Global Journal of Management and Business Research: D
Accounting and Auditing
Volume 14 Issue 3 Version 1.0 Year 2014
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

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Keywords: effect; high; corporate; tax; rate; liquidity and organizations.

GJMBR-D Classification : JEL Code: H20, H29

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Keywords: effect; high; corporate; tax; rate; liquidity and organizations.

I. Introduction

a) Background to the Study

The formation of accountability and effective States has been closely associated with the emergence of taxation systems (Moore, 2007). Taxes underwrite the capacity of the States to carry out their goals; form one of the central arenas for the conduct of the State-Society relations and shape the balance between accumulation and re-distribution that give States their social character. Without the ability to raise revenue effectively, States are limited in the extent to which they can provide security, meet basic needs or foster economic development. A general analysis of the tax policy was considered. The emphasis is on the trade-off of encouraging the development of resources versus extracting the maximum tax revenue. This constrained the ability of the State tax policy makers to achieve goals of maximum resource development and the tax yields simultaneously; and hence, affects the liquidity of Corporate Organisations.

There is no doubt that revenue is necessary for the State to meet the basic needs of citizenry in fulfilment of social contract. While this objective is been pursued there is need for a focus on the bases or core fundamental for understanding the impediments to industrial development and jobs generation and also serve as a mean for formulating and implementing dynamic industrial and employment policies. This is because special achievement that is unidirectional in terms of generating revenue for the State alone can fuel unemployment and de-industrialization due to its short run optimism in financing State fiscal policy. In addition, it can leads local and foreign investors' disenchantment, a situation where international investors quickly rebalance off their international investments in Nigeria, and flee to those countries where the tax systems provide for industrial growth and its consequent high investment returns.

Nigeria tax system, as it is today, is skewed towards raising fund to meet the State expenditures (recurrent and capital). Laudable as this is, it has however, obscured the need for tax system that can be used as a veritable tool for establishing and developing industries in Nigeria, particularly in the rural areas with its subsequent multiplier effects. Taking the forgoing into cognisance, the Nigeria tax architecture will need to be focused on the objective of industrial development, economic growth and employment generation. Therefore, it should look at the role of tax in promoting sound industrial performance and scale down unemployment.

One of the Acts regulating the taxation practice relating to Companies Income in Nigeria is the Companies Income Tax Amendment Act 2007. Company Income Tax is charged on the chargeable profits of all companies operating in the country except those specifically exempted under the Act. The administration of the Companies Income Act and the tax is under the care and management of the Federal Board of Inland Revenue (the Board). The operational arm of the Federal Board of Inland Revenue is called the

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Federal Inland Revenue Service (the Service) and the Act that governed it, is called the Federal Inland Revenue Service Establishment Act (FIRSEA) 2007.

A tax system is not merely aimed at raising a certain amount of revenue, but the aim is to raise it from those sections of the people who can best bear the tax. The aim in short, is to secure a just distribution of the tax burden. This obviously cannot be done unless; an effort is made to trace the incidence of each tax. We must know who pays it ultimately in order to find out whether it is just to ask him to pay it or whether the burden imposed on him is according to the ability of the taxpayers or not. If the tax system is to conform to Adams Smiths first cannon of taxation via, the cannon of equity, it becomes imperative to make a careful study of the reactions and repercussions of each tax and find out its final resting place.

The system has, from time to time, involved a number of different tax allowances and relief aimed at encouraging investment by differing or permanently reducing tax for those businesses which purchase capital equipments.

However, complete exemption of profits from taxation is not desirable, yet a high tax rate is highly undesirable as is seen in Nigeria because the corporate tax rate of 30% charged in Nigeria is above the average Organisation of Economic Corporation and Development (OECD) corporate tax rate of 25.32% (Applicable Federal Rate, 2014). It will put a brake on invention and enterprise and it will cut down revenue and thus hinder modernisation of plant.

How the tax authority treats different segments of the formal and informal economy shapes the business tax culture, at the same time, the attitudes of entrepreneurs in the different sectors of the economy to the legitimacy of the State, the extent of corruption, voice and accountability are critical to trust in the State on which economic growth depends. Tax effort and tax collection depend not just on income base, but also on the political and institutional bases, especially the extent to which taxpayers trust their governments (Bird, Martinez-Vazquez & Torgler, 2006).

The elaboration of a general typology of tax non-compliance appears to both legal and economic approaches. The more complex the tax law is, the more it leaves open possibilities for tax non-compliance. Privileged taxpayers construct tax schemes which they depend as a category of tax avoidance (legal) while the tax administration may consider such schemes to be cases of tax evasion (fraud). Legal and illegal tax schemes (avoidance and evasion) may have similar economic effects, but different sociological effects. Tax evasion may be generally perceived rather negatively, tax flight neutrally, and tax avoidance positively (Kirchler, et'al 2003 cited in Fakile, 2009).

b) *Statement of the Problem*

The Corporate tax creates two problems, a practical one of administration and a theoretical one of being able to determine how the firm responds to the tax and who bears its final burden and incidence. The complexity arises because economists define profits differently from accountants and the taxing authorities. Consequently, the corporate income tax falls partly on the expected return to equity capital, since this is not a deductable item and partly on economic rent and unanticipated economic profits. This is paid out of the organisational resources and exact additional influence on their finances.

The consensus among economists who have analyzed the effect of high corporate income tax rate on the liquidity of enterprises as a whole is that in the short-run as human-made capital is held constant, the tax has little or no effect on the behaviour of the firm; capital bears the tax burden. However, as capital depreciates, management must decide how to invest. Since the tax falls initially on equity capital, owners will divert their capital to activities or countries with tax preferences because the after-tax return in these will be higher. If the capital is shifted to other countries, the tax will equally shift and ultimately affect the liquidity of these organisations.

c) *Research Question*

The following constitutes the research question:

a. What is the effect of high corporate tax rate on corporate liquidity?

d) *Objectives of the Study*

The broad objective of the study is to analyse the effect of high corporate tax rate on the liquidity of some selected corporate organisations in Nigeria.

The specific objective of the study includes the following:

i. To determine the effect of high corporate tax rate on corporate liquidity.

e) *Statement of Hypothesis*

In the course of this research work, the following hypothesis was formulated for test.

Ho_1: High corporate tax rate does not have significant effect on corporate liquidity.

II. Literature Review and Theoretical Framework

a) *Corporate Taxation (Empirical Review)*

The link between taxation and governance is not immediately apparent, but in fact one is vital for the other. It has the potential to shape relationship between state and society in significant and distinctive ways. The history of state revenue production 'is the history of the state'. Taxes underwrite the capacity of the states to carry out their goals; they form one of the central arenas for the conduct of state-society relation and they shape the balance between accumulation and distribution that gives states their social character (Moore, 2007). There are several remarkable pointers to the universal importance of taxation to state-building: First, the state's capacity to raise taxes is closely linked to its ability to deliver good policies and it is suggested that tax-raising is a good proxy indicator of overall governance capacity (Arbetman et'al (2007), secondly, tax levels remain surprising static in countries over long period of time, despite frequent tax policy reform. Thirdly, differences in the treatment of taxpayers by tax authorities may be explained by differences in citizens' right to political participation (Feld & Frey, 2002). Tax levels; in general usually rise with increases in the gross domestic product (GDP). This implies that better governed people are more willing to pay more taxes, but more heavily taxed states are not necessarily more legitimate. As taxation increases as a share of national economic output, conflict becomes less likely (Hendrix, 2007).

Political governance, economic growth and taxation create mutually reinforcing processes of State building. The 'fiscal social contract' is a key factor in delivering both political legitimacy and sustainable economic growth. A stable transparent, even-handed tax system is perceived by investors as a sign of established 'rule of law'. In other words, tax is a key indicator of an industrialised framework of political stability and fairness (Bird et' al, 2006). As Levi has noted, a society's 'public spiritedness or normative conviction' can be motivating factors in the general willingness to pay taxes. People with a strong believe in a welfare state might thus be more willing to pay high rates of taxes (Levi, 1988). Religious tradition of 'Zakat' or 'tithing' might form a sense of moral obligation to hand over a percentage of one's income to the community (Hull, 2000). This attitude is intrinsic and not conditioned by actions by the government, although they might well have been conditioned by state-society relations in the past (Cummings et'al, 2004 cited in Fakile (2009).

It is suggested that the level of compliance with taxation requirements is affected by perceptions of the government's legitimacy and the fairness of the tax system, as well as taxpayers' expectation that their tax moneys will be spent on valued public services (Slemrod, 1992).

Recognising the economic structure, some research has suggested that countries with sizeable shadow economies or informal sector can more easily observe large numbers of other escaping the tax net (Alm & Torgler, 2004). The business tax culture and morale of the private sector are more complex. The complex relationship between tax authorities and taxpayers reflect a country tax culture (Torgler, 2007). Therefore, how the tax authority treats different segments of the formal and informal economy shapes the business tax culture, at the same time, the attitudes of entrepreneurs in the different sectors of the economy to the legitimacy of the state, the extent of corruption, voice and accountability are critical to trust in the state on which economic growth depends. Tax effort and tax collection depend not just on the income base, but also on the political and institutional bases, especially the extent to which taxpayers trust their governments (Bird et'al, 2006).

The elaboration of a general typology of tax deviance appears to include both legal and economic approaches. The more complex the tax law is, the more it leaves open possibilities for tax non-compliance. Privileged taxpayers construct tax schemes which they depend as a category of tax avoidance (legal) while the tax authority may consider such schemes to be cases of tax evasion (fraud). Legal and illegal tax schemes (avoidance and evasion) may have similar economic effects, but different sociological effects. Tax evasion may be generally perceived rather negatively, tax flight neutrally, and tax avoidance positively (Kirchler et'al, 2003 cited in Fakile, 2009).

b) Corporate Liquidity

Various forces prevented a firm from pursuing its investment level when the presumption of a perfect market is violated. Information asymmetries and agency problems are the most important factors influencing investment efficiency (Stein, 2003) whereas cash holding is strongly related to a firm's investment when facing these frictions. Cash holding also helped firms with high external financing costs to take up positive net present value (NPV) projects. Such a phenomenon therefore, makes an investment sensitive to cash holding.

Almeida, Campello & Weisbach (2004), indicate that financially constrained firms tend to save cash, whereas unconstrained firms do not. Consistent with the costly external finance view of Faulkender & wang (2006) and Pinkowitz & Willionson (2004) in that cash holding is more valuable for constrained firms than for unconstrained firms. Dennis & Sibilkov (2010) explained that higher cash holding allows financially constrained firms to undertake value-increasing projects that might be bypass.

Her-Juim & Shiou-Ying (2012) opined that capital expenditures have statistically significant sensitivity to excess cash, which is stronger for constrained firms, providing support for the underinvestment argument. Managers may be forced to give up positive NPV projects, because they are not willing to raise external capital by issuing underpriced securities. Therefore, cash flow and cash can benefit those firms facing external financing constraints by funding necessary expenditures, which makes their investment sensitive to the availability of internal funds (Stein, 2003; Franzoni, 2009).

c) Theoretical Framework

The issue of taxation has generated a lot of controversy and severe political conflicts over time. According to its importance, several economic theories have been proposed to operate an effective tax system. Taxation is classified under two different theories as stated below: Benefit or 'Quid Pro Quo' Theory and 'Ability-to-Pay' or Faculty Theory. Therefore, this study is guided by the 'Ability-to-Pay' or Faculty Theory.

d) 'Ability-to-Pay' or Faculty Theory

The most popular and the plausible theory of justice in taxation is that every taxpayer should be made to contribute according to his ability or faculty to pay. The tax is to be based on his taxable capacity. Nothing would appear to be more just. But the acceptance of the principle does not mean the end of our difficulties; rather the difficulties begin. The question which we then face is: 'What is the measure of a man's ability to pay?' (Dewett et'al, 2005)

In the search for a proper criterion of a person's ability to contribute to the State Coffer, we can proceed on two lines, subjective and objective:

Subjective Approach: If we examine the position of the taxpayer in its subjective aspects, we shall consider the inconvenience, the pinch or the sacrifice involved. On this point, three distinct views have been advanced: (a) The Principle of Equal Sacrifice; (b) The Principle of Proportional Sacrifice; and (c) The Principle of Minimum Sacrifice.

In the words of J.S. Mill cited in Dewett et'al (2005) "Equality of taxation, as a maxim of politics, means equality of sacrifice. It means apportioning the contribution of each person towards the expenses of government, so that he shall feel neither more nor less inconvenience from his share of the payment than every other person experiences from his. According to this principle, the money burden of taxation is to be so distributed as to impose equal real burden on the individual taxpayers". This will mean proportional taxation.

According to the principle of Proportional Sacrifice, the real burden on the individual taxpayer is not to be equal but proportional either to their income or the economic welfare they derive. This will be more just than if the sacrifices involved were equal. Those who can make a greater sacrifice should be asked to do so. This will mean progressive taxation.

The Minimum Sacrifice Principle considers the body of taxpayers in the aggregate and not individually. According to this principle, the total real burden on the community should be as small as possible.

Objective Approach: We must, therefore, take our second line of approach to measure a man's faculty to pay that is, proceed objectively. Here we are on surer grounds, but here again; we find that several criteria have been suggested. A man's faculty to pay may be measured according to: (a) consumption; (b) property; and (c) income.

Consumption, as a criterion of ability to pay, is not a sound criterion, because consumption or utilisation of the services of the State by the poor is considered to be out of all proportion to their means, and as such, it cannot be taken as a practical principle of taxation.

Property also cannot be a fair basis of taxation, for properties of the same size and description may not yield the same amount of income; and some persons having no property to show may have large incomes, whereas men of large property may be getting small incomes. Thus, to tax according to property will not be taxation according to ability.

Income, however, remains the single best test of a man's ability to pay. But even in the case of income, the tax will be in proportion to faculty, if there is a minimum exemption to allow for a reasonable subsistence, if there is an allowance made for the number of dependants, and finally, if the principle of progression is applied by taxing the rich at a higher rate.

Besides, we have to consider 'the ability to pay' not merely of the individual taxpayer but of the community as a whole. In this light, it is necessary that the tax system as a whole is not oppressive. It should not discourage saving or retard accumulation of capital. Also, it should not, in any manner, impair the productive capacity of the community by hampering the development of trade and industry in the country (Dewett et'al, 2005).

III. Research Methodology

a) Research Design

The study entails descriptive research in which the survey method was used in collecting the data. The method concerned with the quantitative data and this study used it to determine the effect of high corporate tax rate on the liquidity of corporate organisations in Nigeria.

b) The Population of the Study

The population of the study is the entire aggregate of individuals or items relevant to a phenomenon under investigation (Ugwu, 2003). The targeted population for this study consists of 45 corporate organisations in Lagos State of Nigeria as at April 2014. The above population shows that, all the corporate organisations in the population have about 45 Chief Accountants.

c) Sampling technique and sampling size

The sample size is usually a compromise between what is desirable and what is feasible. For the purpose of this study, the researcher used mainly downstream oil sector of the economy as the population comprises fourty five (45) corporate organisations, that pay their corporate taxes, as obtained from Federal Inland Revenue Service, Lagos office. The use of purposive sampling was based on the fact that, almost all the corporate organisations in Nigeria may have liquidity problem though they differ in sizes and profits and therefore, may serve as a good representative of the whole corporate organisations in Nigeria. Hence, the researcher used random sampling technique on the fourty five (45) corporate organisations.

Based on the above population, the sample size for the study is determined using Taro Yamane formula. This formula is used where the population parameter for the study is known. Thus it is stated:

$$n = N/1+N(e)^2$$

Where: n = Sample size

N = Population size

e = Degree of tolerance error

With a confidence level of 95%, the degree of tolerance error is 5% (0.05).

Therefore: $n = 45/1+45(0.05)^2$

$n = 45/1+45(0.0025)$

$n = 45/1+0.1$

$n = 45/1.1$

$n = 40.9$

$n = 41$

d) Sources of Data

Data were gathered from primary sources. The primary data for this study came from questionnaire with specific focus on the effect of high corporate tax rate on the corporate liquidity of the organisations under study. The review of several publications that were relevant to the study was carried-out. These were FIRS bulletin and journals.

e) Questionnaire Administration

The questionnaire was administered based on the policies of the companies used as the case studies. The researcher was allowed to administer the questionnaires to the Chief Accountants of the selected organisations.

The researcher faced some problems in retrieving the questionnaire because not all the respondents filled the questionnaires due to their 'tight schedule'. This reduced the numbers of questionnaires retrieved. Out of fourty one (41) questionnaires administered, thirty six (36) were returned and found usable, given a response rate of 88%.

f) Method of Data Analysis

Data were sourced from fourty one (41) companies in Lagos. Fourty one (41) questionnaires were distributed to collect data out of which thirty six (36) were returned and found usable, given a response rate of 88%. All the questionnaires collected were analysed based on tables and simple percentages analysis.

The hypothesis formulated was tested using Analysis of Variance (ANOVA). The formula for Analysis of Variance is as follows in the table below:

Table 3.1

Source	SS	DF	MS	F-ratio	Remarks
Between	SS_B	t - 1	SS_B/df_B	MS_B/MS_W	Accept or Reject
Within	SS_W	N - t	SS_w/df_w		
Total	SS_T	N - 1			

Source: Adefila, (2008)

Where:

N = Total number of active cells

Q = The grand total of all data

t = Number of groups or rows

n = number of columns in a group

SS_T = Sum of the square of each of the individual scores in all the groups subtract Q^2/N

$SS_T = (X^2_1 + X^2_2 + X^2_3 + \ldots\ldots + Z^2_4 + Z^2_5 + Z^2_6) - Q^2/N$

SS_B = Square of each group sum, divided by the corresponding group (n), then sum all these and subtract Q^2/N

$SS_B = (XX^2/n + YY^2/n + ZZ^2/n - Q^2/N$

SS_W = The outcome of SS_T less the outcome of SS_B

$SS_W = SS_T - SS_B$

df_B = degree of freedom for "variance between" = t – 1

df =degree of freedom for total of all the data = N – 1

df_W = degree of freedom for "variance within" = $df_T – df_B$ (N– t)

MS = mean square for "variance between" and "variance within"

g) Decision Rule

The null hypothesis is rejected if the calculated value of F – ratio i.e. (MS_B/MS_W) is greater than the critical value of F. i.e. (F_t – 1, N – t) as given in the F distribution table otherwise, it stands accepted.

- If MS_B/MS_W > (F_t – 1, N – t), then, reject the Null hypothesis
- If MS_B/MS_W < (F_t – 1, N – t), then, accept the Null hypothesis

The choice of ANOVA as one of the statistical tools to test hypothesis two of this study is based on the fact that, it determines the extent of variance in dependent variable that are caused by independent variable. Also, ANOVA reduces the type one error rate (rejecting null hypothesis instead of accepting).

IV. Data Presentation, Analysis and Discussion of Findings

a) *Data Presentation and Analysis*

This chapter represents the data collected in response to 41 questionnaires distributed to chief Accountants of the 41 sampled corporate organisations in Lagos-Nigeria on their view about the effect of high corporate tax rate on corporate liquidity by which 36 questionnaires were filled and returned correctly.

Q1 Table 4.1 : Company bears the burden of high corporate tax rate

Options	Respondents	Percentage of Respondents %
Strongly agree	21	58
Agree	13	36
Strongly disagree	0	0
Disagree	2	6
Total	36	100

Source: Field survey, (2014)

Table 4.1 above shows that 21 respondents representing 58% of the total respondents strongly agree, 13 respondents representing 36% agree, 0 respondent representing 0% strongly disagree while 2 respondents representing 6% disagree. This means that, the total respondents of 34 constituting 94% do agree that companies bear the burden of the high corporate tax rate. Therefore, the researcher concluded that the burden of the high corporate tax rate falls heavily on the corporate organisations that pay the taxes in the first instance to the tax authority, and hence affects their liquidity.

Q 2 Table 4.2 : The high corporate tax rate affects corporate liquidity

Options	Respondents	Percentage of Respondents %
Strongly agree	27	75
Agree	5	14
Strongly disagree	2	5.5
Disagree	2	5.5
Total	36	100

Source: Field survey, (2014)

Table 4.2 above revealed that 27 respondents representing 75% of the total respondents strongly agree that, the high corporate tax rate affects corporate liquidity, 5 respondents representing 14% also agree while 2 respondents representing 5.5% strongly disagree and 2 respondents representing 5.5% also disagree. This implies that, high corporate tax rate affects corporate liquidity. The researcher draws a conclusion that, high corporate tax sometimes forces corporate organisations into a liquidity trap even in the time of heavy profits because not all profits declared by companies are in cash.

Q 3 Table 4.3 : There is a relationship between high corporate tax rate and corporate liquidity

Options	Respondents	Percentage of Respondents %
Strongly agree	20	55
Agree	15	42
Strongly disagree	1	3
Disagree	0	0
Total	36	100

Source: Field survey, (2014)

Table 4.3 above revealed that 20 respondents representing 55% of the respondents strongly agree that, there is a relationship between high corporate tax rate and corporate liquidity, 15 respondents representing 42% also agree while 1 respondent representing 3% strongly disagree. This implies that, high corporate tax rate has a negative relationship with corporate liquidity as it reduces cash available to the organisations.

The high corporate tax rate affects the price of goods and services of a company

Options	Respondents	Percentage of Respondents %
Strongly agree	12	33
Agree	19	53
Strongly disagree	3	8
Disagree	2	6
Total	36	100

Source: Field survey, 2014

Table 4.4 above revealed that 12 respondents representing 33% of the total respondents strongly agree that, high corporate tax rate affects the prices of goods and services of companies, 19 respondents representing 53% also agree. However, 3 respondents representing 8% of the total respondents strongly disagree and 2 respondents representing 6% disagree. Therefore, the researcher concluded that companies do increase their prices of goods and services because of high corporate tax rate by way of backward and forward shifting through the purchase and selling prices of their products and services as the case may be.

b) Test of Hypothesis

Ho_1: High corporate tax rate does not have significant effect on corporate liquidity.

Hi_1 High corporate tax rate has significant effect on corporate liquidity

Variables	Question 1	Question 2	Question 3	Total
Strongly agree	21	27	20	68
Agree	13	5	15	33
Strongly disagree	0	2	1	3
Disagree	2	2	0	4
Total	36	36	36	108

Source: Field survey, 2014

Sum of Square between (SS_B) = ($\sum X^2/n$ + …….. + X^2/n – Q^2/N

Where:

n =number of column in a group = 3

N =Total number of active cells = 12

Q =Grand total of all the cells = 108

$SS_B = 68^2/3 + 33^2/3 + 3^2/3 + 4^2/3 – 108^2/12$

$SS_B = 4624/3 + 1089/3 + 9/3 + 16/3 – 11, 664/12$

$SS_B = 1541 + 363 + 3 + 5 – 972$

$SS_B = 1, 912 – 972 = 940$

Sum of Square total (SS_T) = (ΣX^2 + ……. X^2) – Q^2/N

$SS_T = 21^2 + 27^2 + 20^2 + 13^2 + 5^2 + 15^2 + 0^2 + 2^2 + 1^2 + 2^2 + 2^2 + 0^2 – 108^2/12$

SS_T = 441 +729 + 400 + 169 + 25 + 225 + 0 + 4 + 1 + 4 + 4 + 0 – 972

$SS_T = 2002 – 972 = 1030$

Sum of Square within (SS_W) = SS_T - SS_B

$SS_W = 1030 – 940 = 90$

Degree of freedom between (df_B) = t -1

t = Total number of group or rows available = 4

$df_B = 4 – 1 = 3$

Degree of freedom within (df_W) = N – t

$df_W = 12 – 4 = 8$

Degree of freedom total (df_T) = N – 1

$df_T = 12 – 1 = 11$

Mean Square between (MS_B) = SS_B/df_B = 940/3 =31

Mean Square within (MS_w) = SS_w/df_w = 90/8 = 11.25

F – Ratio = MS_B/MS_W = 313/11.25 = 27.8

ANOVA Summary Table

Source	SS	df	MS	F- Ratio
Between	940	3	313	27.8
Within	90	8	11.25	
Total	1030	11		

Critical value at 5% significance with degree of freedom 3 to 8 is 4.07

Since the calculated value of 27.8 is greater than the critical table value of 4.07, the null hypothesis is rejected for the acceptance of alternative hypothesis. We concluded that, high corporate tax rate has significant effect on corporate liquidity.

c) Discussion of Findings

Based on the analysis, the following findings were arrived at:

The high corporate tax rate has both arithmetic and economic effects on the economy. It increases the revenue of the government, which is used by the government to finance both the Capital and Recurrent Expenditure in its annual budget. However, there are negative effects; it discourages invention and entrepreneurship, it causes tax flight, it reduces savings, investments, employment opportunities etc.

There have been many arguments for the reform of corporation tax. Despite, many tinkering with the system, to take some criticisms into account, it has been argued that the system is in total disarray (Kay & King, 1990).

Various forces prevented a firm or firms from pursuing its optimal investment level including high corporate tax rate as it affects the liquidity (cash) of the organisation because cash holdings are strongly related to firms' investment. Cash holdings also help firms with high internal financing cost (i.e. financially constrained firms) take up positive net present value projects. This is in line with Dennis & Sibilkov (2010) who opined that higher cash holdings allow financially constrained firms to undertake value-increasing projects that might be bypassed.

Managers may be forced to give up positive NPV projects, because they are not willing to raise external capital by issuing underpriced securities. Therefore, cash flow and cash can benefit those firms facing external financing constraints by funding necessary expenditures, which makes their investments sensitive to the availability of internal fund (Stein, 2003; Franzoni, 2009).

V. Summary, Conclusion and Recommendations

a) Summary

This work examines the analysis of the effect of high corporate tax rate on the liquidity of corporate organisations in Nigeria.

The high corporate tax rate impinged on the decisions of the investors as it discourages invention and entrepreneurship, it causes tax flight, it affects capital formation, it reduces savings, investments and causes unemployment in the country.

The burden of high corporate tax falls on the corporate organisations as it affects their liquidity, but the incidence of high corporate tax rate falls on the customers and suppliers through forward and backward shifting of prices- all things being equal.

b) Conclusion

Nigeria as one of the countries of the world that charges high corporate tax rate stands a chance of under developing her economy. The multiplier effects of this on the economy are enormous; ranging from: low savings, low investments, high rate of unemployment, capital flight, tax flight and high cost of borrowing.

Taxation as an instrument of fiscal policy to regulate, control and manage the economy should be neutral to encourage the corporate organisations to save, invest, and create employment opportunities in the country.

c) Recommendations

For Nigeria to achieve it fiscal policy through optimal corporate tax rate for economic growth and development, based on the findings, the following recommendations have been provided:

i. The Nigeria corporate tax rate of 30% should be reduce below OECD average corporate tax rate of 25.32% to avert the negative effect of financing the firms.
ii. The Nigerian tax system should be change from classical system to imputation system to avoid economic double taxation.
iii. We recommended that government should strengthen the Bank of Industry to close the funding gap in the corporate organisations.
iv. The government should ensure revenue generated from taxation especially corporate tax should be utilize in the development of the general economy and not just a segment of it as this will go a long way to improve the standard of living of her citizenry and hence lead to a growth in Gross Domestic Product (GDP).

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