob(F-statistic)	0.05040			

Source: Eviews 9.0 Software

### Interpretation of Regression Coefficient Result

Table 8, indicates that a one naira change in CIT, VAT and ET will decrease RE by 0.417805, 1.635610 and 37.41227 respectively. In summary, RE is influenced negatively by all the variables under study. This is the situation in Nigeria manufacturing industry.

### Interpretation of Durbin Watson- Statistic

The Durbin-Watson statistic is 1.142670 which is not up to 2. In this case, the Durbin Watson statistic is closer to 2 than 0 which indicate the presence of autocorrelation in the series. The result indicates the presence of positive serial correlation in the time series data extracted from the annual report and accounts of selected manufacturing firms in Nigeria.

### Coefficient of Determination ( $R^2$ )

The Adjusted R-squared is 0.802128. The adjusted  $R^2$  reveals that only about 80% of the variations in RE could be explained by CIT, VAT and ET while about 20% could be explained by other factors capable of influencing RE in Nigeria manufacturing industry; such as government influence through price regulation, as well as the error term and the unexplained variables.

### Test of Hypotheses

1. **Hypotheses one** state that company income tax does not significantly affect retained earnings of firms in Nigeria manufacturing industry.

**Decision Rule:** Reject  $H_0$  if P-Value is less than a-value of 0.05.

**Decision:** Table 8 reveals a P-Value of 0.2083 which is greater than a-value of 0.05;  $H_0$  is therefore accepted in respect to retained earnings in the industry. This implies that company income tax does not significantly affect education tax of firms in Nigeria manufacturing industry.

2. **Hypotheses one** state that value added tax does not significantly affect retained earnings of firms in Nigeria manufacturing industry.

**Decision Rule:** Reject  $H_0$  if P-Value is less than a-value of 0.05.

**Decision:** Table 8 reveals a P-Value of 0.0109 which is less than a-value of 0.05;  $H_0$  is therefore accepted in respect to retained earnings in the industry. This implies that value added tax significantly affect retained earnings of firms in Nigeria manufacturing industry.

3. **Hypotheses one** state that education tax does not significantly affect retained earnings of firms in Nigeria manufacturing industry.

**Decision Rule:** Reject  $H_0$  if P-Value is less than a-value of 0.05.

**Decision:** Table 8 reveals a P-Value of 0.0880 which is greater than a-value of 0.05;  $H_0$  is therefore accepted in respect to retained earnings in the industry. This implies that education tax does not significantly affect education tax of firms in Nigeria manufacturing industry.

### DISCUSSION OF FINDINGS

**Hypotheses one:** This hypothesis states that company income tax does not significantly affect retained earnings of firms in Nigeria manufacturing industry. From the result of the regression analysis in Table 8, it reveals that company income tax does not affect retained earnings significantly in the tune of 0.680714. It also reveals that about 80% of changes in retained earnings can be explained by education tax and other variables

under study within the industry. The remaining 20% will be explained by other factors not explained in the study.

**Hypotheses two:** This hypothesis state that value added tax does not significantly affect retained earnings of firms in Nigeria manufacturing industry. The regression analysis result of Table 8 reveals that retained earnings are influenced by education tax negatively in a significant amount of 0.0109. The table also depicts that about 80% of changes in retained earnings could be explained by education tax and other variables under study within the industry. The remaining 20% will be explained by other factors not explained in the study.

**Hypotheses three:** This hypothesis state that education tax does not significantly affect retained earnings of firms in Nigeria manufacturing industry. Education tax affects retained earnings negatively and insignificantly in the tune of 0.0880 as can be seen in Table 8. The adjusted R-squared revealed that only about 80% of changes in retained earnings can be explained by education tax and other variables under study within the industry.

### SUMMARY OF FINDINGS

- Company income tax negatively and insignificantly affects retained earnings of firms in Nigeria manufacturing industry.
- Value added tax negatively and significantly affects retained earnings of firms in Nigeria manufacturing industry.
- Education tax negatively and insignificantly affects returns on investments of firms in Nigeria manufacturing industry.

### RECOMMENDATIONS

- Manufacturing firms in Nigeria should devise a means of increasing their revenue as it relates to cost of input. This is because company income tax is a rate that cannot be reduced as far as the company is making profit, hence the costs that is associated with revenue should be reduced so as to have an increased earnings reserved. The government should also reduce the rate of company income tax levied on these firms so as to encourage local manufacturers and continuity in the industry.
- The government should also reduce the amount levied on value added tax as it affects manufacturing firms negatively. They should harness other source of fund available to them other than value added tax.
- Furthermore, it is the sole responsibility of the government to ensure that the level of education within the country is maximised hence, they should reduce drastically or scrap education tax since it affects the savings of firms in Nigeria manufacturing industry.

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