Management

Assessing the influence of value added tax on corporate performance: evidence from International Breweries Plc, Nigeria

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Abstract

This study investigated the effect of Value Added Tax (VAT) on the corporate performance of International Breweries Plc, Nigeria. The specific objectives were to examine the impact of VAT on profit for the year (PFY) and return on capital employed (ROCE). A quantitative research design was adopted, focusing on International Breweries Plc over the period 2012–2022. Secondary data were obtained from the company's annual reports and financial statements. The study concentrated on a manufacturing firm due to the homogenous nature of organizations within the sector. Data analysis was conducted using descriptive statistics, correlation analysis, and Ordinary Least Squares (OLS) regression techniques.

The empirical findings reveal that VAT has a negative and significant effect on profit for the year (t-value = –4.4680; p = 0.001575 < 0.05) and a negative and significant effect on return on capital employed (t-value = –6.5494; p = 0.0001 < 0.05). Based on these findings, the study recommends that the government should further strengthen VAT administration and ensure that revenue generated from VAT is invested in essential social and infrastructural facilities. Such investment has the potential to stimulate economic growth, enhance investor confidence, and create employment opportunities in Nigeria.

Keywords: Value Added Tax; Corporate performance; Profit for the year; Return on capital employed; Return on investment

Introduction

Background of the Study

Taxation represents a key mechanism through which governments mobilize revenue to finance public services and developmental activities. At the local, state, and federal levels, governments rely on tax revenue to fund policy formulation, healthcare services, educational infrastructure, road construction, national security, and other essential public functions (Singh, 2019) [20].

Value Added Tax (VAT) is a consumption-based levy imposed at each stage of the production and distribution chain, ultimately borne by the final consumer. Its collection process is relatively simple, impersonal, and difficult to evade. Globally, VAT has gained prominence due to its substantial contribution to government revenue and its role in economic growth and development (Mu, Fentaw & Zhang, 2022) [13]. Because VAT increases the cost of consumer goods, it influences pricing and purchasing behaviour, making its economic implications a subject of global interest.

Many countries, particularly developing economies, have adopted VAT as a strategy to diversify revenue sources. In Africa, countries such as Benin Republic, Côte d'Ivoire, Guinea, Kenya, Madagascar, Mauritius, Senegal, Togo, and Nigeria have implemented VAT. Empirical evidence indicates that VAT constitutes a major source of revenue for these nations (Muguchu, Nelson & Wambugu, 2020; Mwangi, Gitau & Kung'u, 2021) [14, 15].

In Nigeria, VAT was introduced in 1993 and fully implemented in January 1994, replacing the Sales Tax established under Decree No. 7 of 1986, which had a narrow coverage limited to nine categories of goods and services. VAT was designed such that the tax burden rests with the final consumer and applies to both goods and services, leading to its classification as a Goods and Services Tax (GST) in some jurisdictions (Obiakor, Kwarbai & Okwu, 2015). While certain essential goods and services—such as pharmaceuticals, educational materials, medical services, and microfinance bank services—are exempt, the majority remain taxable as stipulated in the VAT Act (as amended, 2007).

VAT has proven to be an important and reliable revenue source for Nigeria. Over a 19-year period, VAT revenue contributed more than N4.27 trillion to federal and state government finances, bolstering public expenditure capacity (The Economist NG, 2012). This diversification helps reduce reliance on oil revenue and supports sustainable economic growth (Jayachandran, 2019). Despite its revenue benefits, assessing the impact of VAT on consumer behaviour and business performance remains challenging, thereby underscoring the need for this study.

Statement of the problem

Nigeria continues to face challenges in generating sustainable revenue, especially due to fluctuations in global oil prices that undermine earnings from the oil and gas sector. To address this, the Federal Government introduced the Strategic Revenue

Growth Initiative (SRGI), aimed at expanding revenue sources, improving tax administration, and enhancing compliance. One of its key components includes increasing the VAT rate from 5% and exploring alternative revenue channels (Andersen Tax Newsletter, 2019).

However, increased VAT rates may impose significant financial burdens on manufacturing firms and business owners. Ayedun *et al*. (2018) [5] argue that higher VAT charges can raise production costs, especially for businesses with multi-stage production processes where VAT is levied repeatedly. While VAT is simple to administer, it remains costly to implement, and Nigeria continues to lose substantial revenue to tax evasion (Eze & Atagboro, 2020) [6]. Current statistics show that only 2 out of 10 SMEs comply with tax obligations, suggesting that further increases in VAT may worsen non-compliance.

Additionally, many business owners fail to comply with VAT regulations, neglect monthly VAT filings, or struggle with administrative recordkeeping, which complicates effective VAT administration (Ezejiofor *et al*., 2015) [7]. Given these challenges, it becomes necessary to evaluate how VAT affects corporate performance, particularly in a major manufacturing firm such as International Breweries PLC.

Objectives of the study

The broad objective of this study is to examine the effect of Value Added Tax on corporate performance in International Breweries PLC Nigeria. The specific objectives are to:
i. Determine the effect of VAT on profit for the year (PFY).
ii. Assess the effect of VAT on return on capital employed (ROCE).

Research questions

- To what extent does VAT affect profit for the year (PFY) in International Breweries PLC Nigeria?
- How does VAT influence return on capital employed (ROCE) in International Breweries PLC Nigeria?

Significance of the study

This study is significant to government institutions, policymakers, manufacturing firms, the general public, and researchers.

For the government, the findings provide insights into VAT administration and potential strategies to improve compliance and revenue generation. The study also highlights categories of taxable goods and services and international VAT adoption experiences, which may guide future tax policy decisions.

For policymakers, the results contribute to formulating fiscal policies that promote manufacturing sector growth, infrastructure development, and equitable wealth distribution.

For manufacturing firms, the study offers valuable information on how VAT affects operational costs, profitability, and financial decision-making.

For researchers, the study adds empirical evidence on VAT and corporate performance, providing a foundation for future research.

Conceptual review

Value-Added Tax (VAT)

VAT, originating from the French economist Maurice Laure's concept of "taxe sur la valeur ajoutée," is a consumption-based tax levied on goods and services (Agu, Onwuka & Aruomah, 2019) [3]. Unlike progressive income tax, VAT is applied uniformly across purchases regardless of income level (Arene & Ndomadu, 2019). In some countries, it is known as Goods and Services Tax (GST) (Oraka, Okegbe & Ezejiofor, 2017) [18].

Corporate performance of manufacturing firms

Corporate performance generally refers to how effectively an organization achieves its financial and operational goals. Common indicators include return on investment, profit margins, sales, and productivity (Yoke & Sok-Gee, 2018). Although definitions vary, performance often reflects a firm's long-term capacity to adapt, solve problems, and remain competitive (Arene & Ndomadu, 2019).

VAT and Profit for the Year (PFY)

Tax policies significantly influence business performance because high tax rates increase operating costs and reduce profitability. Studies show that tax burdens affect manufacturing sector efficiency and investment decisions (Oraka *et al*., 2017). Yoke and Sok-Gee (2018) found a negative relationship between corporate tax and firm productivity, while Agu *et al*. (2019) [3] reported that increased tax rates reduce net profit and limit reinvestment opportunities.

VAT and Return on Capital Employed (ROCE)

Arene and Ndomadu (2019) observed that property taxation negatively affects firm productivity, employment, and capital investment. Excessive taxation harms liquidity and profitability (Adegbite, 2018) [1], thereby reducing financial and operational efficiency. VAT impacts manufacturing firms differently across countries due to variations in tax policy, implementation, and economic structure.

Theoretical review

Laffer curve theory of taxation

Proposed by Arthur Laffer (1974), the Laffer Curve illustrates the relationship between tax rates and government revenue, suggesting an optimal tax rate that maximizes revenue. Beyond this optimal point, higher taxes discourage work, investment, and production, ultimately reducing tax revenue. The theory emphasizes the behavioural response of taxpayers to changes in tax rates.

Gaps in literature

Limited research exists on the effect of VAT on the corporate performance of International Breweries PLC Nigeria. Prior studies inadequately address how VAT influences performance indicators such as ROCE, return on investment, and profit after tax. Additionally, empirical findings across countries remain inconsistent, highlighting the need for further investigation.

This study fills this gap by examining VAT's effect on key performance metrics of International Breweries PLC.

Methodology

This study adopted a quantitative research design. The study area was Lagos State, and purposive and random sampling techniques were used to select International Breweries PLC Nigeria due to the homogeneity of its operations. The study covered the period 2012–2022. Secondary data were sourced from the company's annual reports and financial statements. Data analysis involved descriptive statistics, correlation analysis, and Generalized Ordinary Least Squares (GLS) regression using E-Views 9 due to its user-friendly features.

Data Presentation

Table 1: Descriptive statistics for international breweries

	ROI	PY	ROCE	VAT
Mean	207174.1	117770.8	125716.7	68800.27
Median	192447.0	124714.0	104356.0	70746.00
Maximum	448069.0	135514.0	210257.0	93325.00
Minimum	48525.00	26739.00	57922.00	33524.00
Std. Dev.	99877.74	30499.34	50457.38	18246.55
Skewness	0.968499	-2.737521	0.397765	-0.376004
Kurtosis	4.545572	8.757357	1.801272	2.395317
Jarque-Bera	2.814512	28.93148	0.948665	0.426780
Probability	0.244814	0.000001	0.622300	0.807841
Sum	2278915.	1295479.	1382884.	756803.0
Sum Sq. Dev.	9.98E+10	9.30E+09	2.55E+10	3.33E+09
Observations	11	11	11	11

Source: author's computation using e-views version 9

The table shows descriptive statistics of the variables. In the model established in the study, there is three dependent variable and one independent variables. These variables consist of Return on Investment (ROI), Profit for the Year (PY), Return on capital employed (ROCE) and Value added tax (VAT) respectively. The mean of Return on Investment (ROI) was 2017174.1, the median was 192447.1, maximum was 448069.0, minimum was 48525.00 and sum of the variable was 2278915.23 respectively. The mean of Profit for the Year (PY) was 117770.8, the median was 12471.0, maximum was 135514.0, minimum was 26739.00, and sum of the variable was 1295479.09 respectively. The mean of Return on capital employed (ROCE) was 125716.7, the median was 104356.0, maximum was 210257.0, minimum was 57922.00 and sum of the variable was 1382884 respectively. The mean of Earnings per Share (EPS) was 169650.4, the median was 104850.0, maximum was 1638241.0, minimum was 22048.00, and sum of the variable was 16625740 respectively. The mean of Value added tax (VAT) was 68800.27, the median was 70746.00, maximum was 93325.00, minimum was 33524.00 and sum of the variable was 756803.0 respectively. The probability of the Jarque-Bera statistics shows that profit of the year (PY) data series are normally distributed (P-value = $0.000001 < 0.0500$) while The probability of the Jarque-Bera statistics shows that return on investment (ROA), return on capital employed (ROCE) and value added tax (VAT) data series are not normally distributed (P-value $0.000001 > 0.0500$). The skeweness statistics shows that the variables are positively skewed, showing evidence of moderate skeweness (PY and ROI) and high skeweness (VAT and ROCE). The result shows that the variables are stable and predictable, given the very low standard deviation of less than one (1) for all variables.

Test of hypotheses

Hypothesis one

H_{01}: Value-added tax (VAT) has no significant effect on profit for the year (PY)

VAT was regressed on PY, and results show that VAT has a negative and significant effect on PY ($t = –4.4680$; $p = 0.001575 < 0.05$).

Thus, the null hypothesis is rejected, and the alternative hypothesis is accepted.

Hypothesis two

H_{02}: Value-added tax (VAT) has no significant effect on return on capital employed (ROCE).

VAT was regressed on ROCE, and findings indicate a negative and significant effect ($t = –6.5494$; $p = 0.0001 < 0.05$). Therefore, the null hypothesis is rejected, and the alternative hypothesis is accepted.

Discussion of results

Effect of VAT on Profit for the Year (PY)

The findings reveal that VAT has a negative and significant effect on PY. This suggests that increases in VAT obligations tend to reduce profitability in International Breweries PLC. This result aligns with the findings of Mu, Fentaw and Zhang (2022) [13], who reported inefficiencies in VAT administration and the negative influence of VAT-related challenges—such as poor tax education and audit constraints—on revenue performance in Ethiopia.

Effect of VAT on Return on Capital Employed (ROCE)

Similarly, VAT exerts a negative and significant influence on ROCE. This means that higher VAT burdens reduce the firm's capital efficiency. However, this finding contrasts partially with Jideofor (2021), who examined the relationship between VAT and price stability in Nigeria and found that VAT does not strongly drive inflation, suggesting VAT may not always exert a direct negative economic effect.

Summary of findings

- VAT has a negative and significant effect on Profit for the Year (PY) in International Breweries PLC.
- VAT has a negative and significant effect on Return on Capital Employed (ROCE).

Conclusion

The study concludes that Value Added Tax has a significant negative impact on corporate performance indicators—specifically PY and ROCE—in International Breweries PLC from 2012 to 2022.

Although descriptive statistics and correlation analysis show stable data patterns, the regression results indicate that VAT obligations reduce profitability and capital efficiency. The findings highlight the need for more effective tax administration and better support systems to ease the VAT burden on manufacturing firms, especially amid declining oil revenues in Nigeria.

Recommendations

- Government should review and optimize VAT administration, ensuring that VAT revenues are used to provide critical social and infrastructural facilities. These improvements can stimulate investment, economic activity, and employment.
- The Federal Inland Revenue Service (FIRS) should develop a digital VAT monitoring and recording system, where each taxable item is computer-coded to enhance transparency, accuracy, and efficiency in VAT collection.
- Government should periodically intervene and regulate the operations of producers and distributors, particularly in industries such as alcoholic beverages, to ensure compliance and reduce undue tax burdens.

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