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TAXATION IN FINANCIAL PLANNING AND DECISION MAKING

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INTRODUCTION

"Taxation is an important fiscal instrument employed in every modern economy to promote economic activity and growth while ensuring that there is balance and fair play among the actors"Oni (1998). Through taxation, the management of an organisation can forecast the consequences of some of its various investment, financing and dividend decisions and weigh the effects of various alternatives.

For business organisations in Nigeria to remain in contention in the 21st century, they must have to improve on their financial planning and decision making vis- a-vis taxation.

Taxation is a tool to facilitate and promote financial planning and decision making in business organisations. Tools are meant to be put to positive use, and when they are, they make the tasks easier. If taxation is a tool, then it should;

- Facilitate investment, financing and dividend decisions; and
- be an important instrument for generating strategic decisions and competitive advantage.

Before looking critically at the issue of taxation in financial planning and decision making, let's look briefly at the various types of taxes in Nigeria.

TYPES OF TAXES

Basically, taxes are classified into "Direct and Indirect". This classification is based on how the taxes are paid.

Direct taxes:- are the taxes levied on an individual or an institution. Examples of direct taxes in Nigeria are:

(1) ***Personal Income Tax*** this is administered under the Income Tax Management Act (ITMA), 1961 which has now been amended through Personal Income Tax Act (PITA), 104 of 1993. It is also assessed under the "Pay-As-You-Earn" Basis.

(2) ***Companies Income Tax*** - this is levied on the profit of companies registered under the Companies and Allied Matter Act (CAMA) 1990. It is currently charged at the rate of 30% of the total profit.

(3) ***Capital Gains Tax*** this is levied on profit realised on disposal of chargeable assets e.g. buildings, works of arts, and any currency other than Nigeria currency. It is administered under Capital Gains Tax Act of 1967.

Indirect taxes:- these, although levied on the manufacturers or wholesalers and importers of goods, are passed on to the ultimate consumers in the form of price increase. The tax is includedin the cost of the goods and services. Indirect taxes include, customs duty, stamp duty and value-Added - Tax (VAT).

FINANCIAL PLANNING AND DECISION MAKING

Financial planning involves analyzing the financial flows of an individual or coporate organisation (company), forecasting the consequences of various investment, financing and dividend decision, and weighing the effect of various alternatives.

Drucker (1974); defined decision making as "the process through which organisations organise and evalute alternative course of action to select those that promise maximum contribution to specified objectives".

Stoner (1970); decision making process consists of five alternative stages including;

- problem definition;
- generation of information and alternative courses of action;
- screening of information and alternative courses of action with regard to strenght and weaknessess;
- review of evaluated course of action and selection of that with maximum contribution;
- implementation of selected courses of action as decision.

The idea of financial planning and decision making is to determine where the individual or organisation has been, where it is now and where it is going and should be.

TAXATION IN PERSONAL FINANCIAL PLANNING AND DECISION MAKING

The importance of taxation in personal financial planning and decision making is evident in financial analysis and forecast of tax implications of the individual's financial decision. For instance, in weighing the effect of indirect tax, the individual may decide to;

(i) buy an article manufactured in Nigeria, thereby avoiding taxation which takes the form of import duty on imported articles;
(ii) avoiding the consumption of articles with indirect taxes incorporated in their prices e.g. tobacco, alcohol and
(iii) describing an article as medicinal e.g. ribena drink in order to avoid paying say, Value-Added-Tax (VAT), thereby leading to reduction in prices and hence, financial expenditure.

Also, because of taxation, an individual may decide to invest in a pioneer company instead of a non-pioneer company, in order to enjoy benefits available under the Industrial Development Income Tax Relief Act of 1971.

TAXATION IN CORPORATE FINANCIAL PLANNING AND DECISION MAKING

The effect of taxation in corporate financial planning and decision making cannot be overemphasised. In analysing its financial flows, forecasting the consequences of various investment, financing and dividend decisions, and weighing the effects of various alternatives, a corpoarate body may decide for instance;

(i) to build a cover to a large item of plant instead of placing the same item of plant in an existing building as to claim capital allowances,
(ii) engaging in pioneer industry and appointing outside associates as buying agents entitled to commissions, so as to enjoy tax holiday for sometime and boost its financial base;
(iii) oil companies paying huge sums to foreign contractors who are tax exempt, thereby reducing its tax burden and financial stress;
(iv) decision to transfer shares received on a bonus issue, while they are in allotment letter form and prior to the share certificate being issued thereby saving stamp duty/cost;
(v) a company deciding to set up its new agriculture factory or equipment so as to obtain the additional rate of investment grant and boost its financial position.

On considering implication of taxation on individual/ corporate financial planning and decision making, as to planning and forecasting of financial flows, the individual or corporate body should consider tax savings (Inflow) associated with hire purchase interest, capital allowance and lease rentals, in case of investment option to;

- buy on cash;
- buy on hire purchase; and/or
- lease a Qualified Capital Expenditure and tax due (outflow) e.g. on income.

CONCLUSION

In view of the foregoing tax implication in financial planning and decision making, individuals and corporate bodies are hereby enjoined to pursue policies and programmes that would guarantee growth and survival within the shortest possible time. For individuals and corporate bodies to remain in contention in the 21st century Nigeria, they should consider the tax implication of their financing, investment and dividend decisions.

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