THE IMPACT OF TAX REVENUE ON NIGERIAN ECONOMIC GROWTH

(2010 – 2020)

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Abstract
The study examined the impact of tax revenue on the Nigerian economy. The objectives of the study were to examine the impact of oil revenue and the Nigerian economy, the effect of non-oil revenue on the Nigerian economy and the relationship between oil tax revenue and the Nigerian economy growth. Data were sourced from Central Bank Statistical Bulletin and extracted through desk survey method. Ordinary least square of multiple regression models was used to establish the impact and effect while correlation is used to test for the relationship between dependent and independent variables. It showed that there is a significant relationship between oil tax revenue and the growth of the Nigeria economy. The finding also revealed that non-oil tax revenue (NOTR) has a significant effect on Gross domestic products. It was recommended that government should endeavor to provide social amenities to all nooks and crannies of the country. Also that government should engage in a complete re-organization of the tax administration machineries; in order to reduced tolerable problems of tax evasion and avoidance and finally; to enhance the tax base of government, employment opportunities should be created and a good environment for entrepreneurship and innovation to thrive made using tax proceeds.

Keywords: Oil tax revenue, Non-oil tax revenue, Gross domestic product.

Word Count: 202

Introduction

In order to optimize income accrual from its different tax compensations, governments of nations must put structures in place. Taxation is widely acknowledged as a very strong and potent weapon of fiscal policy. The tax system should be set up such that it can generate enough income to pay for government spending and a variety of other government activities (Charles, 2015). The availability of funds as well as other human and material resources is key to the growth and development of any country. Four key factors, including human resources, national resources, and capital formation, and technical advancement, can contribute to economic progress (Dwivedi, 2004). The government must offer social services and support initiatives that raise the level of living for its constituents. However, the government has frequently bemoaned its lack of funding for such programs, necessitating an urgent intensification of its efforts to raise money through taxation. Utilizing these resources effectively will speed up the nation's political, economic, and social activities. Since the necessary funds are not always accessible, a reliable and consistent source of income from a well-designed tax system would undoubtedly generate the funds needed to achieve the stated goals (Onakoya and Afintinni, 2016).

Due to the significance of tax money as a replacement for declining oil revenue. The Nigerian government implemented a number of tax legislation amendments to enhance revenue collection and administration. For example, the Value Added Tax (Amendment) Act of 2007 aimed to expand the scope of the value added tax base and enhance the mechanisms for its collection. By ensuring that the tax and fiscal laws are amended to reflect current economic realities, the federal government of Nigeria has underlined and proved in the last two fiscal years its commitment to improving the ease of doing business. The commitment has resulted in the amendment of various tax and fiscal legislation via the finance Act 2019 (“FA 2019”) and more recently, the Finance Act

2020 ("FA 2020"). The FA 2020 became law with the signing of the Finance Bill 2020 by President Muhammadu Buhari on 31 December 2020, with effective date of 1 January 2021, the FA 2020 amends 14 tax and fiscal legislations including the Value Added Tax Act ("VAT Act") and created the crisis intervention fund and unclaimed fund trust fund.

Oil and gas export revenues have been a major source of income for Nigeria's economy. This is based on a small percentage of the total revenue from non-oil sources, which also include import duties, value added tax, and corporation income tax. Tax revenue to the government is anticipated to generate income, which it will use to fund social services and establish favorable conditions for the well-being of society's economy. However, one would be tempted to wonder if Nigeria has followed the lead of other nations whose governments have affected their economies through tax collection. Such Examples include United States, Netherlands, Canada and United Kingdom. Oluba (2008) reported that these developed countries derive substantial revenues from company income tax, value added tax and import duties and have used same to create prosperity.

Over time, tax revenue has been extremely minimal, and little real physical development has occurred (Afuberoh & Okoye, 2014). People are complaining more frequently now about the inadequate and substandard infrastructure. However, the administration has frequently lamented the lack of funding for these services. Due to the government's inability to maximize its tax collection potential, the Nigerian economy has been experiencing declining trends (Charles, 2015). The issue of managing tax administration in Nigeria properly, the degree to which tax laws are correctly read and applied, and recognizing the precise impact of tax revenue on economic growth. Whether or not sufficient tax money is produced from various taxes through effective tax administration machinery, which translates into economic growth. The issue of how to effectively manage tax administration in Nigeria, the degree to which tax laws are correctly read and applied,

and recognizing the precise impact of tax revenue on economic growth are all pressing concerns. The issue of whether or not enough tax revenue is produced from different levies through effective tax administration equipment, which translates into economic growth. As a result, the current study tries to find out how tax revenue affects economic growth in Nigeria. Therefore, the study is split into five interconnected portions to accomplish these goals. Review of the literature is presented next. The third portion goes into the tools and procedures. The results and discussion are presented in section four, and the conclusion and recommendations are presented in section four.

Literature Review

Conceptual Framework: The conceptual Framework for this study involves the issues in tax and tax administration and revenue generation and economic growth in Nigeria.

Taxation: The government uses taxation as a tool to raise money for the public coffers (Ofoegbu et al. (2016) & Anyaduba, 2004). It's a mandated payment that the government imposes on the income, wealth, or profits of certain people, groups of people, or corporate organizations. It entails applying a tax rate to a tax base (Ofoegbu et al 2016 & Piana 2003). According to Okafor (2012) and Brautigam (2008), a well-crafted tax structure can assist governments in developing nations in setting expenditure priorities, establishing reliable institutions, and enhancing democratic accountability. A tax's primary function is to enable the public sector to finance its operations in order to advance the economic and social objectives of a nation. It may also be done to ensure social justice through the redistribution of wealth (Ayuba, 2014 and Ola, 2001). According to Oegbu, Akwu, and Oliver (2016), taxes are a tool the government uses to raise money for the public purse. It is a necessary payment imposed by the government on the income, profit, or wealth, according to Worlu and Nkoro (2012). Piana (2003) opines that it is a result of the application of tax rate to a tax base. According to Brautigam (2008) a well-designed tax system can help

governments in developing countries prioritize their spending, build stable institutions, and improve democratic accountability.

Therefore, taxation can be characterized as a system of levying taxes or carrying out the collection of taxes by the government. According to Ola (1999), taxation is a mandatory levy that the government imposes on a subject or his property in order to provide security, social amenities, and conditions for the economic well-being of the community. Similar to this, ICAN (2009) described taxation as a type of levy that is levied on all inhabitants who live in a tax jurisdiction as well as on non-residents who conduct business there. It is the civic and patriotic duty of citizens to pay taxes that are levied and which also serve as a source of income or revenue for the government in order to pay for the provision of socioeconomic and infrastructure amenities as well as to increase industrial productivity. Although the government collects a number of taxes, including corporate and individual income taxes, personal income taxes, petroleum profit taxes, value-added taxes, capital gains taxes, custom and excise taxes, and other levies, this article will focus on four of these taxes. These are personal income tax, company income tax, petroleum profit tax and value added tax.

PERSONAL INCOME TAX (PIT): This is a type of tax charged on the income of individual. The chargeable income of an individual is the aggregate amount from all sources (whether from employment, investment, profit from trade, profession or vocation etc) after deducting all non-taxable incomes and relief granted.

COMPANY INCOME TAX (CIT): Nigerian companies that are registered pay a tax called "Company Income Tax" on their profits. The tax on the earnings of international businesses operating in Nigeria is also included. Limited liability firms, including public limited liability companies, are responsible for paying the CIT. While non-residents are subject to CIT on their

income with a Nigerian source, resident corporations are subject to CIT on their worldwide income. Taxes on corporate income based on accounting earnings that have been tax-adjusted. Currently, enterprises with a turnover of more than N100 million Naira are subject to a 30% CIT fee. Additionally, it is levied at a 20% rate for businesses with a N25 million to N100 million annual revenue. The tax is calculated based on the prior year (i.e tax is charged on profits for the accounting year ending in the year preceding assessment). In accordance with the Finance Act of 2019, businesses with annual revenue of less than N25 million are not required to pay company income tax. A non-resident corporation with a fixed basis or permanent establishment (PE) in Nigeria is subject to taxation on the business profits attributable to such fixed base.

PETROLEUM PROFIT TAX (PPT):

Petroleum profit tax involves the charging of tax on the income accruing from petroleum operations. It is a tax applicable to upstream operations in the oil industry Odusola (2006). The importance of petroleum to the Nigeria economy give rise to the enactment of the different law regulating the taxation of incomes from petroleum operations. This means that companies engaging petroleum operations will not be subjected to tax on the CIT, but rather on the Petroleum Profit Tax Act. For this reason, the Petroleum Profits Tax Act, cap. P13 LFN 2004 imposes tax on the profit of companies engaged in petroleum operations. On 16th August 2021 petroleum Industry Act 2021 was assented and signed into law by President Mohamadu Buhari. The key objective of the bill is to overhaul and transform the Nigerian oil and gas industry. A petroleum operation is defined as the winning or obtaining and transportation of petroleum or chargeable oil in Nigeria by or on behalf of a company for its accounts by any drilling, mining, extracting or other like operations or process of a business earned on by the company incidental thereto and any sale of or

any disposal of, chargeable oil or on behalf of the company. The rate of petroleum profit tax for non-Petroleum Sharing Contract (PSC) operations is 65.75%, including joint ventures (JVs), in the first five years during which the company has not fully amortized all pre-production capitalized expenditure. 85% for non-PSC operations after the first five years. Upstream gas profits are taxed at 30%.

VALUE ADDED TAX (VAT):

Value added tax is a tax on consumption which is collected at each point of sales of goods and services from production to consumption but eventually borne by the final consumer. Each person is required to charge and collect VAT at a flat rate of 5% on all invoiced amounts. Finance Act 2019 amended the tax rate to 7.5%. VAT was introduce by the Federal government of Nigeria in January 1993 (Ochei, 2010). Analyst says that the tax was intended to be a super tax to eradicate completely many other taxes related to goods and services especially sales tax.

Theoretical Framework

Discussions on the impact of tax revenue on Nigerian Economy hovered around selected theories. Topmost among these theories are socio political theory of taxation, Expectancy theory, Benefit received theory and ability to pay theory.

Socio Political theory of taxation: Ogbonna and Appah (2012) affirmed this reasoning justifies the imposition of taxes for financing state activities and for the provision of a basis for apportioning the tax burden between members of the society. They advocated that for a tax system which is not designed to serve individuals but one that cures the ills of the society as a whole. The society is made up of individuals but is more than the sum total of its individual members; consequently, the tax system should be directed towards the health of the society as a whole, since individuals are integral part of the broader society (Chiegbu, Akujuobi & Appah, 2012).

Expectancy theory: Ayuba (2014) and Bhartia (2009) asserts that, the taxation is such that, the taxation is such that every tax proposal passes the test of practicality and must be the sole consideration before the tax authorities in a bid for tax proposal. It strongly emphasizes that, the economic and social objective of the state is considered irrelevant since it is meaningless to have a tax that cannot be levied and effectively collected.

Benefits-received theory: This assumes an exchange or contractual relationship between the state and the tax-payers, certain goods and services are provided by the state and the cost of such goods and services are contributed in the proportion of the received benefits, thus, the benefits received present the basis for distributing the tax burden in specific manner. This theory overlooks the possible use of the tax policy for bringing about economic growth or stabilization. Chiegbu, et al, (2012) see the cost of service theory as very similar to the benefits-received theory. The theory emphasizes on semi commercial relationships between the state and the citizens to a greater extent. The Implication according to Chigbu, et al, (2012) was that, the citizens are not entitled to any benefits from the state and if they do, they must pay the cost thereof. In this theory, the costs of services are scrupulously recovered unlike the benefits-received theory where a balanced budget is implied.

Ability to pay theory: This theory of taxation upholds that, taxes imposed on tax-payers should be based on the progressive tax approach which maintains that taxes should be levied according to a tax-payer's ability to pay. This system of taxation requires that higher earning persons pay taxes higher than those with lower income. The basic tenet of this theory is that, the burden of taxation should be shared by the members of the society on the principle of equity and justice and that this principle necessitates that tax burden is apportioned according to their relative ability to pay.

Empirical Review

Many studies have investigated on the impacts of tax revenue on economic growth in Nigeria, and in different part of the countries with diverse techniques and opinions. The outcomes of the investigations however, have shown that tax revenue has a significant relationship with economic variables.

In addition, Ude and Agodi (2014) investigated the time series roles of non-oil revenue variables on economic growth in Nigeria for period of 1980-2013. They discovered that, non-oil revenue variables analyzed are: agricultural revenue and manufacturing revenue and interest rate have significant impact on economic growth in Nigeria. Meanwhile, Medee and Nenbee (2011) studied the econometric analysis of the impact of fiscal policy variables on Nigeria's economic growth (1970 – 2009) using vector Auto-regression and Error correction mechanism techniques and claimed that, tax revenue has effects on the gross domestic product both at the short and long run, meaning that tax revenue has positive impact on the economic growth in Nigeria. Gacanja (2012) did an empirical case study in Kenya on tax revenue and economic growth.

Akwe (2014) analyzed the Impact of Non-Oil Tax Revenue on Economic Growth from 1993 to 2012 in Nigeria. To achieve this research objective, relevant secondary data were used from the 2012 Statistical Bulletin of the Central Bank of Nigeria (CBN). These data were analyzed using the ordinary least squares regression. The result from the test shows that there exists a positive impact of Non-oil tax revenue on economic growth in Nigeria.

Nwadialor and Ekezie (2016) concentrated on the effect of tax policy on Economic growth in Nigeria. The study uses annual time serial data of 20 years (1994 – 2013) collected from the published report of the FIRS of various years, OLS regression analysis was use to investigate the relationship between them.

Lyndon and Paymaster (2016) examined the impact of company's income tax, value added tax on economic growth (proxy by gross domestic product) in Nigeria, using secondary time series panel data covered the period 2005 to 2014. Their results of the analysis showed that, both company income tax and value-added tax have positive impact on economic growth in OECD countries, using time series secondary data for the period 2000 – 2011. He adopted a mathematical multiple regression model to capture the Linearity correlation between the variables of the study.

Methodology

The study employed a secondary source of data for a period of ten years (2010 – 2020). The data were sourced from the Central Bank of Nigeria Statistical Bulletin and Federal Inland revenue services. The data is made up of Gross domestic product (GDP) of Nigeria from 2010 -2020 while the data for tax revenue was captured for same time periods. Gross Domestic product (dependent variable) and the explanatory variables are: Oil tax revenue, Non-Oil tax revenue.

Model Specification

A model is employed to estimate impact of tax on Nigerian economic growth. In order to examine the impact of tax on Nigerian economic growth, a multiple regression model was developed for this study represented in the following function:

GDP= f (OTR, NOTR)

From the above function, the following model is derived

$GDP = a + \beta 1OTR + \beta 2NOTR + e$

Where GDP = Gross domestic product (dependent variable)

OTR = Oil tax revenue (Independent variable)

NOTR = Non-oil tax revenue (Independent variable)

$\beta 1, \beta 2,$ = co-efficient

e = Error term

The ex-post facto research design was adopted for this study because the researcher does not intend to manipulate already made data.

Descriptive Test

Table 4.1.1

Descriptive Statistics				
	N	Range	Mean	Std. Deviation
GDP	20	.49	4.6529	.16809
OTR	20	1.09	3.5609	.29246
NOTR	20	1.25	3.1122	.37933
Valid N(Listwise)	20			

Computation from SPSS vs 20.0

Table 4.1.2

Correlation				
		GDP	**OTR**	**NOTR**
GDP	**Pearson correlation**	**1**	**.767”**	**.958”**
	Sig. (2-tailed)		**.000**	**.000**
	N	**20**	**20**	**20**
OTR	**Pearson correlation**	**.767”**	**1**	**.753”**
	Sig. (2-tailled)	**.000**		**.000**

	N	20	20	20
NOTR	Pearson Correlation	.958”	.753”	1
	Sig. (2-tailled)	.000	.000	
	N	20	20	20

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

Computation from SPSS vs 20.0

Table 4.1.3

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.962”	.926	.917	.04830	1.704

a. Predicators (Constant), NOTR, OTR
b. Dependent Variable: GDP

Computation from SPSS vs 20.0

Table 4.1.4

ANOVA						
Model		Sum of squares	df	Mean Square	F	Sig.
1	Regression	.497	2	.249	106.558	.000”
	Residual	.040	17	.002		

	Total	.537	19			

a. Dependent variable GDP
b. Predictors (Constant). NOTR, OTR

Computation from SPSS vs 20.0

Table 4.1.5

Coefficients[a]						
Model		Unstandardized coefficient		Standardized Coefficients	T	Sig.
		B	Std Error	Beta		
	(Constant)	3.186	.138		23.449	.000
	OTR	.081	.05	.142	1.462	.162
	NOTR	.378	.043	.854	8.809	.000

a. **Dependant variable: GDP**

Computation from SPSS vs 20.0

Discussion and Interpretation of Results

Some testable hypothesis has been formulated in the earlier part of this research work. They are stated as follows:

HO_1: Oil tax revenue has no significant impact on Nigerian economic growth

Table 4.1.5 above is enough to give an appropriate view at the research assumption formulated earlier. From the intercept, it is shown that oil revenue (OTR) has a significant impact on Nigerian economic growth. It further shows that a unit increase in OTR will trigger an increase of 0.081 in

the GDO. The t-tab for OTR is shown as 1.462 which is lesser than the t-tab of 2 with a probability of 0.162 which is statistically insignificant at 5% significant level. The researcher hereby accepts the null hypotheses and concluded oil tax revenue has no significant impact on Nigeria economic growth.

HO_2: There is no significant relationship between oil tax revenue and Nigerian economic growth.

Table 4.1.2 presented above is considered suitable to treat the research assumption stated above as formulated earlier in chapter one of this research work. Following the assumptions of the above hypotheses, the correlation table revealed that oil revenue has a strong positive relationship with GDP with a Pearson correlation of 0.958.The researcher therefore rejects the null hypotheses and concludes that there is significant relationship between oil tax revenue and Nigerian economic growth. This study examined the impact of tax revenue on the Nigerian economy. The objectives of the study were to examine the impact of oil revenue and the Nigeria economy, the effect of non-oil revenue on the Nigerian economy and the relationship between oil tax revenue and the Nigerian economy growth. Data were sourced from Central Bank Statistical Bulletin and extracted through desk survey method. Ordinary least square of multiple regression models was used to establish the impact and effect while correlation is used to test for the relationship between dependent and independent variables. The finding revealed oil tax revenue (OTR) has no significant impact on Nigerian economic growth. It showed that there is a significant relationship between oil tax revenue and the growth of the Nigerian economy.

Based on the findings of this study, we concluded that, there was a great level of difference between the effects of oil and non-oil revenue on economic growth in Nigeria. This study has equally generally revealed that, tax revenue has a very positive impact on economic growth in Nigeria, especially it’s socio-economic as oil and non-oil tax revenue also has significant impact

on GDP. The results obtained in this study confirm that, a positive and strong correlation exists between Oil Tax Revenue (OTR) and Non-oil Tax Revenue (NOTR) and the level of economic growth proxy by RGDP in Nigeria.

Conclusion and Recommendations

According to the result, it shown that non-oil tax revenue (NOTR) has a significant effect on Gross domestic product. It further shows that a unit increase in NOTR will trigger an increase of 0.378 in GDP. The t-cal for NOTR is shown as 8.809 which is greater than the t-tab of 2 with a probability of 0.000 which is statistically significant at 5% significant level. This therefore means that the governments can rely on non-oil revenue in predicting the growth of the Nigerian economy.

It was recommended that, Government should seriously work towards diversifying the revenue base of the economy as the reduction in the price of crude oil at the international market that adversely affect income from petroleum profit tax. The regulatory authorities charged with the sole responsibility of collecting tax should further be strengthened to enforce compliance by taxpayers. There should be accountability and transparency from government officials on the management of revenue derived from taxes and also citizens should be able to benefit from the payment of taxes in Nigeria

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