Finance Act 2020 and Stability of Nigerian Banks

Clement Adewole, PhD, John Damak, Victor Odumu

Department of Banking and Finance University of Jos, Nigeria

Abstract: **The health of financial institutions in Nigeria at any point in time revolves around the policies enacted by regulatory authorities. Furthermore, other factors that militate against ability of the regulatory authorities are political interference, instability, corruption and inconsistent monetary and fiscal policies. Interestingly, Nigeria introduced the Tax and Fiscal Law amendments bill (The Finance Act 2020) to address obsolete tax laws and align these laws with global best practices. This study did an appraisal of the implication of the Finance Act 2020 on the stability of banks in Nigeria. The study adopted a descriptive research design, a nonprobability judgment sample of 127 participants who are employees of 5 deposit money banks in Jos, the Plateau state capital. These bank employees responded to a re-validated 5 points Likert scale questionnaire. Data were analysed using quantitative techniques of spearman ranking correlation with aid of SPSSv25 to test the hypotheses. Results of statistical data analyses showed that CGTA Reform has significant effect on bank stability; CITA Reform has significant effect bank stability; and VATA Reform has significant effect on bank stability. The study concluded that a probable cause of the statistically significant positive relationships among the variables is the enormous potential benefits that comes with the reformed tax laws. The study recommended that some provisions of the Finance Act should be clear enough for individuals to understand tax laws, corporate taxes should be reduced to encourage corporate investment and then lastly it recommended that fiscal authorities should expand its VAT exempt list to include some services provided by banks in Nigeria which would ensure bank stability in Nigeria.**

I. BACKGROUND OF THE STUDY

The banking sector of any nation is important to the size of its economy. Banking system occupies a unique position in every economy (Kristnía, 2015). Most of the developing economy places more responsibilities on the banking sector to support the economic activities of the nation. For example, banks are expected to mobilize the needed capital to facilitate production, generate employment and income. Banks are known to be one of the major players in the money market, they perform very important role of intermediation, whereby ensuring mobilization of idle funds from the surplus sector of the Nigerian economy to the deficit sector. Financial institutions are also drivers in the implementation of government monetary policy and fiscal policy (Opara & James, 2019).

A major fiscal policy direction was recently marked by Nigeria's President signing of the 2019 Finance Bill into Law, a month after putting assent to the 2020 national appropriation bill, both submitted to National Assembly as executive bills in October 2019. The new financial legislation is technically known as the Nigerian Tax and Fiscal Law (Amendment) Act 2019, because it comprises of about 90 amendments to seven primary acts relating to taxation. The Finance Act proposes key fiscal changes with extensive tax implications for the country. The Act seeks to promote fiscal equity by paring back on regressive taxation, aligning the tax laws with global best practices, providing an incentive for growth of small businesses and raising the revenue of the government. The Finance Act proposed changes to the administration of several taxes including Value Added Tax (VAT), Companies Income Tax (CIT), Personal Income Tax (PIT), Capital Gains Tax (CGT), Petroleum Profits Tax (PPT), Stamp Duties, Customs and Excise Tariffs etc.

Highlight of the fiscal provisions of the Act relevant to banking and capital market sector include: Non-deductibility of expense incurred in generating tax-exempt income; Provisions to clarify the tax treatment of securities lending transactions in the capital market; Introduction of 'thin capitalization' rules; exempting of stamp duties from stamp duties shares, stocks or securities transferred by a borrower to its approved agent or a borrower; Removal of 100% WHT exemption relating to interest on foreign loans; Introduction of tax identification number as a means of identification for companies in banking transactions; requirement of tax identification number as a condition for opening and operating an individual bank account; expanding the frontiers of companies liable to companies income tax to digital economies and foreign companies with substantial economic presence in Nigeria although without a physical base; exemption of unit trust schemes from deducting withholding tax; exemption of assets sold or transferred during business reorganization etc.

Without question, the health of financial institutions in Nigeria at any point in time revolves around the policies enacted by regulatory authorities. Furthermore, other factors that militate against ability of the regulatory authorities are political interference, instability, corruption and inconsistent monetary and fiscal policies. Clearly, banking stability is crucial for the stability of any financial system in the world. Financial system regulators understand that a loss of confidence in the banking system can have devastating consequences for the entire financial system. For this reason, banking stability has always been a top objective for regulators. (Ozili, 2019).

Financial stability is the result of stability conditions prevailing in the banking system, financial markets, and the real economy and amongst them. No doubt that the tax law provides clarifications and better certainty around taxation for companies operating in the sectors. It is also expected to bring about a significant increase in investments and stimulate activities in the capital market. On Overall basis, we expect the general changes being introduced by the Finance Act and the specific amendments targeted at the banking sector and the capital market to have a positive impact especially in the medium to long term.

So far, the literature on CITA, CGTA, VATA and bank stability in the context of Nigeria are quite few (Sere-Ejembi 2014); Ozili (2019); Adegbie and Fakile (2011); Fasina & Adegbite (2016); Iduh et al (2019) Osho et al (2018); Chigbu (2014); Inyiama and Ubesie (2016); Onwuchekwa and Aruwa (2014). However, there is no literature on finance Act 2020. Therefore, there is need to appraise the implication of the finance Act 2020 on banking stability in Nigeria especially now that the Nigerian Government has made conscious efforts to improve the business environment by designing more efficient systems and improving processes. This has now been followed by a holistic amendment of tax laws in the Finance Act, 2020. It is hoped that the implementation of the Act will be done in a manner that allows companies enjoy the maximum benefits of the changes and be showcased as evidence of Government's further commitment to improving the ease of doing business in Nigeria. This study seeks to appraise the implications of the finance act 2020 on the stability of banks in Nigeria.

1.2 Statement of The Problem

The banking industry in Nigeria has also experienced instability (or crisis) at different stages of its evolution and development. The trajectory of the instability of the Nigerian banking sector has over the years been characterized by numerous fluctuations and instabilities which can be traced to 1892 when the business of banking really commenced in Nigeria (Akpan, 2017). There are needs for solid, sound and stable banking sector, as it is the health of every economy. One could argue that financial instability is caused by the following factors; capital inadequacy, poor asset quality and liquidity problem, clearly this has jeopardized and still a bottleneck on the stability of banking system.

In the search for a sound and stable banking sector, there is need for improvement in economic outlook, especially in the Reformation of domestic tax laws to align with global best practices, support MSMEs in line with our Ease of Doing Business Reforms etc. The Finance Act 2020 proposes several changes, no doubt that the tax law provides clarifications and better certainty around taxation for companies operating in the sectors. It is also expected to bring about a significant increase and stimulate stability in the banking industry. On Overall basis, we expect the general changes being introduced by the Finance Act and the specific amendments targeted at the banking sector and the capital market to have a positive impact especially in the medium to long term.

Nonetheless, there are areas that still require further clarity for example the amendment does not solve the ambiguity of how general expenses would be attributed to tax-exempt income for tax purposes. Also, the thin capitalization rule will require detailed guidelines or subsidiary legislation to address grey areas that may arise regarding definitions and interpretations. These of course has prompted several questions as to how the exemptions and introductions in the above-mentioned amendment will negatively and positively impact bank stability in Nigeria. This study seeks appraise the implications of the finance Act 2020 on deposit money bank stability in Nigeria.

1.3 Objectives Of The Study

This study seeks to appraise the implications of the Finance Act 2020 on the stability of banks in Nigeria. The following sub-objectives will however guide this research.

1. To determine the effect of the reformed Capital Gains Tax Act (CGTA) on bank stability in Nigeria.
2. To ascertain the effect of the reformed Companies Income Tax Act (CITA) on bank stability in Nigeria
3. To determine the effect of the increased Value Added Tax Act (VATA) on bank stability in Nigeria.

1.4 RESEARCH QUESTIONS

Considering the research area, the following questions were designed to guide this research.

1. What are the implications of reforms in Finance Act 2020 relating to Capital Gains Tax Act (CGTA) on bank stability in Nigeria?
2. What are the implications of reforms in Finance Act 2020 relating to Companies Income Tax Act (CITA) on bank stability in Nigeria?
3. What are the implications of reforms in Finance Act 2020 relating to Value Added Tax Act (VATA) on bank stability in Nigeria?

1.5 RESEARCH HYPOTHESES

Ho_1: Reforms in Finance Act 2020 relating to Capital Gains Tax Act (CGTA) has no significant effect on bank stability in Nigeria.

Ho_2: Reforms in Finance Act 2020 relating to Companies Income Tax Act (CITA) has no significant effect on bank stability in Nigeria.

Ho_3: Reforms in Finance Act 2020 relating to Value Added Tax Act (VATA) has no significant effect on bank stability in Nigeria.

1.6 SIGNIFICANCE OF THE STUDY

The likely beneficiaries of this study are:

1. **Students:** This study will be of great help to students of banking and finance, accounting and business administration most especially in understanding the

nature, pros and cons of the 2020 finance Act and how it affects the banking and capital market sector.

2. **Academicians:** This study will be relevant to academicians who wish to carry out further research work on the lacunas and gaps in literatures as regards to the implementation and implications of the finance Act 2020 as it affects bank stability in Nigeria.
3. **Stakeholders:** The study will also be helpful to various stakeholders such as customers, board of directors and shareholders in the service industry who are interested in long-term strategies for profitability.
4. **Policymakers:** this study will give direction to policy makers such as government, regulatory agency and non-governmental agencies in providing pertinent information for policymaking, planning and surveillance and regulation in the industry.
5. **Banks' managers:** The study will assist bank management make informed strategic decisions in the face of growing competitive banking environment, shorter product lifecycle and continuous modifications in innovative technologies.

1.7 Scope Of The Study

This research study focuses on the implication of finance Act 2020 on bank stability in Nigeria. The scope of the study will be limited to all deposit money banks in Jos metropolis. Primary data survey will be employed to investigate the relationship between the finance Act 2020 and bank stability in Nigeria. The rationale for this; was due to close geographic proximity, good coverage and avoid bias selection so as to give a fair representation of the target population.

II. REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

It is imperative that the Nigerian tax legislation is updated frequently to respond to the challenges of today's business environment which therefore underscores the importance of the Finance Act 2020. The Finance Act is the first of its kind in over two decades and is intended to support the funding of the 2020 budget. The Finance Act contains several long-awaited changes to the tax framework which seek to address issues of low tax revenue growth, such as an increase in the VAT rate to 7.5% and the introduction of tighter deductibility rules.

In view of global economic and tax trends, the Finance Act also seeks to modernize the Nigerian tax system by incorporating recommendations of the OECD on taxation of the digital economy and profits earned by non-resident companies. These proposals have been recommended for global adoption in recognition of the impact of globalization and technology, whereby trade flows increasingly transcend traditional and formal frameworks. Nigeria will thus be one of the few early adopters of globally relevant tools for tracking and harnessing tax revenue from economic activities that occur within our fiscal community.

Furthermore, the Finance Act seeks to provide a boost to small and medium scale enterprises by reducing their tax burden. It also seeks to replace existing tax incentives with more targeted incentives to stimulate economic activity in the capital market and infrastructure sectors. Finally, the Finance Act amends several onerous tax provisions which have impeded investment in Nigeria, such as the complex insurance tax rules and the excess and interim dividend tax rules that limit the dividend available for distribution to shareholders as contained in the Companies Income Tax Act.

2.1.1 Companies Income Tax Act

Nigerian banking industry potentials are perceived to be healthy due to the high demand for financial services as well as a limited institutional investment. Unfortunately, however, for varying reasons, one of which includes the seeming absence of an enabling tax regime, the potentials of the sector have not been fully maximised. The Companies Income Tax is a form of tax levied against the annual profits of Companies operating in Nigeria. The Finance Act introduced an amendment to the Companies Income Tax Act (hereinafter referred to as CITA). Under the erstwhile framework, particularly as a result of the operation of section 19 of the Companies Income Tax Act (CITA), a bank which earns dividend income that has been subject to Withholding tax was susceptible to double tax on such dividends in the form of Excess Dividend tax when such dividends were distributed to shareholders.

Laudably, however, by section 7 of the Finance Act (which amends section 19 of CITA) distributions by banks to shareholders from dividend received on behalf of those shareholders are exempted from excess dividend tax. It is envisaged that this introduction to the tax framework will bring about stability in the Nigerian banking industry. On a similar note, vis-à-vis the administration of the companies' income tax in Nigeria, the Finance Act amends the rate of taxes from the broad application of 30% to all banks to classifying banks into three categories. The first category being banks with an annual turnover of less than N25 million, the second being banks of an annual turnover of between N25 million and N100 million, and the third category being companies with a turnover of N100 million and above. Banks in the first category pay only minimum tax and are generally exempt. The second category of banks are subject to 20%, and the third category of banks are subject to the 30% bank's income tax. Without any doubts, these alterations of the initial state of affairs will come to bear on the tax considerations and decisions of businesses involved in private equity.

2.1.2 Value Added Tax Act

Value Added Tax is a consumption tax placed on a product whenever value is added at each stage of the supply chain, from production to the point of sale. Obviously, some of the changes made to the VAT Act will be relevant to the tax liability of the investee banks in a private equity transaction. For instance, the effective tax rate for VAT in Nigeria is 7.5% as well as the expansion of the meaning of products and services (to cater to the problems experienced with effectively taxing the digital economy) no doubt have cognizable implications for several classes of transactions, private equity inclusive. As it expects that private equity will continue to drive growth and stability across all sectors of the economy most especially the banking sector, it is believed that the changes introduced by the government have the potential to positively impact the attraction of foreign capital and/ or private equity investments into the country which in turn bring about stability in the banking industry, since banks are the linchpin of any economy. It is hope that the Finance Act is all that the government envisions it to be through proper administration and cooperation from corporations and the citizenry.

2.1.3 Capital Gains Tax Act (CGTA)

One of the most relevant tax legislations to the private equity market is the Capital Gains Tax Act and has been earlier noted, the Capital Gains Tax Act happens to be one of the extant legislations which has been amended by relevant provisions of the Finance Act, 2020. Capital Gains Tax is a type of tax applied to the profits earned on the sale of an asset. Unlike taxes on ordinary income, which occur each year as new income is earned, Capital Gains Tax are only levied once the assets in question are actually sold.

Having laid the above foundation, it becomes imperative to consider salient changes to the Capital Gains Tax Act, by virtue of the Finance Act; as well as how same touches on private equity dealings. One important provision of the Finance Act is Section 49 which amends section 32 of the Capital Gains Tax Act, with a view to closing out loopholes which appear to allow the abuse of reorganisations by affiliate companies. Hence, section 49 of the Finance Act includes a more elaborate provision on the issue of exemption of gains arising from Takeovers from Capital Gains Tax. By section 49 of the Act, where business carried on by a bank is transferred or sold to a Nigerian company for the purpose of the reorganisation of that bank or for the transfer of its management to Nigeria. Thus, if any assets in such bank (which has been acquired) is sold or transferred, such transfer will not be subject to Capital Gains Tax. It is however imperative to note that the applicability of the above exemption is dependent on whether both the transferor and the transferee are recognised as belonging to the same bank group and have been in such affiliation for a (minimum) consecutive period of 365 days before the reorganisation. In addition to the above, the exemption provided under the section 32 of the Act, will not apply if a transferee disposes the received assets/ management within the following 365 days after the date of receiving the assets.

2.1.4 Other Legislations

Industrial Development (Income Tax Relief) Act (IDA) Cap I7, LFN 2004 is an Act to repeal and re- enact, with major changes, the industrial Development (Income Tax Relief) Act and to make provisions for tax relief for certain industries that may be issued with pioneer certificates by the minister and other matters ancillary thereto. The Finance Act, 2020 provides for the modifications to the IDA Grant of tax holiday to small and medium sized companies engaged in primary agricultural production, upon an application to the President through the Minister of Finance, for an initial period of four years which can be extended for another two years, subject to satisfactory performance of the business.

Personal Income Tax Act (PITA) Cap P8 Laws of the Federation (LFN) 2004 (as amended) in the Finance Act, 2020 has introduced a new section 6A to the PITA which provides that income earned by non-resident individuals, executors and trustees from technical, management, consultancy or professional services provided to a person resident in Nigeria shall be subject to a final 10% WHT in Nigeria, if the non-resident individual has a significant economic presence (SEP) in Nigeria. The Act does not specify what constitutes a SEP but empowers the Honourable Minister of Finance, Budget and National Planning to define it through an Order. Also, Gross income was not defined under the erstwhile provision of PITA. Rather, it only defined gross emolument in relation to individuals in paid employment.

This resulted in a lack of clarity in determining what constitutes the base for calculating CRA. Accordingly, tax authorities asserted that, taxpayers leveraged this loophole to significantly reduce their tax base. Finance Act, 2020 has now addressed this by effectively defining gross income as income from all sources less non-taxable income, franked investment income, National Housing Fund contribution, National Health Insurance Scheme contribution, life assurance premium, National Pension Scheme contribution, gratuities, allowable business expenses and capital allowances.

Customs, Excise Tariff etc. (Consolidated) Act (CETA), Cap C49, Laws of the Federation of Nigeria 2004 as captured in the Finance Act, 2019 expanded the framework for charge of excise duties to include imported goods which would ordinarily qualify as excisable if manufactured locally. However, it exempted imported goods and raw materials which are not locally manufactured or available in Nigeria from excise duties. This exemption paved the way for certain luxury items (such as imported alcoholic beverages) to be imported into Nigeria without the applicable excise duties. The Finance Act 2020 seeks to plug this loophole by subjecting all imported and locally manufactured goods to excise duties, as long as such goods are captured in the Fifth Schedule to the CETA.

Companies and Allied Matters Act (CAMA), 2020 in Section 432(2) of the CAMA, 2020 provides that dividends that are unclaimed after 12 years should be included in the profits that should be distributed to the other shareholders of the company. This provision is, however, in contrast with the intent of Section 44 of the Constitution of the Federal Republic of Nigeria, 1999 ("the Constitution") that frowns against the compulsory acquisition of the property of any individual. The finance Act 2020 however amended this provision of the CAMA by providing that dividend of a public limited liability company quoted on the Nigerian Stock Exchange shall be available for claim in perpetuity. Also, Finance Act 2020 provides that where the dividend remains unclaimed for six (6) years or more from the date of declaration, such dividend shall immediately be transferred to the Unclaimed Funds Trust Fund.

Finance Act 2020 establishes the Crisis Intervention Fund (CIF) and the Unclaimed Dividend Trust Fund (UDTF). The CIF is a N500 billion (or other such sum as approved by the National Assembly) fund created out of the Consolidated Revenue Fund (CRF) and Special Accounts to fund crisis-related expenditures and other exigencies pursuant to Section 12 of the Fiscal Responsibility Act and Section 306 of the Constitution. The Finance Act 2020 also created a sub fund to the CIF called the UDTF, which shall be funded by any unclaimed dividend of a public limited liability company quoted on the Nigerian Stock Exchange and any unutilized amounts in a dormant bank account maintained in or by a deposit money bank which has remained unclaimed or unutilised for a period of not less than six years from the date of declaring the dividend or domiciling the funds in a bank account. It is worthy of note that the official bank accounts owned or belonging to any tier of government and their MDAs are exempted from this provision.

The Fiscal Responsibility Act, 2007 (FRA) was enacted to provide for prudent management of the nation's resources, ensure long-term macro-economic stability of the national economy, secure greater accountability and transparency in fiscal operations within a medium-term fiscal policy framework, and establish the Fiscal Responsibility Commission to ensure the promotion and enforcement of the nation's economic objectives.

The Public Procurement Act, 2007 (PPA) establishes the National Council on Public Procurement and the Bureau of Public Procurement ("the Bureau") as the regulatory authorities responsible for the monitoring and oversight of public procurement in Nigeria. Finance Act 2020 expands the scope of application of the PPA to include all public procuring and disposal entities under the three arms of the FG. It also comprises the FG and all entities that derive at least 35% of the funds appropriated or proposed to be appropriated for any type of procurement including FG's Ministries, Departments and Agencies, Institutions, Government Owned Enterprises, Federal Tertiary and Non-Tertiary educational institutions, Federal Hospital and other health institutions, Central Bank of Nigeria and other Federal Government-owned Financial Institutions, the National Defence and the National Security Agencies, the National Assembly and the Judiciary.

Companies that are registered and operating within the Oil and Gas Free Zone(OGFZ) and (NEPZ) Nigeria Export Processing Zone[otherwise known as Approved Enterprises (AEs)] have relied on tax exemption from all legislative provisions pertaining to taxes prescribed by Section 18 of both the OGFZ Act and the NEPZ Act (hereinafter collectively referred to as "the Free Zone Acts") to argue that they are exempted from the requirement to submit annual income tax returns for their operations within the OGFZ and or NEPZ, respectively. In order to obtain information relating to the operations of these AEs, the FIRS used to rely on the OGFZ and NEPZ authorities to ensure that the statutory returns required to be submitted to them by the AEs under Section 19 of the Free Zone Acts include the annual income tax returns. However, this will no longer be necessary as Finance Act 2020 has now made it mandatory for AEs to file their CIT returns with the FIRS in line with Section 55 of the CITA. In the event of noncompliance with the requirement to file the returns in line with this section, the AEs will be liable to the relevant penalties prescribed in the CITA and the FIRS Establishment Act.

2.1.5 Banking Stability

Banking system stability refers to a state in which the banking system functions properly and Participants such as firms and individuals have confidence in the system (Ozili, 2019). The term can also be seen as the state in which the financial system, i.e., the financial institutional system is resistant to economic shocks and is fit to smoothly fulfil its basic functions such as the intermediation of financial funds, management of risks, the arrangement of payments. It is the resiliency of the financial system to unanticipated adverse shocks while enabling the continuing smooth function of the financial system intermediation process (CBN, 2010).

Banking system can be characterized as stable in the absence of excessive volatility, stress or crises. Issing (2003), states that banking system stability has two different positive definitions emerging from literature. First, those taking a systematic view and emphasizing on the residence of the banking system as a key component of stability. According to him, an individual banking failure is not necessarily a proof of banking system instability. That such event can even contribute to more efficient financial intermediation and thus help maintain or enhance stability.

Stability is a necessary condition for effective economic growth and banking system development. Banking industry will not work properly when there is instability in the system; as it disturbs performance and impedes the healthy development of economy Fernández et al (2016). Banking system stability is very important as it would contribute to broader economic growth and rising standard of living of the citizens of a country. Banking system performs one of the most important functions in the welfare of its citizens by supporting the ability of households and firms to hold and transfer financial assets with confidence. Banking stability is crucial for the stability of any financial system. Bank stability as a concept is hazy with no acknowledged definition. However, several attempts have been made to define bank stability. Morgan & Pontines (2014) are of the view that a financial system is stable when it is capable of facilitating positive economic performance by dissipating financial imbalances that arise inherently or as a result of unanticipated and adverse events. Additionally, Jokipii & Monnin (2013) considered a banking sector to be solvent when the market values of the assets owned by all the banks in the country are sufficient to cover the total debt at a particular point in time.

(Ozili, 2019) opines that stability requires that banks are stable, in that there is a high degree of confidence that they can continue to meet their contractual obligations without interruption or outside assistance. For the purpose of measurability, the study will replace banking system stability with banking system soundness as it reflects the resilience elements, measurable and constitutes a major component of the overall concept of banking system stability. However, measurement of financial stability varies due to the complex nature of the phenomenon. These measurements aim at providing an idea on the soundness and dependability of the financial system. (IMF, 2006) identified 24 financial soundness indicators (FSIs) for the assessment of soundness of banks based on a framework commonly referred to as the CAMELS - capital adequacy, asset quality, management quality, earnings and profitability, liquidity, and sensitivity to market risk. This was grouped under capital based, assets based and income/expense-based indicators.

2.2 Theoretical Review

The theoretical review helps in understanding of the current body of knowledge on the research topic. This section introduces two prominent theories: Ability to Pay Theory, diffusion Theory of Taxation

2.2.1 Ability to Pay Theory

The most popular and commonly accepted principle of equity or justice in taxation is that citizens of a country should pay taxes to the government in accordance with their ability to pay. Rather than the benefits principle, the “ability-to-pay principle” generally dominates modern equity discussions. Under the ability to pay principle, one with higher incomes should pay more taxes than one with lower incomes. Therefore, the study is anchored on the ability to pay theory because it appears very reasonable to the recent finance Act changes as it affects banks. Therefore, in order to achieve stability in the Nigerian banking industry, taxes should be levied on the basis of the taxable capacity of banks. The fact is that when this theory is put in practice, one difficulty actually begins. The trouble arises with the definition of ability to pay. Economists are not unanimous as to what should be the exact measure of a person's ability or faculty to pay.

2.2.2 Diffusion Theory of Taxation

According to Sule, (1986) diffusion theory of taxation, tax is levied under perfect competition; it gets automatically equitably diffused or absorbed throughout the community. Advocates of this theory, describe that when a tax is imposed on a commodity by state, it passes on to consumers automatically. Every individual bear’s burden of tax according to his ability to bear it. Assuming a specific tax is imposed on product and services, bank raises prices of the product and services by the amount of tax and consumers purchase such product according to their capacity and thus share burden of tax. The sharing of this burden between the bank and customer increase bank stability since the don’t get to face the burden alone. In the words of Mansfield: It is true that a tax laid on any place is like a pebble falling into a lake and making circles till one circle produces and gives motion to another.

2.3 Empirical Review

Empirical review helps in understanding what other related studies have found and suggested.

Onwuchekwa and Aruwa (2014) investigated the impact of value added tax on economic growth of Nigeria. The study used ordinary least square technique to test the hypothesis of the research with data spanning the period 1994-2011. The result revealed that VAT contributes significantly to the total tax revenue of government and by extension, to economic growth of Nigeria. It further showed that VAT revenue had consistently increased but it is not that explosive.

In the same vein, Inyiama and Ubesie (2016) examine effect of Value Added Tax, Custom and Excise duties on Nigerian Economic growth. Simple regression technique and correlation analysis were employed in their study. The findings from their revealed that all non-oil tax revenue such as Value Added Tax and Custom and Excise Duties have significant impact on Gross Domestic Product which suggests that some of Government project could be finance through non-oil taxes. Also, Chigbu (2014) examined the impact of value added tax on the economic growth of Nigeria. The author used relevant secondary data from for the period 1994-2012. The data collected were analysed with relevant econometric tests of Breusch-Godfrey Serial Correlation LM, White Heteroskedasticity, Ramsey RESET, JarqueBera, Johansen Co-integration, and Granger Causality. The findings revealed a long run equilibrium relationship between economic growth and VAT. It was also found that VAT does granger cause gross domestic product of Nigeria. The paper concluded, on the basis of the findings that VAT is one of the most important components of indirect taxes that affects economic growth in Nigeria.

Recently, Osho et al (2018) examined empirically the impact of company income tax on gross domestic products in Nigeria. The motive of the study was to examine how company income tax revenue has contributed to gross domestic products in Nigeria. Secondary data was obtained from relevant literatures, Central Bank of Nigeria Statistical Bulletin and National Bureau of Statistics publications. Ordinary Least Square Linear Regression model is used to test the related data extracted from the Central Bank of Nigeria Statistical Bulletin and National Bureau of Statistics. Findings revealed that company income tax revenue has a positive and significant effect on gross domestic products in Nigeria. Also, Iduh et al (2019) study examines the impact of company income tax on economic growth in Nigeria. The analyses were performed using data from CBN bulletin, NSE fact book and FIRS annual report for an eleven-year period (2007-2017). The study employed multiple regression analysis techniques based on the SPSS 20 version for the analysis of data, where gross Domestic product (GDP), the dependent variable and proxy for economic growth, was regressed as a function of company income tax (CIT), and the independent variables and descriptive statistics were used to analyse the data. The findings indicated that company income tax has significant influence over economic growth in Nigeria.

Finally, Ozili (2019) investigates the determinants of banking stability in Nigeria. Banking stability is crucial for economic growth and financial development. Using aggregate outcomes allows us to focus on the changes occurring in the banking industry as a whole. The findings reveal that bank efficiency, the size of nonperforming loans, regulatory capital ratios, greater financial depth and banking concentration are significant determinants of banking stability in Nigeria. The findings have implications. One implication of this study is that bank supervisors should intensify its effort in addressing the nonperforming loans, capital adequacy problems issues in Nigeria. Also, bank supervisors should ensure that policies designed to improve the workings of the financial system are complied with. Similarly, Tan and Anchor (2016) investigate the interrelationship between profitability and banking stability in China and find that low bank stability (higher insolvency risk) leads to higher profitability when return on assets (ROA) is the profitability measure used, implying that higher profitability leads to higher bank fragility for Chinese commercial banks. Bank efficiency is also a determinant of banking stability. And Sere-Ejembi (2014) constructed a Banking System Stability Index (BSSI) for Nigeria, using a combination of financial soundness indicators and macro-fundamentals. It applied statistical and Conference Board Methodology normalization processes on Nigeria's banking and macroeconomic data from the first quarter of 2007 to the second quarter of 2012. They discovered that the resulting index traced fairly well the episodes of crisis in the system over the study period and thus concluded that the BSSI is capable of acting as an early warning mechanism of signalling fragility and could be used as a complimentary regulatory policy tool to detect potential threats to enable monetary authorities take timely pre-emptive policy measures to avert crisis.

2.4 Research Gap

The research gap provides a clear distinction between the reviewed literature and the gap this study intends to fill it.

In view of the above empirical review, it is clear that there is no specific research devoted to examining the implication of finance Act 2020 on bank stability in Nigeria, this has necessitated the need for this study.

2.5 Summary Of Literature Review

The literature was broadly grouped into three namely, the conceptual, theoretical and the empirical. The first involve an attempt to discuss the concept of finance Act 2020, its implications and bank stability. The second segment involves the identification of theories. This study was anchored on the Ability to Pay Theory. The empirical involves studies and findings of various scholars which reveals that there are various studies on capital gain tax, value added tax, company income tax and bank stability in Nigeria but none investigated the implication of the finance Act 2020 on bank stability in Nigeria.

III. METHODOLOGY

Research methodology is a basic conceptual framework on which the whole research is based and it involves the basic methods which researcher adopts in order to get adequate data for good conclusions. In an attempt to integrate the different components of the study in a coherent and logical way, this chapter exposes the methods for collection, measurement and analysis of data to determine the implications of the Finance Act 2020 on the stability of banks in Nigeria.

3.1 Research Design

The design for the study was a survey design. Survey Research Design are procedures in quantitative research in which investigators administer a survey to a sample or to the entire population of people to describe the attitude, opinion, behaviours, or characteristics of the population.

A descriptive survey research design will be utilized. This is because the researcher intends to administer questionnaires to gather data from deposit money bank in Nigerians.

3.2 Source Of Data

The study utilized only the primary source of data. This is because the estimation of the models in the study requires the use of first-hand data.

3.3 Population Of The Study

According to Mugenda & Mugenda (2003) population is a well-defined set of people, services, elements and events, group of things or households that are being investigated. As regards to this work, the population of the study comprises of 190 senior staff of all the 24-deposit money bank in Nigeria.

3.4 Sampling Technique

Walliman (2011) describes sampling as a process of selecting a group of subjects for a study in such a way that the selected element represents the group from which they were selected. A non-probability judgment sampling method in form of convenient sampling techniques is used in selecting the period under review. The rationale for this selection is motivated by the availability of relevant data necessary to substantiate any conclusions about to be made.

3.4.1 Sample Size Determination

Sample is the selection of number of study unit from a defined study population. A sample is therefore, a small representation of a large population. The idea of sampling or determining of sample size is to obtain a part of the population from which a part of the entire population can inferred. The study's sample size consisted of 127 bank staff. Sample size was determined by applying the NEA Research Bulletin, Vol. 38 (1960) sample size statistical table. Also, Mugenda & Mugenda, (2003), suggests that for descriptive studies at least 10%-20% of the total population is enough and, as such 127 is considered sufficiently large.

3.5 Method of Data Collection

The study used primary data. Data were collected from 7 deposit money banks in Jos, Plateau state metropolis; First Bank, Guarantee Trust Bank, United Bank of Africa, FCMB, Union Bank, Zenith Bank and Fidelity Bank. The rationale was to ensure good coverage and avoid bias selection so as to give a fair representation.

3.6 Instrument For Data Collection

A structured self-administered questionnaire was utilised to gather the required data for this study. Bank staff were requested to complete a questionnaire consisting of three sections. The first section (Section A) was designed to gather demographical data. The second section (Section B) was designed to gather background information on finance Act 2020. The third section (Section C) of the questionnaire measured the extent to which finance Act 2020 directly affected bank stability in Nigeria. All scaled responses were measured on a five-point Likert scale, ranging from strongly disagree (1) to strongly agree (5). In addition, the questionnaire was accompanied by a cover letter requesting participation from bank staff as well as explaining the purpose of the study and assuring the confidentiality of the participant's information together with the relevant contact details.

3.6.1 Validity and Reliability of Research Instrument

The items of the questionnaire were subjected to face validity assessment to ascertain whether or not the items were related to the research problem under investigation so that the research findings could be reliable.

3.6.2 The content and face validity of the instrument

It was necessary to ascertain the validity of the instrument used to collect the data so that the research finding could be reliable. The validity of the questionnaire has to do with whether it measured the conceptually defined property it is intended to measure.

Thus, to ascertain content validity, the questionnaires were presented to a senior lecturer in the Department of Banking and Finance of the University of Jos who is well-grounded with the context of the study to ensure the clarity of the instrument, and subjected the questionnaire to a face validity test. A number of observations were reworded/rephrase in order to determine the constructs properly and also to be clear to the respondents. This process of seeking the specialist opinion was completed within three-week period.

3.6.3 The Reliability of the Instrument

Apart from the content and face validity different kind of reliability tests are frequently employed, therefore, the common method used by researchers is the internal consistency reliability test (Litwin, 1995). It is referring as the degree to which items "dangle jointly as a set" and are able of autonomously measure the identical concept to the degree that the items are related with one another. The internal consistency of the items of the instrument used was coefficient Alpha method to estimate the reliability of the instrument. Thus, the reliability of the coefficient of 0.05 was obtained which showed how strongly and reliable the instrument was. To ensure the reliability of the instrument, the researcher will conduct a pilot study in first bank Nigeria limited. The main purpose of the pilot study was to check the suitability and clarity of the questions on the instrument designed, relevance of the information being sought, the language used from responses given.

3.7 Method Of Data Analysis

Multiple linear regression technique was employed to test the relationships inherent in the variables used for the study, with the aid of version 23 of the Statistical Package for Social Sciences (SPSS).

3.7.1 Model Specification

The model to be estimated expresses bank stability as a function of finance Act 2020 represented by capital gain tax (CGT), company income tax (CIT) and value added tax

(VAT). There are several measures of bank stability; capital adequacy, asset quality, earning, liquidity etc. The relation is expressed mathematically thus:

BS= f (CGT, CIT, VAT,) ……………………………. (1)

This is further written as a regression equation thus:

BS = ά1 + β1CGT +β2CIT + β3VAT+λ ………… (1.1)

Where:

CGT = capital gain tax

CIT= company income tax

VAT = value added tax

BS = Bank stability. ά, is a constant; while β1, β2 and β3represent coefficients of determination and λ is the error term.

Decision Rule: Reject the null hypotheses if the probability value of the F-statistic is less than 0.05 (5%) level of significant

IV. DATA PRESENTATION AND ANALYSIS

4.1 Presentation of Data

This chapter of the study deals with data presentation, analysis and interpretation in a bid to finding answers to the research questions stated in the chapter one of this study. On the basis of this analysis and interpretation, conclusion was drawn. This chapter assessed the implications of the Finance Act 2020 on the stability of banks in Nigeria.

Data obtained in each section will be presented using a frequency distribution table, percentage and spearman rank correlation. This will be the adoptable tools to be used for our analysis.

Table 1: Total Number Of Questionnaires Administered And Returned

Questionnaire	No. Administered	Number of respondents	Percentage of Response
Administered	127	127	100
Returned and Usable	127	127	100
Not returned/Unusable	0	0	0
Total	127	127	100

Source: Field Survey, 2021.

4.2 Data Analysis

Table 15: Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
Bank stability	.310	381	.000	.826	381	.000
CGTA Reform	.328	381	.000	.763	381	.000
CITA Reform	.331	381	.000	.753	381	.000
VATA Reform	.362	381	.000	.715	381	.000

a. Lilliefors Significance Correction

Applying statistical test (Kolmogorov-Smirnov[a] and Shapiro-Wilk) on each variable and test for hypothesis, results reveal all variables are not normally distributed at Sig. 0.000. Since data is not normally distributed, hence a non-parametric test was therefore used to analyse hypotheses. Spearman rank correlation test was therefore employed as a non-parametric test.

Test of Hypothesis One: There is no statistical relationship between CGT Reform and bank stability in Nigeria.

Table 16: Correlations

			Bank stability	CGTA Reform
Spearman's rho	Bank stability	Correlation Coefficient	1.000	.883**
		Sig. (2-tailed)	.	.000
		N	381	381
	CGT Reform	Correlation Coefficient	.883**	1.000
		Sig. (2-tailed)	.000	.
		N	381	381

**. Correlation is significant at the 0.01 level (2-tailed).

The table 16 above shows that correlation coefficients between Bank stability and CGT Reform to be 1.000 and .883. The correlation between Bank Stability and CGT Reform is 0.000 and this is indicating that there is a strong positive relationship between Bank stability and CGT Reform at 0.01 significant levels (two tailed).

Test of Hypothesis Two: There is no statistical relationship between CIT Reform and Bank Stability in Nigeria

Table 16: Correlations

			Bank Stability	CITA Reform
Spearman's rho	Bank stability	Correlation Coefficient	1.000	.820**
		Sig. (2-tailed)	.	.000
		N	381	381
	CIT Reform	Correlation Coefficient	.820**	1.000
		Sig. (2-tailed)	.000	.
		N	381	381

**. Correlation is significant at the 0.01 level (2-tailed).

The table above shows that correlation coefficients between Bank stability and CIT Reform to be 1.000 and .820. The correlation between Bank Stability and CIT Reform is 0.000 and this is indicating that there is a strong positive relationship between Bank stability and CIT Reform at 0.01 significant levels (two tailed).

Test of Hypothesis Three: There is no statistical relationship between VAT Reform and Bank Stability in Nigeria.

Table 17: Correlations				
			Bank Stability	VATA Reform
Spearman's rho	Bank stability	Correlation Coefficient	1.000	.777**
		Sig. (2-tailed)	.	.000
		N	381	381
	VAT Reform	Correlation Coefficient	.777**	1.000
		Sig. (2-tailed)	.000	.
		N	381	381
**. Correlation is significant at the 0.01 level (2-tailed).				

The table above shows that correlation coefficients between Bank stability and VATA Reform to be 1.000 and .777. The correlation between Bank Stability and VATA Reform is 0.000 and this is indicating that there is a strong positive relationship between Bank stability and VATA Reform at 0.01 significant levels (two tailed).

4.3 Discussion of Findings

The introduction of the Finance Act 2020 is a milestone achievement that comes with so much benefits to the Nigerian banking industry and the financial system as a whole. Some of these reformed legislations includes the CGT, CIT and VAT. Generally, these reforms being introduced by the Finance Act and the specific amendments targeted at the banking sector and the capital market should have a positive impact especially in the medium to long term. This study assessed the implications of the Finance Act 2020 on the stability of banks in Nigeria. The estimated spearman rank correlation was used to analyse the implications of the Finance Act 2020 on the stability of banks in Nigeria.

This study discovered on an individual basis, that the effect of CGT Reform on bank stability in Nigeria was statistically significant and positive given the probability value of 0.000. Hence leading to rejection of the null hypothesis (H_0) which assumes that CGT Reform has no significant effect on bank stability in Nigeria and therefore accept the alternative hypothesis (H_1) which assumes that CGT Reform has significant effect on bank stability in Nigeria.

Similarly, this research also discovered on an individual basis that CIT Reform had a positive and significance effect on bank stability in Nigeria given the probability value of 0.000. Hence, we reject the null hypothesis(H_0) which assumes that CIT Reform has no significance effect on Bank Stability in Nigeria and accept the alternative hypothesis (H_1) which assumes that CIT Reform has significance effect on Bank Stability in Nigeria.

Finally, the study found that the effect of VAT Reform on Bank stability in Nigeria was positive and statistically significance given the probability value of 0.000. Hence, we reject the null hypothesis(H_0) which assumes that VAT Reform has no significance effect on Bank stability in Nigeria and accept the alternative hypothesis (H_1) which assumes that VAT Reform has significance effect on Bank stability in Nigeria.

V. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

In the course of this study, the following findings was revealed

1. The study revealed that CGT Reform has a positively significant effect on the stability of banks in Nigeria.
2. The study revealed that CIT Reform has a positively significant effect on the stability of banks in Nigeria.
3. The study also revealed that VAT Reform has a positively significant effect on the stability of banks in Nigeria.

5.2 Conclusion

This study assessed the implications of the Finance Act 2020 on the stability of banks in Nigeria. The study employed survey research method, through the administration of structured questionnaire to the targeted respondents. The findings revealed that there is a positive significant relationship between CGTA Reform and the stability of banks in Nigeria. This means that employees of the banks used for this study believes that the reformed Act has enormous potentials of affecting bank's liquidity management, asset quality, and capital adequacy. There is a positive significant relationship between CITA Reform and stability of banks in Nigeria. This means that employees believe that CITA Reform will enhance bank's liquidity management, asset quality, and capital adequacy of banks. Also, there is a positive significant relationship between VATA Reform and the stability of banks in Nigeria. It is expected that this major reform will positively enhance banks liquidity management, asset quality and capital adequacy of banks in Nigeria.

5.3 Recommendations

The following recommendations are made based on the findings of this study;

1. Simplifying the provisions of the Finance Act 2020 will enhance understanding of the tax laws. The fiscal authorities should ensure that some of the provisions of these tax laws are not ambiguous so that there would be loopholes for tax payers to explore.
2. The fiscal authorities have done a very good job by refining the Finance Act to align with best global practices, hence findings showed that Finance Act generally will have a positive implication on the stability of banks in Nigeria. However, these authorities can do more to ensure that corporate taxes are reduced so as to encourage investments which

will have effects on capital adequacy, liquidity management and asset quality of banks in Nigeria.

3. Increased VAT will generate more revenue for the government which on the other hand will subsequently affect capital adequacy of banks in Nigeria, therefore government can as well expand their VAT exempt list to accommodate some services provided by banks in Nigeria to reduce the burden of taxes.

5.4 Suggestion For Further Research

This study did an appraisal of the Finance Act 2020 on the stability of banks in Nigeria. Since it is obvious that these tax laws have come to stay in Nigeria and would be reviewed on periodic basis, hence the need to conduct another related research using the most recent provisions of the Act. Also, there are other components of the Finance Act such as Stamp Duty Act, Personal Income Tax, etc. which are also very relevant to the banking sector and as such research scope can be extended towards that direction. Furthermore, since there is limited research on bank stability in Nigeria, it is also pertinent that research efforts should be channelled towards that direction.

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