Tax Audit and Company's Incom Tax Revenue in Nigeria

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Abstract

The study investigates tax audit and company income tax revenue in Nigeria. Specifically, to ascertain the effect of tax audit on company's income tax revenue Nigeria. The population of the study is Federal Inland Revenue Service (FIRS) Nigeria; Census was used for the study. Primary data were collected through questionnaire while secondary data were collected from FIRS planning, research and statistics Departments, Central Bank of Nigeria (CBN) statistical bulletin. The data were analyzed using descriptive statistics of mean, standard deviation, frequency distribution and bar chart. Inferential statistics of linear regression was used to test the hypotheses in the study. The analysis was done with the aid of the Statistical Package for Social Sciences (SPSS) version 22.0. From the analysis, it was found that the strength and direction of the effect of tax audit on company's income tax is 0.878, indicating that there is a very strong and positive effect between the variables. The probability value is 0.000 < 0.05 which means tax audit statistically significantly predicts company's income tax. Again, the analysis indicates that approximately 75% of the changes in company's income tax is accounted for by tax audit. Based on these findings, the study concludes that tax audit is a very strong tool for achieving increase in company's income tax revenue. We therefore recommend that: Federal Inland Revenue Service should encourage, strengthen and give more attention to the tax audit department, focus more on the audit activities of the service. This will deter taxpayer's against non-compliance and discourage tax evasion. Again, the Federal Inland Revenue Service should carry out publicity at regular intervals on both electronic and social media, even on newspapers to display enforcement actions previously taken against defaulting taxpayers.

Keywords: *Tax Audit, Company, Income Tax, Tax compliance, Revenue Generation, Nigeria.*

Introduction

Revenue is the live-wire of any successful undertaking not only for the private sector but much also for the public sector. According to Kiabel (2014), revenue is the income received from all activities engaged in by the receiving entity. It is thus, the entire amount received by the government from sources within and outside the government entity. Every government is expected to perform various functions, some of which are the day to day general administration, the maintenance of law and order, and to provide essential services to the people. On the other hand, government is also concerned with the formation and implementation of the socio-economic programmes aimed at promoting the welfare of its citizens. However, the government needs fund to be able to discharge its functions to the governed and these functions can only be performed and successfully implemented with resources in the form of revenue. As such, tax revenue must be collected and used to carry out the day to day activities of government, to maintain national sovereignty and uplift the social and economic status of the citizens.

Tax is a compulsory payment imposed on the income, profit, property, good/services or transactions of individuals or corporate bodies by the government for its sustenance and for which there is no guaranteed compensatory benefit (Kiabel, 2014). All taxes collected by the government constitute revenue for the public sector. Whereas taxation is a gamut of activity which results in payment of taxes without guaranteed compensatory benefits, there are obviously two major types of taxes, which are the direct tax and the indirect tax. Direct tax as its name suggest is levied or imposed on the income, profits and properties of individual and corporate bodies (Okpe, 1998). Examples of direct taxes include personal income tax, companies income tax, petroleum profit tax, capital gains tax, education tax etc. indirect tax on the other hand is defined as taxes levied on goods and service rendered which are shifted in part or in full to the final consumer who does not even know either when he pays the tax or the exact amount he pays (Okpe, 1998). Examples of Indirect tax include value added tax, import duties, excise duties, export duties etc.

Over the years, wide tax gap has been major constraints to tax revenue. Tax gap has been described as the difference between the total amounts of taxes paid voluntarily on time and actual tax liabilities which are supposed to have been paid for the same period with little or no much effort (John, Emmanuel & Modugu, 2012). According to PricewaterhouseCoopers (PwC) (2018) report, only 4% of people in the tax net file returns as businesses or high net worth individuals, 96% were employees who paid their taxes via Pay as you earn (PAYE), and this accounted for about 75% of total internally generated revenue. Akintoye and Tashie (2013), examined the effect of Tax Compliance on economic growth and development in Nigeria. Tax compliance was proxied on willingness to pay tax. A comparative analysis of willingness to pay taxes in two (2) large states of Nigeria, Lagos and Oyo was presented. Similarly, Abubakari and Christopher (2013), carried out a study on evaluating taxpayers' attitude and its influence on tax compliance decisions in Tamale, Ghana. Government accountability and transparency were used to measure tax compliance decision, while levels of understanding of the tax laws were used as proxy for taxpayers' attitude. Survey responses from questionnaire to operators of SMEs in Tamale, were quantitatively analysed.

Kiabel and Nwokah (2009) examined boosting revenue generation by state governments in Nigeria. The argument was centered on the legality of the appointment of tax consultants, their modes of operation and the quantum of internal revenue generated by them among others. After a critical review of the various shades of opinion and the facts on ground, they suggested that external tax consultants should be retained by state governments and indeed by all tiers of government in Nigeria.

Generally, the studies cited above did not consider the geographical region of Nigeria. They are basically both foreign and state based. We intend to differ by investigating tax audit and company income tax revenue in Nigeria. The point of departure in this study is therefore to establish the effect of tax audit on company income tax revenue in Federal Inland Revenue Service (FIRS) of Nigeria.

Theoretical Framework

Taxation is a product of theorists and this study will be hinged on the theory of Allingham and Sandmo (1972) to support the study of tax audit and company income tax revenue in Nigeria. Theory of Allingham and Sandmo (1972), known as the A-S model is a model of tax compliance. This theory focuses on some of the determinants that influence the likelihood of the compliance of tax payers in Nigeria. The theory explores the relationship between risk appetite of the tax payer and the willingness to pay tax. In the A-S Model, the decision to declare tax to the tax authority is associated with a lot of uncertainties. They opined that when an individual does not disclose his taxable income fully to the relevant tax authorities it does not immediately imply sanctions, such as interest and other forms of fines or penalties imposed by the relevant tax authority. The taxpayer has two strategic choices, first, the taxpayer may declare his actual income or secondly the taxpayer may report an income lower than what it ought to be. If the taxpayer decides to report lower than the real income then he has to consider if he will be audited by the relevant tax authorities which will determine his payoff. If the taxpayer will be audited, then he adopts the first strategy otherwise, he will be worse-off. The A-S model assumes that the behavior of the taxpayers follows Von Neumann-Morgenstern assumptions of behavior under conditions of uncertainty. Ceteris paribus, a rational taxpayer is usually not willing to take risk; the taxpayer is usually tax adverse. In tax related activities, we have the disclosed income and undisclosed income. The undisclosed income is usually higher than the disclosed income which is the income usually communicated to the tax authorities and which is generally underreported. Where, the tax authority finds out that the taxpayer has reported less than his actual income then he is going to be charged a penalty for non-disclosure. He is going to pay a penalty tax rate which is charged on the income not disclosed.

Literature Review

The Concept of Tax Audit

Different scholars have defined tax audit in various ways. OECD (2006) views tax audit as a means of confirmation whether a tax payer assessed and reported his/her tax liability correctly and fulfilled other obligation. According to Okonkwo (2014) as cited by Onuoha and Dada (2016) defines tax audit as an independent examination of accounts, tax returns, tax payments and other records of a taxpayer to confirm compliance with tax laws, rules and regulations and accuracy and correctness of tax paid, adhering to relevant generally accepted accounting principles and standards. Jemaiyo and Mutai (2016) defined tax audit as an examination of an individual or organization's tax report by the relevant tax authorities in order to ascertain compliance with applicable tax laws and regulations of the state.

Onuoha and Dada (2016), described audit as a means of giving credibility to an entity's financial information. The purpose of an audit is to provide an assurance to the true and fair view of the financial statement. An audit is equally seen as an on-site verification activity, for inspection or examination of quality system to ensure compliance with requirements. Soyemi (2014) cited by Onuoha and Dada (2016) that auditing ties into primary and secondary objectives. The primary objective is the expression of opinion on the true and fair view of the financial report while the secondary objective is to evaluate the internal control system and to frustrate fraud and error in an organization. Tax audit is an additional audit to the statutory audit and is carried out by tax officials from a relevant tax authority. This is not the same as the statutory audit with respect to the requirement of the Company and Allied Matter Act (CAMA) 1990 (as amended). It should also be noted that the criteria for selecting cases for tax audit include persistent loses, nil tax returns, refund cases, non-submission of returns, low tax yield, suspicion of tax avoidance, fraud or evasion, transfer mispricing, thin capitalization and most often when the taxpayers request for tax clearance certificate among others (Bitrus 2014; Okonkwo 2014; Oyedokun 2014).

Tax audit is therefore a means of ensuring compliance with the tax laws. The primary purpose of tax audit is to maintain the confidence in the integrity of the self-assessment system. It helps to improve voluntary compliance by detecting and bring to book those who do not pay the correct amount of tax. Kircher (2008) further said that tax audit is a process where the internal revenue service tries to confirm the numbers that you have put on your tax return. In other words, tax audit is an inspection of a taxpayer's business records and financial affairs to ensure that the amount of tax reported and paid are in accordance with tax laws and regulations.

Tax audit in Nigeria is a term which embraces a variety of sectors. It simply means the advanced part of auditing practice that involves examination of books of account in other to check if the assessable profit showed by the tax payer is correct. Tax audit just like financial audit involves the gathering of information and processing it for determining the level of compliance of an organization with tax laws of the territory. For a successful audit, it is necessary that the auditor organizes his work in such a way that the assignment is accomplished completely and efficiently. One of the cardinal principles governing the tax audit program is that each line of grade or business should receive at least a nominal amount of audit attention. The idea of tax audit became known through Lagos state where monitoring agents were appointed to carry out tax audit on government behalf. These monitoring agents mostly Chartered Accountants are performing the function of carrying out tax audit of PAYE.

Companies Income Tax

The administration of companies' income tax under the companies income tax amendment act is vested with the Federal Inland Revenue Service. The FIRS is the agency of government charged with the powers of assessing, collecting and accounting for companies' income tax in Nigeria, (Kiabel and Nwikpasi, 2009). Company income tax is a tool to achieve economic development in Nigeria, income tax is accepted not only as a means of raising the required public revenue, but also as an essential fiscal instrument for managing the economy (Burgess, 2003). In Nigeria, companies' tax rate is 30% of chargeable profit. Small business rate of 20% is applicable to companies with turnover of N1,000,000 and below for the first five (5) years of assessment and must be either in the business of manufacturing or agricultural production or mining of solid minerals or wholly export trade (Kiabel et al, 2009).

Recently, the Finance Act, 2020 brought about several developments to the Nigerian tax regime with the amendment of various tax legislation. Prior to the Act 2020, a non-resident company was only subject to tax in Nigeria if it had a fixed base in Nigeria and the taxable profit was the profit attributable to hat fixed base. With the amendment, non-resident companies involved in e-commerce, filming, computing, ride-sharing services, media etc., that previously had no fixed base in Nigeria will now be liable to Nigerian income tax, assuming the companies satisfy the "significant economic presence" threshold. These entities may be required to register for taxes and file income tax returns in Nigeria. KPMG 2020. All companies in Nigeria are liable to pay companies income tax on their global profits accruing in, brought into, derived from or received in Nigeria. A company duly registered in accordance with the provision of the Companies and Allied Matters Act (CAMA) or any enactment replaced by it is what the Act recognizes as a company in Nigeria. Although, CAMA defines a foreign company to mean company incorporated elsewhere than in Nigeria, it does not recognize its existence in Nigeria for business activities. It only defines it for the purpose of identifying it to comply with the mandatory incorporation processes before carrying on business in Nigeria and to benefit from exemption from registration (John, 2011). Section 54(1) CAMA provides that: Subject to Sections 56 - 59 of this Act, every foreign company which, before or after the commencement of this Act, was incorporated outside Nigeria, and having the intention of carrying on business in Nigeria shall take all steps necessary to obtain incorporation as a separate entity in Nigeria for that purpose, but until so incorporated the foreign company shall not carry on business in Nigeria or exercise any of the powers of a registered company and shall not have a place of business or an address for service of documents or processes in Nigeria for any purpose other than the receipt of notices and other documents as matters preliminary to incorporation under this Act.

However, the company's income tax Act (CITA) 2007 as amended defines company in a broader sense. CITA, Section 105 and Petroleum Profit Tax Act (PPTA), CAP LFN, 2004, define a company as: "any company or corporation (other than corporation sole) established by or under any law in force in Nigeria or elsewhere". In view of this definition, CITA recognizes both Nigerian companies and foreign companies for the purpose of tax, though on different basis. It should however be noted that the mandatory statutory provision of CAMA is clearly unambiguous in prohibiting the existence of a foreign company in Nigeria for any purpose (including carrying on business to make profit, Section 55 of CAMA. Any violation of the provision is banged with a penalty. The CITA on the other hand permits the existence of foreign companies and charge their profits derived from Nigeria to tax. These enactments are both Acts of the National Assembly made to serve economic and fiscal purposes. While CAMA regulates incorporation, control and management of companies, CITA charges to tax the profits of these companies. Every company is registered to engage in business with a view to making profit. Also, government provide essential services and facilities enjoyed by corporations ranging from construction of better road networks, efficient and effective telecommunication system, provision of electricity, security, water supply among others (Adegbite, 2015).

It therefore follows that there is a symbiotic relationship between government and corporate organizations where the provision of goods and services by corporate organizations requires facilities that can majorly be taken care of by the government. Also, government needs funds to provide and sustain good business environment for business outfits to thrive. It is therefore imperative for corporate organizations to support government financially through payment of certain percentage of profit as tax to the government (Fagbemi, Uadiale & Noah, 2010). Imposition of Companies Income Tax Part II Section 9 CITA 2007: Company Income Tax is imposed on the income of all companies operating in the country except those specifically exempted under the company income tax Act. The income tax is imposed on; The profits of Nigerian companies irrespective of whether or not they are brought into or received in Nigeria being Nigerian company incorporated under Companies and Allied Matters Act 1990; The profit of non-Nigerian companies operating in Nigeria. Non-Nigerian companies are foreign companies as defined by section 54 of the Companies and Allied Matters Act as "any companies or corporation established by or under the law in force in any territory or country outside Nigeria" This means such company is not incorporated under the Companies and Allied Matters Act; Dividend, interest or royalties due to non-Nigerian companies which are assessed at 10% (withholding tax rate) on the net payable to the respective companies.

Methodology

Causality in this study is most preferred because the study sought to investigate the effect tax audit on company's income tax in Nigeria. The population of this study is Federal Inland Revenue Service (FIRS) in Nigeria. In this study, census was adopted. Results obtained are accurate as each unit is surveyed. In this study, data for analysis were collected through primary and secondary sources. Primary data were collected through questionnaire from respondents from three departments of Federal Inland Revenue Service Nigeria and secondary data were collected from FIRS Planning, Research and Statistics Department and other published materials for the period covering 2012-2019. A total of seventy (78) copies of questionnaire were distributed to management/senior staff of the three FIRS departments in Nigeria.

Results

Test of Hypothesis and Analysis of Research Questions

Table 1: Descriptive Statistics of Tax Audit

	N	Sum	Mean	Std. Deviation	Variance
Tax audit investigates taxpayer's accounts and taxing activities to confirm compliance with tax laws within the period of 2012-2019.	67	248	3.70	1.291	1.667
Tax audit has given credibility to FIRS tax revenue information within the periods of 2012-2019.	67	261	3.90	1.195	1.428
Tax audit maintains the confidence in the integrity of the self assessment system in FIRS within the periods of 2012-2019.	67	251	3.75	1.330	1.768
Tax audit is one of the most important tools used by FIRS to boost company's income tax within 2012-2019.	67	265	3.96	1.364	1.862
Tax audit enables tax authorities to check if assessable profit paid by the taxpayer is correct in FIRS within 2012-2019.	67	260	3.88	1.309	1.713
Valid N (listwise)	67				

Source: Field Survey, 2020.

The analysis of data on Table 1, shows the statistics of how respondents answered the questions in the research instrument in respect of tax audit. The analysis of data revealed that question 4 which sought to ascertain whether tax audit is one of the most important tools used by Federal Inland Revenue Service to boost company's income tax within 2012-2019 has the highest sum of 265, thereby giving the highest mean score of 3.96. This means question 4 has the greatest influence on tax audit. Question 4 also has the greatest standard deviation and variance of 1.364 and 1.862 respectively, indicating most data variation.

Analysis on Tax Audit and Companies' Income Tax

Ho_1: There is no significant effect of tax audit on companies' income tax in Nigeria.

Table 2: Model Summary

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate
1	.878[a]	.771	.750	199899.202

a. Predictors: (Constant), Tax Audit

Source: Field Survey, 2020.

As shown from the SPSS output on Table 2, the regression coefficient (R) is 0.878; which means that tax audit has a very strong positive effect on company's income tax. Again, the coefficient of determination (R^2) is 0.771 and R^2 adjusted is 0.750; indicating that approximately 75% of the changes in company's income tax are accounted for by the independent variable (tax audit), while the remaining 25% are due to externalities.

Table 3: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1478519695181.928	1	1478519695181.928	37.000	.000[b]
	-Residual	439556601614.841	6	39959691055.895		
	Total	1918076296796.769	7			

a. Dependent Variable: Companies' Income Tax

b. Predictors: (Constant), Tax Audit

Source: Field Survey, 2020.

Again, the ANOVA Table i.e. Table 3 shows that tax audit statistically significantly predicts the outcome variable, companies' income tax at $F(1, 6) = 37.000$, $p < 0.05$, $R^2 = 0.771$. This means the regression model is a good fit for the data. That is, tax audit statistically significantly predicts companies' income tax.

Table 4: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	818970.403	282391.819		2.900	.014
	Tax Audit	167144.086	27478.215	.878	6.083	.000

a. Dependent Variable: Companies' Income Tax

Source: Field Survey, 2020.

From Table 4, the unstandardized coefficients indicate how much the dependent variable; company's income tax varies with the independent variable tax audit. As shown on the Table, the intercept B_0 is 818970.403, indicating the predicted value of company's income tax without the contributions of tax audit, i.e. when tax audit is equal to zero. However, the slope B_1 is 167144.086, indicating that 1 unit increase in tax audit will bring about 167144.086 units increase in company's income tax. Furthermore, the standard error of the estimate (ε) is 27478.215 which is the actual contribution of tax audit in company's income tax. More so, the Beta value in the Standardized Coefficients is 0.878 which further confirms the regression coefficient in the model summary.

Discussion of Findings

Result of the analysis showed that the strength and direction of the effect of tax audit on company's income tax is 0.878, indicating that there is a very strong and positive effect between the variables. The probability value is 0.000 < 0.05 which means tax audit statistically significantly predicts company's income tax. In view of these results we reject the null hypothesis which states that there is no significant effect of tax audit on company's income tax, and accept the alternate hypothesis. This finding has helped to answer the research question. The finding is supported by Onoja and Iwarere (2015), and Dublin and Wilde (1988). Onoja and Iwarere (2015) in their study explored the effects of tax audit on revenue generation in Federal Inland Revenue Service. Findings revealed that: tax audit has significant effects on revenue generation in Federal Inland Revenue Service and tax audit has a positive relationship with the revenue generation in Federal Inland Revenue Service. Similarly, Dublin and Wilde (1988), empirically investigated federal tax auditing and compliance in USA. The study had an objective of establishing the relationship between tax audits and compliance from IRS tax returns.

Conclusion and Recommendations

The study investigated tax audit and company's income tax revenue in Nigeria. Specifically, to ascertain the extent to which tax audit affects company's income tax revenue in Nigeria. From the analyses, it was found that there is a positive and statistically significant effect on the dimension and the measure; indicating that the changes in company's income tax is accounted for by tax audit. Thus, the study concludes that tax audit has positive and significant effect on company's income tax in Nigeria. Based on the outcome of this study, we recommend that Federal Inland Revenue Service should encourage, strengthen and give more attention to the tax audit department, focus more on the audit activities of the service. This will deter taxpayer's against non-compliance and discourage tax evasion. Again, the Federal Inland Revenue Service should carry out publicity at regular intervals on both electronic and social media, even on newspapers to display enforcement actions previously taken against defaulting taxpayers.

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