

1 An Evaluation of Capital Structure and the Profitability of 2 Companies

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5 *Received: 13 February 2015 Accepted: 5 March 2015 Published: 15 March 2015*

6

7 **Abstract**

8 For development and growth of any society, the provision of basic infrastructure is quite
9 necessary. This perhaps explains why the government shows great concern for a medium
10 through which fund can be made available to achieve their set goals for the society.
11 Government needs money (fund) to be able to execute its social obligations to the public.
12 These social obligations are not limited to the provision of infrastructure and social services.
13 According to Murkur (2001), meeting the needs of the society call, for huge funds which an
14 individual or society could not contribute alone. It becomes the responsibility of the
15 government to source for the funds to enable her provide these basic amenities to the citizen
16 who are the beneficiaries

17

18 **Index terms—**

19 **1 Introduction**

20 or development and growth of any society, the provision of basic infrastructure is quite necessary. This perhaps
21 explains why the government shows great concern for a medium through which fund can be made available to
22 achieve their set goals for the society. Government needs money (fund) to be able to execute its social obligations
23 to the public. These social obligations are not limited to the provision of infrastructure and social services.
24 According to ??urkur (2001), meeting the needs of the society call, for huge funds which an individual or society
25 could not contribute alone. It becomes the responsibility of the government to source for the funds to enable her
26 provide these basic amenities to the citizen who are the beneficiaries. One of the medium through which fund is
27 derived is through taxation. Therefore, the citizens are expected to discharge their civic responsibility by paying
28 their taxes as these contribute to the development and administration of the society at large.

29 In the light of the importance of taxation as a source of revenue to the government, Hammer, Jager and
30 Norddlow ??2005) argued that unless people pay the taxes they are obliged to pay, government may not function
31 properly. However, it is well known and accepted that some people do not like paying taxes and because of
32 this reason, it is difficult for tax authority to levy and collect taxes anywhere and time. Therefore, the amount
33 of tax revenue generated by government for its expenditure programmed depends among other things, on the
34 willingness of the taxpayers to comply with tax laws of a country ??Eshang, 1983). Not complying with tax
35 obligations suggests that a taxpayer may be committing an act of non-compliance and the resulting tax revenue
36 loss from such act may cause serious damage to the proper functioning of the public sector, thereby threatening
37 its capacity to finance its expenditure programmed ??Franzoni, 2000).

38 No one likes to pay taxes, even though tax payment is inevitable for the provision of social welfare, hence
39 individual and. companies want to reduce their tax liabilities and they try to do this either legally, by tax
40 avoidance or illegally by tax evasion. However, one of the greatest problems facing Nigeria tax system is the
41 problem of tax evasion and avoidance. Tax evasion and avoidance has been an important subject of inquiry in
42 developing countries over a long period of time. All form of taxes in Nigeria is to some extent avoided or evaded
43 largely because the administrative machinery to ensure effectiveness is weak. Because of diversity and complexity

3 STATEMENT OF THE PROBLEM

44 in human nature and activities, no tax law can capture everything. Loophole will exist and can only be reduced
45 and not completely eliminated.

46 Ogundele (1999) defines taxation as the process or machinery by which communities or groups of persons are
47 made to contribute in some agreed quantum and method for the purpose of the administration ad development
48 of the society. It can be inferred that the payment of tax will in turn be beneficial to the entire citizen. This
49 view is also similar to the definition of ??ayode and Kajola (2006) who defined tax as a compulsory exaction of
50 money by a public authority for public purposes. Nightingale (1997) describes tax as a compulsory contribution
51 (contribution imposed by the government). These various authors concluded that it is possible for tax payers
52 not to receive anything identifiable for their contribution but that they have the benefit of living in a relatively
53 educated, healthy and safe society. However, the infrastructure which tax payers are supposed to enjoy is in a
54 deplorable condition (Fafunwa. 2005), educational system in disarray ??Obaji, 2005). Hence, there has been a
55 clamor by leaders that a huge sum of the resources which they are to used, find their way out the Nation's income
56 through tax evasion and tax avoidance. ??oyode and Kajola (2006) distinguished between tax evasion and tax
57 avoidance. They defined tax evasion as a deliberate and willful practice of not disclosing fill taxable income so as
58 to pay less tax and as a contravention of tax laws whereby a taxable person neglect to pay tax due or reduces tax
59 liability by making fraudulent or untrue claims on the income tax form. While tax avoidance can be defined as
60 the arrangement of tax payers affairs using tax shelters in the tax laws. ??bdulrazaq (2001) gave this example to
61 differentiate between tax evasion and tax avoidance. If two people marry in order to reduce their tax liabilities,
62 they are involved in tax avoidance, but when they tell the tax authority that they are married when they are not,
63 they are quit of tax evasion, and would be prosecuted as such. Tax evasion is an attempt to escape tax liability
64 (wholly or partially) by breaking the tax law and it is a criminal act since it is achieved principally by making
65 false declaration such as underreporting income or over reporting relieves and allowances. While, tax avoidance
66 is an attempt to escape tax liability by circumventing that is finding a way to bend the avoider have a similar
67 end (that is reducing tax liability) their means to that end differ ??Ayua, 1996). The tax evaded is a criminal
68 while the tax avoided is just a smart taxpayer who exploits loopholes in tax laws (and related laws) to reduce
69 tax liability.

70 One is the functioning of accounting is to provide adequate information decision making of which guiding the
71 government on revenue generated through taxation is not an exception. Tax avoidance and evasion makes it
72 difficult to keep accurate records for proper accounting and also causes poor budget planning which negatively
73 affect the carrying out of the required social responsibility. According to ??raide (1984:5), Accounting responds
74 to the need of the society. It changes as society or culture changes. As the society grows economically, accounting
75 also develops to meet up with the requirements of which adequate accounting for taxation is no exception.

76 Tax evasion in most developing countries like Nigeria is so rampant, and the scenario is much worsened by the
77 fact that not many of these governments have made an effort to measure the ethical reasons that tax payers give,
78 the extent of this problem and at the same time analyze its impact. Hence, when required revenue for smooth
79 operation cannot be raised, these countries often times resort to increase tax rates or borrowings which may
80 not only crowd out the rates or borrowings which may not only crowd out the private sector of their economies
81 but also lead them to debt traps ??Chiumya, 2006). On the other hand, tax evasion has the effect of distorting
82 the principle of perfect market resource allocation and income redistribution. This can lead to economic growth
83 stagnation and far much reaching socio-economic repercussions that is having indirect effect on the National
84 income. Thus, there is the need to understand the behavior of tax payers and the reason that cause such specific
85 behavior.

86 Tax evasion and tax avoidance are practices that have eaten deeply into the revenue that ought to be generated
87 by the government, and hence affect the economic life of the country as a whole as well as affecting the Nation's
88 income. In view of this, this research seeks to examine these practices in Nigeria and finding out the accounting
89 and social implication of tax avoidance and evasion on the National income of the country by evaluating the
90 reasons why people evade and avoid taxes, the methods used by people to achieve these and thereby proffer
91 solution to the practices.

92 2 II.

93 3 Statement of the Problem

94 Tax avoidance and tax evasion are problems that face every tax system, but the Nigeria situation is unique when
95 view against the level and scale of corrupt practices prevalent in Nigeria economy. Tax is one of the major sources
96 of revenue in Nigeria and is a factor to be reckoned with. The tax collected comes back to the tax payer in form
97 of social amenities. Tax has encouraged or discouraged some activities in the private sector, depending upon
98 whether the policy of the government is towards encouraging or discouraging such companies. Although tax
99 revenue has shown remarkable increases, available evidence shows that fiscal viability of the government would
100 have been higher if better structures are in place to enhance tax planning, tax administration, collection of taxes
101 and the reduction of the level of tax evasion and tax avoidance.

102 In this study, therefore, it is set out to examine the various problems both internal and external problems
103 confronting the revenue department in the collection of taxes and levies under their jurisdiction which hindered
104 most proper accounting and carrying out adequate social responsibilities with a view to finding solution to them.

105 The accounting and social implication of tax avoidance and tax evasion on National income of Nigeria is a
106 serious problem which this study is out to analyze and tackle.

107 **4 III.**

108 **5 Objectives of the Study**

109 The broad objective of this study is to find out why people evade and avoid tax and suggest ways of minimizing
110 the practices in Nigeria. The broad objective is broken down to the following specific objectives: i. To determine
111 the effect of tax evasion and tax avoidance on the National income of Nigeria.

112 ii. To examine the major accounting and social implication of tax evasion and tax avoidance.

113 iii. To proffer solution to the problems of tax evasion and tax avoidance. iv. To examine the effect of perceived
114 corruption in government on tax evasion and avoidance.

115 IV.

116 **6 Research Questions**

117 This research attempted to provide answers to the following questions in other to achieve the objectives stated
118 above: i. Is there any effect of tax evasion and tax avoidance on the National income of Nigeria?

119 ii. Is there any accounting and social implication of tax evasion and tax avoidance?

120 iii. What are the possible solution to the problem of tax evasion and tax avoidance?

121 iv. What is the attitude of tax payers when government is perceived to be corrupt?

122 V.

123 **7 Research Hypotheses**

124 The following alternative hypotheses (HO and Hi) will be statistically tested in the course of this study: i. Ho:
125 There is no significant effect of tax evasion and tax avoidance on the National income.

126 ii. Hi: There is a significant effect of tax evasion and tax avoidance on the National income.

127 iii. Ho: There is no significant relationship between the accounting and social implication of tax avoidance
128 and tax evasion.

129 iv. Hi: There is significant relationship between the accounting and social implication of tax avoidance and
130 tax evasion.

131 v. HO: Company income tax has no positive impact on the economic growth.

132 vi. Hi: Company income tax has positive impact on the economic growth. vii. HO:

133 Tax revenue has no significant relationship with tax administration in Nigeria.

134 viii. Hi: Tax revenue has significant relationship with tax administration in Nigeria.

135 VI.

136 **8 Scope of the Study**

137 This research is premised on obtaining evidence on the accounting and social implication of tax avoidance and
138 tax evasion on the National income of the country (Nigeria). Thus, the study will be restricted to cover the
139 performance of tax revenue in Nigeria for a period of fifteen years (15 years) that is from 1996 to 2010. Primary
140 data will be sorted from Federal Inland Revenue office, Asaba and Delta State Board of Internal Revenue, Asaba
141 while secondary data will be obtained from Central Bank of Nigeria Annual Bulletin.

142 **9 a) Significant of the Study**

143 From the finding of the research work, the following are the significance itemize below:

144 i. This research is expected to be a benefit to revenue officials who are saddled with the responsibility of
145 ensuring that taxpayers are not negligent in paying their taxes.

146 ii. It will also assist to knowing why taxes are avoided and evaded. iii. This research is also expected to be of
147 benefit to researchers and students of accounting since it is an important aspect of taxation. Hence, it serves as a
148 reference point for future researchers and a blue print for the policy makers.

149 iv. The research is also aim at studying the social and accounting implication and tax evasion on the National
150 income.

151 **10 b) Limitation of the Study**

152 It is not unusual for researchers to encounter some problems during studies of this nature. The constraints of
153 this study include: i. Time

154 The time allocation for the completion of the study is not sufficient enough to carry out adequate research,
155 considered with other engagements of the researcher. Due to the time constraint, the researcher will not be able
156 to get adequate information about the research topic.

157 ii. Lack of Data

158 The availability of data is usually a problem in study of this nature. There are some data or information,
159 which will be needed but is termed confidential for office use only. In this situation, the study will be limited to
160 only those data available.

161 iii. Lack of Co-Operation Persons in position to help researcher gather information are usually hostile because
162 of the fact that some of them believe that the researcher has the intention of knowing the secret about their job
163 which the researcher would be exposed to the tax authority. This attitude makes them raise a strong opposition to
164 researcher and these in turn hinder the research work.

165 11 iv. Finance

166 Finance has been a constraint to research work done in this country and likely to affect this work too.

167 v. Error Some of the data when obtained are usually subject to error and changes due to their sources. This
168 would also limit this study.

169 However, it is believed that the researcher would take adequate steps to maintain the validity and reliability
170 required in this study.

171 12 VII.

172 13 Definition of Major Terms

173 The following terms are defined to assist in proper understanding of this work by its users: i. Tax

174 This could be defined as revenue which government derived from its citizen for carrying out its social
175 responsibilities and for the development of the Nation.

176 ii. Tax Liability This is the amount of money that is borne by the taxpayer.

177 iii. Tax Evasion This is described as intentional illegal behavior, or as behavior involving a direct violation of
178 tax law to escape the payment of tax.

179 14 Global Journal of Management and Business Research

180 Volume XV Issue III Version I Year () C iv. Tax Avoidance Is a term used to describe tax payer behavior aimed
181 at reducing taxpayer tax liability without infringing the tax laws.

182 15 v. Social Responsibility

183 It is an obligation to protect and improve the welfare of the society as a whole along with one's own interest.

184 16 vi. Corporation Tax

185 This is the amount of money paid by company as tax.

186 vii. Property Tax This is the tax paid on the property of the taxpayer.

187 17 viii. Capital Gain Tax

188 This is a type of tax paid based on the gain realized on the sales of capital goods.

189 18 ix. Accounting

190 Is the process of recording, classifying, selecting, measuring, interpreting and communicating financial data of
191 an organization to enable user make assessments and decision. Accounting records monetary terms the flow of
192 economic values within or between economic entities.

193 x. Revenue Amount of money which is being realized by an individual, group or government.

194 19 xi. State Board Of Internal Revenue

195 The body is responsible for collection of taxes for the state.

196 20 xii. Federal Inland Revenue

197 The body is responsible for collection of federal taxes.

198 21 VIII.

199 22 Theoretical Study

200 The theoretical study reviews some theories in taxation.

201 **23 a) Optimal Taxation of Labour Income i. The Mirrlees
202 Model**

203 In the canonical model of optimal income taxation set up by ??irrlees (1971) The solution to the consumer's
204 problem yields his indirect utility function $V(w)$. In the Mirrlees model the pre -tax real wage rates are treated
205 as and taken to reflect the different non -observable ability levels of individual taxpayers. With wage rates being
206 distributed over the internal (w, w) , $0 \leq w \leq \infty$ Mirrlees assumed that the benevolent policy maker wishes
207 to maximize an individualistic Bergson on welfare function of the form Here $f(w)$ w indicates the density of
208 taxpayers earning the wage rate w , and the (numerical) magnitude of the second derivation f'' reflects strength
209 of the policy maker's preference for equity. The maximization of (3) takes place subject to the constraint that
210 the government must raise an exogenous amount of revenue $R: T$

211 The solution to the above optimal tax problem is technically demanding and does not yield very clearcut
212 results regarding the shape of the optimal income tax schedule. Mirrlees carried out simulations assuming Cobb
213 -Douglas utility functions, a classical utilitarian social welfare function (with $\alpha = 1$ and $\beta = 0$) and a log -normal
214 wage distribution. On these assumptions he found that optimal tax schedule was approximately linear, with an
215 exemption level below which positive net transfers are payable. Had this early result been robust, it would have
216 had great practical policy relevance, since a linear labour income tax is fairly simple to administer.

217 In practical, because a linear income tax features a constant marginal tax rate, it does not require information
218 on individual income, since it can be implemented as a proportional payroll tax combined with a flat transfer to
219 all taxpayers. However, subsequent work by ??uomola (1984) and other revealed that the near -optimality of a
220 linear income tax is not a robust result once one allow for plausible respecifications of utility function and of the
221 shape of the wage distribution. ??tkinson and Stiglitz (1980, ch. 13) also found that the optimal tax schedule
222 deviates substantially from linearity when the social planner has more egalitarian preferences than those implied
223 by classical utilitarianism.

224 **24 IX.**

225 **25 Empirical Study a) Comparision of Tax Evasion and Tax
226 Avoidance**

227 Tax evasion has been defined by researchers in a number of ways, one of which is in contrast to tax avoidance.
228 ??ayode and Kajola (2006) defined tax evasion as a deliberate and willful practice of not disclosing full taxable
229 income in order to pay less tax. It is a violation of tax laws whereby the tax due by a taxable person is unpaid after
230 the minimum specified period. Likewise, tax evasion is evident in situations where tax liability is fraudulently
231 reduced or false claims are filled on the revenue tax form. On the other hand, Kay,(1980) opined that tax
232 avoidance takes place when facts of the transaction are admitted but they have been arranged or presented in
233 such a way that the resulting tax treatment differs from that intended by the relevant legislation. In essence, tax
234 evasion is illegal while tax avoidance is not illegal under the ambience of the law.

235 Eboziegbe ??2007) noted that this unlawful practice of tax evasion remains a serious threat to revenue
236 generation effort of government. According to ??wachukwu (2006) tax evasion is the general term of efforts by
237 individuals, firms, trust and other entities to evade taxes by illegal means. Tax evasion usually entails taxpayers
238 deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax
239 liability. It also includes, in particular, dishonest tax reporting such as declaring less income, profits or gains than
240 actually earned; or overstating deductions. Conversely, tax avoidance as defined by ??im and Martinez (2001), is
241 the legal reduction in tax liabilities by practiced that take full advantage of the tax code, such as income splitting,
242 postponement of taxes and tax arbitrage across incomes that face different treatments.

243 From the comparison of various definitions given in the literature, it can be seen that paying less tax or not at
244 all than what one is legally obliged to is described as tax evasion while tax avoidance is an act of doing everything
245 possible within the confines of the tax law to reduce the tax paid. Therefore, the main difference between them
246 is the legality of the taxpayer's action. This study also takes the position of the researchers as it is in conformity
247 with the structure of Nigeria tax system.

248 **26 b) Empirical Investigation of Tax Evasion**

249 Tax evasion can be traced back to the study of ??llingharn and Sandmo (1972) the study observed a positive
250 correlation between tax rates and evasion. This finding is also consistent with the findings of Chipeta (2002)
251 which identified causes of tax evasion. Firstly, he noted that the rates at which taxpayers are being taxed impacts
252 on tax evasion. He observed that the higher the rate, the higher will be the likelihood for the taxpayers to evade,
253 as this increases their tax burden and hence lowers their disposable income. Secondly, the probability of being
254 detected after evading taxes also influences the decision of a taxpayer as whether to evade or not. This is directly
255 linked to the level of how strict tax laws are being enforced.

256 Literature also provides a link between tax evasion and corruption. ??cconnia et al, (2003) noted that the
257 level of corruption depends on such factors as the wealth of a tax payer and the wage of the tax officer. ??aclearn
258 (1996) further worked on a model, which tried to identify the optimal wage at which tax officers should be

259 remunerated. He argued that government face the dilemma of identify, a salary level which will ensure that its
260 tax officers are not enticed to bribery, as there is a link between tax evasion and the salary level of a tax officer
261 though corruption.

262 According to Pashev, (2005) the failures of the government to provide basic infrastructures which are supposed
263 to be funded by the tax being collected may aggravate tax evasion. Lack of transparency and accountability in
264 the use of public fund has the effect of building public distrust both in the tax system as well as the government.
265 Hence, this is believed to increase the level of tax evasion. Some of the studies, Armstrong and Robison (1998),
266 ??livia (1998 ??, McGee (1998b; ??999b ??, Srnatrakalev (1998)) and ??cGee and An (2006) have taken different
267 opinions on tax evasion. All these studies have one or more opinion portrayed in their studies. These opinions
268 include philosophical opinion, practitioner's opinion and religious opinion. Some studies also have two opinions
269 combined together. In the study of Morale (1998). Tax evasion was discussed from a philosophical point of view
270 by gathering evidence from Mexican workers. His study concluded that Mexican workers have a more important
271 duty to their family than to the state. This point of view is also believed to have a religious underlining as it has
272 a bearing with the Catholic theological literature as identified by Crowe in 1944.

273 27 c) Three Opinions on the Ethics of Tax Evasion

274 All the opinions found on tax evasion in the literature can be grouped into three broad areas. These are the
275 unethical opinion, the anarchist opinion and the circumstance opinion.

276 With these discouraging findings, it seemed for a while that optimal tax theory could offer little guidance on
277 income tax design. But building on earlier contributions by ??evesz (1989 ??, piketty (1997 ??, Diamond (1998
278 ??, and Roberts (2000), ??aez (2001 ??aez (, 2002 a) a) showed how a fonnular for the optimal marginal tax
279 rate at every income level can be derived in terms of the relevant elasticity's of taxable income and the properties
280 of the wage distribution. Since these parameters can in principles be observed or estimated empirically, the
281 work of Saez has greatly enhanced the practical application of optimal income tax theory. Another important
contribution by Saez (2002 a) was the explicit allowance for tax ^{1 2}



282 Figure 1:

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