EFFECT OF TAX PAYMENTS ON RETAINED EARNINGS IN NIGERIA MANUFACTURING SECTOR: EVIDENCED FROM DANGOTE CEMENT INDUSTRY (2015 – 2024).

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Abstract

The study examined the effect of tax payments on retained earnings in Nigeria manufacturing sector from 2013 to 2022. The study specifically examined the effect of; capital gain tax (CGT) on corporate retained earnings in Nigeria manufacturing sector, company income tax (CIT) on corporate retained earnings in Nigerian manufacturing sector and also investigated the effect of customs and excise duties on corporate retained earnings in Nigerian manufacturing sector. Data for the study were sourced from CBN statistical bulletin. Data collected were analysed using multiple regression analysis. Result of the analysis showed that value added tax (VAT) has significant effect on corporate retained earnings in Nigerian Manufacturing sector. That company income tax (CIT) has positive and significant effect on corporate retained earnings in Nigerian Manufacturing sector. That custom and exercise duty (CED) has positive and significant effect on corporate retained earnings in Nigerian Manufacturing sector. The study recommended that Government should set up monetary team to ensure that companies pay their company income taxes as at when due as it has effects on corporate retained earnings in Nigerian Manufacturing sector.

Keywords: *Capital Gain Tax, Company Income Tax, Value Added Tax, Custom and Exercise Duty.*

INTRODUCTION

1.1 Background to the Study

The appropriation of a company's profit is a sensitive function of financial management, most especially because of the need to maintain optimality in the allocation of profit between the shareholders (i.e. dividend) and the company itself (retained earnings) (Uwuigbe and Jafaru andAjayi, 2012). Meanwhile, dividend policy remains the most indispensible element in financial policies not only from the viewpoint of the company, but also from that of the shareholders, the consumers, employees, regulatory bodies and the government (Uwuigbe et al, 2012).

The concept of taxation experienced a sharp momentum after the great world economic depression of the 1930's, due to the need to raise capital for the provision of social amenities necessary for sustaining and promoting improved standards of living. Nigeria, like other developing nations of the world, has many forms of taxations in practice. These taxes afford communities to be relieved from external attack or aggression. According to Abiahu and Amahalu (2017), taxation is a civil responsibility of players in a society paid as a compulsory levy contributed by the populace towards societal administration and sustenance. To a greater extent, taxes influence investment decisions in an economy (Edame, Okoi, 2014). As such, it is imperative that decision makers, especially in the business world, must be able to manage any complexity in the existing tax system. This is because the complexities of taxes in business have the tendency of endangering investment decisions at every point in time, if such complexities are not strategically managed (Ibanichuka, Akani, Ikebujo, 2016). Leveraging on the dynamics of an effective tax rate is one of the ways the complexities in taxation can be managed without negatively impacting on investment decisions (Dagogo, Daibi, 2015).

A lot of controversies regarding taxes and retained earnings have attracted many academic interests. Financial theorists have stipulated that taxes affect organizational corporate earnings policy. If this speculation were true, changes in corporate earnings would be expected whenever the government changes its income tax policy (Ibemere, 2017). However, this does not always apply especially in the manufacturing industry. The debates regarding dividend payment is unending. Empirical studies on the impact of corporate taxation on earnings of manufacturing companies have not reached a definite conclusion. Also, the fluctuations of the earnings of manufacturing firms in Nigeria have been attributed by the management of such manufacturing

firms, to the amount of corporate tax paid by such firms particularly as occasioned by changes in government tax policies (rate).The low earnings of manufacturing firms have caused a lot of agitations from the shareholders and have become a source of discouragement to investors (shareholders) and prospective (intending) investors. Dividends are usually paid to the shareholders or owners of the business at specific periods and if profit is not made, dividends are not declared, but when profits are made, the company is obliged to pay corporate tax to the government. This is an essential corporate responsibility, particularly for profit making companies. By implication, retained earnings is normally calculated after corporate tax has been paid.

Effective tax rate is often used by policy makers to ensure that the effect of tax complexities on investment decisions is drastically reduced. It has been observed that investors relate tax burdens to investment decisions, given consideration to the political and economic stability of the country, the availability of infrastructural facilities, the level of security and the trending cost of business transactions, to mention but a few (Simmons, 2010).

It has been observed that long term planning on taxation is always very difficult in many developing countries, due to the fact in most of them, reviews of tax laws are not clearly written and are also subject to review on a frequent basis (Pogge, Mehta, 2016). According to M.O. Olaleye, G.K. Riro and F.S. Memba (2016), taxation has been used on several occasions to stimulate saving and/or income redistribution in many countries of the world. Depending on the nature of tax, taxation may have either a negative or positive effect on an individual and an organization at large. With a high marginal rate of tax, in excess of 50%, tax will be a hindrance to work; while a low marginal rate of tax will be an incentive to work (Olaleye, Riro&Memba,

2016).

Manufacturing firms in the world over play a veritable role in the economic development of any country by creating employment and a source of income for various suppliers. Their major objectives 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 fall due (Hermanson, 2012).

1.2 Statement of Problem

Multiple taxation, overregulation, government bureaucracy and unnecessary taxes are the major reasons businesses in Nigeria are suffering. Tax liabilities is just another business expense and an increase in tax has the same effect as would a rise in cost of goods or the electricity bill so a firm must do all it can to reduce it. Tax effects dominate financial distress at low leverage, while financial distress and bankruptcy dominate tax effect at high leverage. When companies do not have too much debt in their capital structure, the main consideration as regards payment of tax is how to minimize the tax payable by the firm, hence a consideration to increase leverage. However, when a firm is highly levered it pays less tax as compared to another company of equal income level but has less debt in its capital structure. Despite this tax advantage of debt financing over equity financing, the commitment to pay interest along with the principal affects the company's cash inflows which may lead to financial distress. In considering the prior studies uncertainty, the problems associated with income tax of manufacturing firms in Nigeria. It is in view of the above that this study set out to determine the significant relationship between corporate tax and financing decision of manufacturing firms in Nigeria.

The capital gain tax (CGT) is an incentive to save, while tax levied on interest earned on bank deposits is a deceptive ploy to save. Taxation, being a tool for government economic policy, may be used to achieve some objectives such as the redistribution of wealth, to effect changes in a country's balance of payments with other countries, to effect the mobilisation of economic resources, to influence the level of economic activities and to combat inflation. Despite all these benefits that are attracted by taxation, many limited liability companies do not know the effects of taxation and as such, do not consider the effects on their retained earnings.

The problems that led to the formation of this study is that Nigerian tax system is grossly inefficient as it is characterized by tax evasion, avoidance and record falsifications which have led to consistent fluctuations in tax revenue inflow. Gross inefficiency and leakages have hampered the amount of revenue realized from tax sources over the years which has been affecting the economy negatively.

The continuous fluctuations in the level of tax revenue system in Nigeria, has raised lots of concern in the country by tax payers both corporate bodies and individuals. The inability of the

Federal Inland Revenue Service Board to ensure total compliance to tax rules by companies and bring all operational companies into the tax net has significantly limited the contribution of tax revenue to economic growth, the prevalence of tax evasion in the Nigeria tax system, has curtailed the amount of revenue collected from tax income, this in no doubt has effect on the government expenditure and inflation in the economy.

Over the years, revenue derived from taxes has been very low and no physical development actually took place, hence the impact on the poor is not being felt. The increase in tax rate has to a greater extent given to tax evasion, tax avoidance and fraudulent activities of tax payers. The issues mentioned above will therefore constitute the problem to be addressed by this research work. The issues mentioned above will therefore constitute the problem to be addressed by this research work. In other to address the above problems the researcher seeks to evaluate the effect of tax payments on retained earnings in Nigeria manufacturing sector from 2015 to 2024.

1.3 Objectives of the Study

The broad objectives of this research work is to examine the effect of tax payments on retained earnings in Nigeria manufacturing sector from 2015 to 2024. The specific objectives of this study include the following;

1. To examine the effect of capital gain tax (CGT) on corporate retained earnings in Nigeria manufacturing sector.
2. To ascertain the effect of company income tax (CIT) on corporate retained earnings in Nigerian manufacturing sector.
3. To investigate the effect of customs and excise duties on corporate retained earnings in Nigerian manufacturing sector.

1.4 Research Questions

Based on the objectives of this study, the researcher will ask the following questions:

1. What are the effects of capital gain tax (CGT) on Corporate retained earnings in Nigeria manufacturing sector?
2. How does company income tax (CIT) affect corporate retained earnings in Nigerian manufacturing sector?

3. To what extent does customs and excise duties affect corporate retained earnings in Nigerian manufacturing sector?

1.5 Statement of the Hypotheses

The following null (Ho) hypotheses will guide the study:

Ho: Capital gain tax (CGT) does not have significant effect on corporate retained earnings in Nigeria manufacturing sector.
Ho: Company income tax (CIT) revenue does not have significant effect on corporate retained earnings in Nigerian manufacturing sector.
Ho: Customs and excise duties does not have significant effect on corporate retained earnings in Nigerian manufacturing sector.

1.6 Significance of the Study

The researcher: This research work will be of immense help to the researcher as it will help him to know more on the effect of tax payments on retained earnings in Nigeria manufacturing sector. This study will be of great importance to the students and other researchers since it will serve as a reference point for the upcoming researchers.

Manufacturing firms: It will also be of great importance to Nigerian manufacturing companies as it will enrich their knowledge on the benefits of capital gain tax (CGT), company income tax (CIT) and customs and excise duties on retained earnings.

General public: Finally, this study will be of great importance to the general public as it will help the policy makers to enact laws that will guide capital gain tax and company income tax in the country as it enhances economic growth in the country.

1.7 Scope of the Study

This study will focus on the effect of tax payments on retained earnings in Nigeria manufacturing sector with particular reference to capital gain tax, company income tax and customs and excise duties and retained earnings for the period of 2013 to 2022. The geographical area of this study is Nigeria. The study focuses on companies classified under the manufacturing sector of the Nigerian Stock Exchange [NSE]. The study will focus on information obtained

from annual financial statements of the companies; i.e., secondary data obtained from annual reports and accounts of Innoson technical and CBN Statistical Bulletin as downloaded from their various individual websites.

2.1 CONCEPTUAL REVIEW

2.1.1 Concept of Taxation

Anyanwu (2017) defined taxation as the compulsory transfer or payment (or occasionally of goods and services) from private individuals, institutions or groups to the government. The main purpose of tax is to raise revenue to meet government expenditure and to redistribute wealth and management of the economy (Ola, 2011). According to Uwuigbe, Jafaru, &Ajayi, (2012), four key issues must be understood for taxation to play its functions in the society. First, a tax is a compulsory contribution made by the citizens to the government and this contribution is for general common use. Secondly, a tax imposes a general obligation on the tax payer. Thirdly, there is a presumption that the contribution to the public revenue made by the tax payer may not be equivalent to the benefits received. Finally, a tax is not imposed on a citizen by the government because it has rendered specific services to him or his family. Thus, it is evident that a good tax structure plays a multiple role in the process of economic development of any nation which Nigeria is not an exception (Appah, 2014).

Appah, (2014) opined that a tax is a compulsory payment levied by the government on individuals or companies to meet the expenditure which is required for public welfare. Hermanson, (2012) defined tax as a fee charged ("levied") by a government on a product, income, or activity. If tax is levied directly on personal or corporate income, then it is a direct tax. If tax is levied on the price of a good or service, then it is called an indirect tax. The purpose of taxation is to financegovernment expenditure. One of the most important uses of taxes is to finance public goods and services, such as street lighting and street cleaning. Since public goods and services do not allow a non-payer to be excluded, or allow exclusion by a consumer, there cannot be a market in the good or service, and so they need to be provided by the government or a quasi-government agency, which tend to finance themselves largely through taxes.

Tax is a compulsory charge imposed by a public authority on the income and properties of individuals and companies as stipulated by the government Decree, Acts or Laws irrespective of the exact amount of service of the payer in return (Ibemere, 2017). Tax payment is not for the direct exchange of good 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 (Okpe, 2010). Such goals may be in for of high level of employment, stable prices, rapid growth of gross national product, favourable balance of payments position, promotion of a free market economy, satisfaction of collective demands, equitable income redistribution, promotion of infant industries, the encouragement of priority sector, encouragement of balance population development and promotion of labour and capital development (Onoh, 2013). Taxation is a compulsory but non-penal levy by the government through its agent on the profits, income, or consumption of its subjects or citizens. It is also viewed as a compulsory and obligatory contribution made by individuals and organization towards defraying the expenditure of government (Onaolapo, Aworemi&Ajala, 2013).

Ebimobowei and Ogbonna (2012) posit that it is a charge levied by the government on the income or wealth of a person or corporate organization for the common benefit of all. The term does not include specific charges made against a particular person or properties for current or permanent benefits and privileges accruing only to those paying such charges. Similarly, Oboh and Isa (2012) define taxation as the transfer of real economic resources from private sector to the public sector to finance public sector activities. It may be inferred from the foregoing that taxation is the transfer of financial resources from private economic agents like households and corporate bodies, to the public sector to finance the development of the society. Nzotta (2017) identified four key issues which must be understood for taxation to play its functions in any society.

2.1.2 Capital Gain Tax (CGT)

A capital gains tax (CGT) is a tax on the profit realized on the sale of a non-inventory asset. The most common capital gains are realized from the sale of stocks, bonds, precious metals, real estate, and property. Not all countries impose a capital gains tax and most have different rates of taxation for individuals versus corporations. Countries that do not impose a capital gains tax

include Bahrain, Barbados, Belize, Cayman Islands, Isle of Man, Jamaica, New Zealand, Sri Lanka, Singapore, and others. In some countries, such as New Zealand and Singapore, professional traders and those who trade frequently are taxed on such profits as a business income (Uwuigbe, Jafaru, &Ajayi, 2012).

Ibemere, (2017) opined that capital gains tax can be payable on valuable items or assets sold at a profit. Antiques, shares, precious metals and second homes could be all subject to the tax if you make enough money from them. How much tax is payable can differ. The lower boundary of profit that is big enough to have a tax imposed on it is set by the government. If the profit is lower than this limit it is tax-free. The profit is in most cases the difference between the amount (or value) an asset is sold and the amount it was bought for.

Abdellatif, Gwendolyn & Fortes, (2013) were of the view the CGT can be considered a cost of selling which can be greater than for example transaction costs or provisions. The literature provides information that barriers for trading negatively affects the investors' willingness to trade, which in turn can change assets prices.

Akhor&Ekundayo, (2016) opined that companies especially with tax-sensitive customers react to capital gains tax and its change. CGT and its changes affect trading and selling stocks on the market. Investors have to be ready to react in a sensible way to these changes, taking into account the cumulative capital gains of their customers. Sometimes they are forced to delay the sale due to an unfavorable situation. A study by Li Jin (2016) showed that great capital gains discourage selling. On the contrary to this fact, small capital gains stimulate the trade and investors are more likely to sell. ″It is easy to show that to be willing to sell now the investor must believe that the stock price will go down permanently. Thus, a capital gains tax can create a potentially large barrier to selling. Of course, the foregoing calculation ignores the possibility that there might be another taxtiming option: Given capital gains tax rates fluctuate over time, it might be worthwhile to time the realization of capital gains and wait until a subsequent regime lowers the capital gains tax rate.

According to Amahalu&Ezechukwu, (2017) investors and entrepreneurs have to take some risks while doing their jobs, and these risks can be influenced by taxes. Taxes on capital drive away

the entrepreneurs from the trade because the taxes create an ″additional risk burden″. "The fruits of risk taking undertaken by entrepreneurs are all around us. major inventions like the automobile, the airplane, and the computer were, in part, the result of investors and firms deciding to gamble their wealth on a new idea." The government takes the money from successful projects but when a business fails the government doesn't help it with the costs of failure. There is an absence of insurance markets. However, even if there were more solid conditions in the sector of investment, there would still be a small percentage of entrepreneurs taking the risk.

Lyndon & Paymaster, (2016) are of the opinion that it is possible for some capital gains taxes to boost risk taking. Consider an investor with two investment options – one safe with almost no return and one risky that can cause a big return or a loss with a 50% chance of either result. If the investor decides to split up investments to both alternatives, even if the risky one ends up being a loss, he can through the income tax in combination with full loss deductibility gain most of his lost money back, incentivizing investors to take the risk. ″If the return on safe assets were zero and the government taxed gains and subsidized losses at the same rate, then capital taxation would encourage risk taking; the government would be, in effect, a silent partner.″

Because capital gains are taxed only upon realization, an individual who owns a security that has increased in value may be reluctant to sell it. The seller knows that when sold, tax is levied on the positive difference of the price at which the security was bought and the price at which the security was sold. If the seller chooses not to sell, the tax is postponed to later date. The present discounted value of the tax liabilities is reduced by the postponement of the tax. Therefore, the seller has an incentive to hold the securities longer. And this distortion caused by the capital gains tax has been called the locked-in effect or lock-in effect (Ofoegbu, Akwu& Oliver, 2016).

With collecting of any type of tax come administrative costs associated with collecting, administering and managing the collection of capital gains taxes. These costs are directly incurred by governments that collect taxes, ultimately the one who pays the costs is its citizen. Unfortunately no studies (at least that Fraser Institute researchers knew of in 2017) specifically analyze the costs associated with capital gains taxes (Ojong, Ogar& Oka, 2016).

Canadian researcher Francois Vailancourt in 1989 examines the administrative costs associated with personal income taxes and two payroll taxes (CPP/QPP and UI). The costs include processing costs, administration and accommodation costs, capital expenses, and litigation costs. These costs represented roughly 1% of the gross revenues collected by these three tax sources. The paper does not show exactly what costs are incurred by capital gains tax. This number gives us a very rough estimate. But Vailancourt published the paper in 1989 and many technological inventions, changes came to fruition. Also the Internet became widespread. Moreover, more people live on the planet Earth right now. These are some reasons why our estimate could differ significantly (Saheed, Abarshi&Ejide, 2014).

2.1.3 Company Income Tax (CIT)

Companies Income Tax Act, 1990 is the current enabling law that governs the collection of taxes on profits made by companies operating in Nigeria excluding companies engaged in Petroleum exploration activities. This Tax is payable for each year of assessment of the profits of any company at a rate of 30% (Adereti 2011).

Ola (2011) stress that companies' income tax administration in Nigeria does not measure up to appropriate standards. Certainty, convenience and administrative efficiency are applied, Nigeria will score low considering the following points: Due to inadequate monitoring, persons in the self-employed and unquoted private companies group evade tax. In a study conducted by Festus and Samuel (2017) on company Income Tax and the Nigerian economy, they conclude that Company income tax is a major source of revenue in Nigeria but non-compliance with tax laws and regulations by tax payers is deep in the system because of weak control. There is the need for a general tax reform in the Nigerian company income tax system.

2.1.4 Custom and Excise Duties

Customs duties in Nigeria are the oldest form of modern tax revenue. Their introduction dates back to 1860 known as import duties, which represents taxes on imports into Nigeria, charged either as a percentage of the value of imports or as a fixed amount of contingent on quantity (Buba, 2017). Customs duty is a major source of revenue for the Federal Government which is payable by importers of specified goods (Buyonge, 2018).

Jeongho&Chaechang, (2017) studied the Customs and Excise Duties Contribution towards the development and growth of Nigerian economy. The study reveals that there is a strong relationship between customs and excise duties and economic development of Nigeria. This shows that this is a source of income that Nigeria should develop. Also, the study further shows that fraud and financial malpractices have negative impact on the contribution of customs and excise to Nigerian economic development. Going by the statement of Buba (2017), excise duties were also introduced on several goods to broaden the revenue base in Nigeria in 1962. Customs and excise duties is an important component of the non-oil revenue and has remained an important source of revenue before and after the discovery of oil in Nigeria and over the years contributed significantly to national development. He further stated that the Nigeria Custom Service is saddled with the responsibility of collecting duties, excise, fees, tariffs, and other levies imposed by the Federal Government on imports, exports and statutory rates. It is a crucial facilitation of trade and key instrument of state sovereignty. However, the institution is much criticized for corruption and inefficiency and its upper echelon is often driven with intrigue and in-fighting. All these need to change if Nigeria dream of economic development is to be achieved.

2.1.5 Retained Earnings

The retained earnings of a corporation is the accumulated net income of the corporation that is retained by the corporation at a particular point of time, such as at the end of the reporting period. At the end of that period, the net income (or net loss) at that point is transferred from the Profit and Loss Account to the retained earnings account. If the balance of the retained earnings account is negative it may be called accumulated losses, retained losses or accumulated deficit, or similar terminology. Whenever company requires more capital it can either arrange it by issue of shares or debentures in the stock market or by using its retained earnings (Adebayo, Ajao, &Olawanle, 2015).

2.2 THEORETICAL REVIEW.

According to Bhartia (2019), a tax revenue theory may be derived on the assumption that there need not be any relationship between tax paid and benefits received from state activities. In this group, there are two theories, namely; Ability to pay theory and Expediency theory.

2.2.1 Ability to Pay Theory

This theory was propounded in 1776 by Adam, the theory holds that individual should pay taxes in proportion to their capacity. This means that people with higher income should pay more than people with lower income. In the context of this study one's ability to pay may suggest that as more and more expenditure are incurred by a person the same should pay more tax and vice versa. The ability-to-pay theory can be also be termed the equality of sacrifice theory by Adam, (1776), this theory which has gained popularity on the grounds of the true meaning of 'ability' of the individual believe on a just and fair means of taxing citizens. This could be the reason why most economies of the world today accept income as the best measurement of one's ability to pay.

The canons of taxation give credence to this theory, and stress the capacity of the contributor to the common pulse of the state to make such contribution at a time and in manner that it is most convenient.

Assumptions

The ability-to-pay principle assumes that those who have a greater ability to pay taxes—measured by income and wealth should pay more.

One idea behind "ability to pay" is that those who have enjoyed success should be willing to give back a little more to the society that helped make that success possible.

Proponents of "ability to pay" argue that a single dollar ultimately means less to a rich person than a wage earner, so the rich should pay more to equalize their sacrifice.

2.2.2 Expediency theory:

This theory asserts that every tax proposal must pass the test of practicality. It must be the only consideration weighing with the authorities in choosing a tax proposal. Economic and social objectives of the state and the effects of a tax system should be treated irrelevant (Bhartia,2019). (Anyafo, 1996; Bhartia, 2019) explained that the expediency theory is based on a link between tax liability and state activities. It assumes that the state should charge the members of the society for the services provided by it. This reasoning justifies imposition of taxes for financing

state activities by inferences, provides a basis, for apportioning the tax burden between members of society. This proposition has a truth in it, since it is useless to have a tax which cannot be levied and collected efficiently.

This study therefore focuses on the expediency theory which enables us to assess the extent to which the Nigerian tax system conforms to this scenario where the link between tax liability and economic activities are linked. If applicable, such a characterization will enhance accurate tax revenue projection and targeting of specific tax revenue sources given an ascertained profile of economic development. It will also assist in estimating a sustainable revenue profile there by facilitating effective management of a country's fiscal policy, among others. This is because the expediency theory focuses on the fact that taxes are collected to achieve economic objectives which enhances the growth and development of a society in all its spheres. The socio-political, benefit and faculty theory are relevant but they lay more emphasis on political, relationship and ability to be objectives.

2.1.1 EMPIRICAL REVIEW

Basila (2010), in investigating the relationship between CGT and GNP in Nigeria used a data based on CGT revenue figure and GNP figure from 1994 to 2018 obtained from Central Bank of Nigeria statistical bulletin, GNP and CGT figure for that period of study were tested for correlation, the test revealed a strong Pearson's product moment correlation (PPMC) at about 96 percent strength. Further, a test of significance confirmed that CGT revenue is significantly different at 99 percent confidence level in relation to GNP. He concluded that there is a strong positive correlation between CGT revenue and GNP, again as regards to the test of significance, student t''-test confirmed that CGT is significantly different in relation to GNP in Nigeria.

Adereti, Sanni and Adesina (2011), examined Capital gain tax and Economic Growth of Nigeria. the study made use of time series data on the Gross Domestic Product (GNP), CGT Revenue, Total Tax Revenue and Total (Federal Government) Revenue from 1994 to 2018, sourced from Central Bank of Nigeria (C.B.N) were analyzed, using both simple regression analysis and descriptive statistical method. Findings showed that the ratio of CGT Revenue to GNP averaged 1.3% compared to 45% in Indonesia, though CGT Revenue accounts for as much as 75%

significant variations in GNP in Nigeria. However, they concluded that there is a positive and significant correlation that exists between CGT Revenue and GNP.

Okoye and Gbegi (2013), used a secondary data that were generated from federal Inland Revenue services and federal Bureau from statistical analysis with the aid of a table and simple percentage, while the hypothesis formulated were tested using product moment correlation coefficient and student in test. The findings revealed that revenue generated through CGT has a significant influence on wealth creation in Nigeria and also that revenue generated through CGT has a significant effect on total tax revenue in Nigeria. Therefore, from their findings they discovered that valued added tax (CGT) is the bedrock of wealth creation in Nigeria as well as economic development as it contributes significantly to the nation's Gross Domestic Products (GDP). Therefore, the government must give adequate attention to taxation in general and CGT in particular, under a stable and conducive socio-political and economic atmosphere.

Omolapo, Aworemi and Ajala (2013) examined another approach to evaluating the productivity of capital gain tax in Nigeriaperform with the use of stepwise regression analysis. Findings show that valued Added Tax has statistical significant effect on revenue generation in Nigeria. The results from their analysis revealed that capital gain tax (CGT) is beneficial to the Nigeria economy from the findings it also shows that for Nigeria to attain its economic growth and development, she must be able to generate enough revenue in order to meet up with the challenge of her expenditure in term of provision of social amenities and the running costs of the government. The result from the analysis indicates that if more goods and services are taxed the revenue base of the country will increase.

2.5 Gap in Literature

The review of related literatures reveal that studies in this area is very scanty. Most of the existing studies were done in developed countries of Europe and America. The emerging economies of Africa was not given commensurate attention, hence, this study aims at examining the effect of fluctuations such as Company Income Tax, Capital gain tax and custom and exercise duty on retained earnings of Nigerian manufacturing firms.

3.0 METHODOLOGY

3.1 Research Design

Ex post facto research design will be used because the research study involves collection of data from published work such as annual report with some level of assumption of theories underlying the subject matter of the study. *Ex post facto* Research design examining how an independent variable, present prior to the study, affects a dependent variable.

3.2 Area of Study

This research work will focus on the effect of tax payments on retained earnings in Nigeria consumer goods manufacturing sector for the period 2013 to 2022.

3.3 Sources of Data

This study will be conducted using secondary data comprising of company income tax, capital gain tax, and custom and exercise duty from the published annual reports of consumer goods manufacturing firms operating in Nigeria, from 2013 to 2022.

3.4 Population of the Study

The population of the study will comprise all the twenty six (26) manufacturing firms listed in the Nigeria Stock Exchange as at December, 2020. Which include; BUA Foods, Cadbury Nigeria, Champion Breweries, Dangote Sugar Refinery, Ellah Lakes, Flour Mills Of Nigeria, FTN Cocoa Processors, Golden Guinea Breweries, Guinness Nigeria, Honeywell Flour Mill, International Breweries, Livestock Feeds, McNichols, Morison Industries, Multi-Trex Integrated Foods, Nascon Allied Industries, Nestle Nigeria, Nigerian Breweries, Nigerian Enamelware, Northern Nigeria Flour Mills, Okomu Oil Palm, Presco, PZ Cussons Nigeria, Unilever Nigeria, Union Dicon Salt and Vitafoam Nigeria.

3.5 Determination of Sample Size

The study sampled Innoson technical, Emene Enugu.

3.6 Model Specification

Model is a simplified view of reality designed to enable a researcher describe the essence and inter relationship within the system or phenomenon it depicts (Onwumere, 2015). The hypotheses will be tested using the multiple Regression Model.

In writing the model equation, the following symbols will be used to denote their respective variables.

$RE_t = B_o + B_1CGT_t + B_2CIT_t + B_3CED_t\, e_t$ ……(1)

$$CGT = \frac{\text{CGT at current year – CGT of Previous year}}{\text{CGT at Previous year } 1} \times \frac{100}{} \ldots\ldots\ldots\ldots\ldots\ldots (3)$$

$$CIT = \frac{\text{CIT at current year – CIT of Previous year}}{\text{CIT at Previous year } 1} \times \frac{100}{} \ldots\ldots\ldots\ldots\ldots\ldots (2)$$

$$CED = \frac{\text{PPT at current year - PPT at current year}}{\text{PPT at Previous year } 1} \times \frac{100}{} \ldots\ldots\ldots\ldots\ldots\ldots (4)$$

RE = Retained Earnings

CGT = Capital gain tax

CIT = Company income tax

CED= Custom and Exercise Duty

a = Constant of the equation

b = Coefficient of the independent variable

u = Error terms

$RE = F(\text{Capital gain tax, Company Income Tax and custom and exercise duty})_t$

3.7 Description of Variables

Capital gain tax (CGT): value-added tax is a volatility on consumption tax placed on a product whenever value is added at each stage of the supply chain, from production to the point of sale. The amount of CGT that the user pays is on the cost of the product, less any of the costs of materials used in the product that have already been taxed.

Companies Income Tax: Companies Income Tax Act, 1990 is the current enabling law that governs the collection of taxes on profits made by companies operating in Nigeria excluding companies engaged in Petroleum exploration activities.

Customs and exercise duty: This is the oldest form of modern tax revenue. Their introduction dates back to 1860 known as import duties, which represents taxes on imports into Nigeria, charged either as a percentage of the value of imports or as a fixed amount of contingent on quantity (Buba, 2017)

Retained Earnings: The retained earnings of a corporation is the accumulated net income of the corporation that is retained by the corporation at a particular point of time, such as at the end of the reporting period.

3.8 Methods of Data Analysis

A Multiple regression technique will be adopted. Multiple regression analysis involves three or more variables. The study will make use of linear multiple regression analysis to test the association between the dependent variable of retained earnings and the independent variables of Company Income Tax, Capital gain tax and custom and exercise duty. The data collected on the four variables is analyzed using E-view 9.0.

4.0 DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

The main objective of this study is to examine the effect of the level of tax revenue on economic growth in Nigeria. To achieve this objective secondary data were collected from Central Bank of Nigeria Statistical Bulletins and Innoson technical for purpose of analysis.

4.1 LOG DATA

YEARS	Company	RE₦'000	VAT₦'000	CIT₦'000	CED₦'000
2013	**NBL**	5.815884	6.412673	6.563897	6.280723
2014		5.815884	6.412673	6.563897	6.280723
2015		6.661172	5.59663	6.571619	6.992279
2016		6.421425	5.735171	6.0919	6.383991
2017		6.68075	6.94503	6.418879	6.944431

2018		6.509986	6.674215	5.463523	6.974021
2019		6.101079	5.54483	5.581727	7.147719
2020		5.800353	6.619749	5.873676	7.131747
2021		6.592747	6.754584	7.102133	6.909975
2022		6.314591	6.10834	4.898275	6.576642

4.2 Data Analysis

The data collected from the selected manufacturing firm for the study were analyzed using panel regression analysis and the results presented in tables 4.2.1.

Table 4.2.1: Descriptive Statistics

	RE	VAT	CIT	CED
Mean	6.498229	6.643766	6.128371	6.814894
Median	6.363039	6.613102	6.173398	6.925865
Maximum	8.010301	8.016886	7.169300	8.029250
Minimum	5.800353	5.544830	4.898275	5.016620
Std. Dev.	0.599676	0.667356	0.641480	0.597484
Skewness	0.977602	0.157624	0.047459	-0.569175
Kurtosis	3.143107	2.494528	2.000015	4.315186
Jarque-Bera	4.804123	0.443603	1.261225	3.781943
Probability	0.090531	0.801074	0.532266	0.150925
Sum	194.9469	199.3130	183.8511	204.4468
Sum Sq. Dev.	10.42872	12.91554	11.93341	10.35262
Observations	10	10	10	10

Source: Author's Eviews Output.

The descriptive statistics in the table 4.2.1 presents the statistical characteristics of all the observations. These include measures of central tendency the mean and median. Dispersions in the series are also indicated using the standard deviation. The results show the mean to stand at ₦6.498229, ₦6.643766, ₦6.128371 and ₦6.814894 with a standard deviation of ₦0.599676, ₦0.667356, ₦0.641480 and ₦0.597484 for Retained earnings (RE), Company Income Tax (CIT), Value Added Tax (VAT) and custom and exercise duty (CED) respectively.

In addition to statistical description of the panel above, the descriptive statistics also test or checks for the normality of the observed variables. In other words, the test helps us to ascertain if

the variables are normally distributed. To reject the null hypothesis that the data are not normally distributed, the JB (Jarque-Bera) statistics must be significant at a critical value of 0.05 (Gujarati and Porter, 2009). The normality test results therefore reveal that there is strong evidence that the panel variables and dataset are normally distributed as the probability of JB-statistic for each of the variable is < the critical value of 0.05. Hence, the null hypothesis (H_0) is rejected in favour of the alternative (H_1) that the residuals of the distribution of the model are normally distributed.

4.3 Test of Hypotheses

The Least Squares was used in the test of hypotheses. One of the major benefits from using panel data as compared to cross-section data on individuals is that it enables us to control for individual heterogeneity. Not controlling for these unobserved individual specific effects leads to bias in the resulting estimates.

Dependent Variable: RE
Method: Panel Least Squares
Date: 07/23/23 Time: 00:26
Sample: 2013 2022
Periods included: 10
Cross-sections included: 1
Total panel (balanced) observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
VAT	13827.76	9322.373	3.483288	0.0038
CIT	380.4900	1930.514	4.197093	0.0029
CED	1.730104	1372.120	6.126090	0.0011
C	2.881810	1.360982	2.117450	0.0439

R-squared	0.815697	Mean dependent var	6.498229
Adjusted R-squared	0.717659	S.D. dependent var	0.599676
S.E. of regression	217471.9	Akaike info criterion	1.694310
Sum squared resid	3.78E+11	Schwarz criterion	1.881137
Log likelihood	-135.9719	Hannan-Quinn criter.	1.754078
F-statistic	2.200144	Durbin-Watson stat	1.101980
Prob(F-statistic)	4.176287		

From the model above, R^2 of 0.815697 shows that 82% variation on retained earnings was explained by value added tax, company income tax and custom and exercise duties. The results further indicates that the overall regression is significant as explained by the prob(F-statistics) of 4.176287 is significant at 0.05 or 5%. This implies that the entire model is significant. The Durbin Watson statistics (DW) of below 2 shows no trace of autocorrelation in the model.

The table 4.3.1 shows that the coefficient of 13827.76, 380.4900 and 1.730104 are positive, the t-statistics of 3.483288, 4.197093 and 6.126090> 2 for value added tax, company income tax and custom and exercise duties respectively and the probability value of 0.0038, 0.0029 and 0.0011 < 0.05 and significant at 5% critical value for the independent variables. Thus, the study accepts the alternative hypotheses for the three stated hypotheses stating that value added tax (VAT), company income tax and custom (CIT) custom and exercise duties (CED) has positive and significant effect on corporate retained earnings in Nigerian manufacturing sector.

4.4 Discussion of Result

Result of hypotheses one shows that value added tax (VAT) has positive and significant effect on corporate retained earnings in Nigerian manufacturing sector with a probability value of 0.0038. This result is in agreement with the studies of Akhor and Ekundayo (2016) on the impact of indirect tax revenue on economic growth in Nigeria.

Result of hypotheses two revealed that company income tax (CIT) has positive and significant effect on corporate retained earnings in Nigerian manufacturing sector with a probability value of 0.0029. This result is in line with the studies of Ojong, Ogar and Oka (2016) on the impact of tax revenue on the Nigerian economy from 2007-2014.

Hypotheses three shows that custom and exercise duty (CED) has positive and significant effect on corporate retained earnings in Nigerian manufacturing sector with a probability value of 0.0029. This result is in line with the studies of Adegbie, (2019) on customs and excise duties contribution towards the development and growth of Nigerian economy.

Summary of Findings, Conclusion and Recommendations

5.1 Summary of Findings

Having carried out extensive study on the effect of tax payments on retained earnings in Nigeria manufacturing sector with particular reference to Innoson technical from 2013 to 2022, the study found:

1. That value added tax (VAT) has significant effect on corporate retained earnings in Nigerian Manufacturing sector.
2. That company income tax (CIT) has positive and significant effect on corporate retained earnings in Nigerian Manufacturing sector.
3. That custom and exercise duty (CED) has positive and significant effect on corporate retained earnings in Nigerian Manufacturing sector.

5.2 Conclusion

The findings of this study contribute towards a better understanding of the effect of tax payment on corporate retained earnings. RE and three other variables that represent company income tax, value added tax and custom and exercise duty were developed to test which factors best describes economic growth in Nigeria.

The result shows that company income tax, value added tax and custom and exercise duty are significant variables in explaining the economic growth in Nigeria. The three independent variables show a positive relationship with economic growth. The implication of our findings is pointing majorly at policy makers, especially the Federal Board of Inland Revenue as most of our variables shows a positively significant relationship with economic growth, meaning that there should be no area in tax collection that should be taken lightly as they have all proven to be a major variable in connection to the growth of the economy. Also, for researchers, the study will re-introduce them to a different direction of ways in which tax revenue can contribute to the economic growth in Nigeria and add to the existing literatures on this subject matter and also ensure that the regulatory body implement policies that will reduce the loop holes in tax laws which tax payers capitalize on to evade tax.

One of the main purposes of tax revenue is to raise revenue that the government can use to provide adequate amenities and infrastructure for its citizens as well as enhance growth and

development but the case seems to be different in Nigeria as the physical evidences does not show that funds generated from tax revenue are used for this purpose. Our analysis has thrown some light on the impact of tax revenue on Nigeria's economy. It is glaring that the Nigerian total tax revenue generated (Company Income Tax, Value Added Tax and Custom and exercise duty) has a significant impact on the economy (RE) in general.

5.3 Recommendations

The following recommendations emerged from the findings and conclusions of the study:
Government should set up monetary team to ensure that companies pay their company income taxes as at when due as it has effects on corporate retained earnings in Nigerian Manufacturing sector.

The rate of value added tax in Nigeria should be looked into by various tax authorities in Nigeria since previous studies shows that companies do not disclose all their assemble profit for tax purposes. As VAT is one of the major sources of revenue for the country.

Government should ensure that the oil companies operating in Nigeria pays their taxes and as at when due accordingly in other to bust economic growth as well as the corporate retained earnings in Nigerian Manufacturing sector, as well as the economic growth of the country Nigeria.

5.4 Contributions to Knowledge

The essence of every research work is its contribution to existing body of knowledge. The study assess the effect of tax payments on retained earnings in Nigeria manufacturing sector the reservoir of knowledge on taxation in Nigeria and serve as a reference material for further studies. Other related literatures concentrated on the administration of taxation in Nigeria, its impact on tax avoidance and evasion, its effect on government total revenue and economic growth, and the challenges facing tax administration in Nigeria. This made this study significantly different from prior studies and increase the knowledge store.

5.5 Areas for Further Studies

The following areas are recommended for further research:

1. A comparison between the effect of tax revenue on the net income of Nigeria using other variables other than the once used in this study.

Relationship between tax generated revenue and total government expenditure in Nigeria.

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APPENDIX I

DATA OBTAINED FROM INNOSON TECHNICAL

YEARS	Company	RE₦'000	VAT₦'000	CIT₦'000	CED₦'000
2013	**NBL**	5.815884	6.412673	6.563897	6.280723
2014		5.815884	6.412673	6.563897	6.280723
2015		6.661172	5.59663	6.571619	6.992279
2016		6.421425	5.735171	6.0919	6.383991
2017		6.68075	6.94503	6.418879	6.944431
2018		6.509986	6.674215	5.463523	6.974021
2019		6.101079	5.54483	5.581727	7.147719
2020		5.800353	6.619749	5.873676	7.131747
2021		6.592747	6.754584	7.102133	6.909975
2022		6.314591	6.10834	4.898275	6.576642