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AN ANALYSIS OF TAXATION AND ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

The paper examined the impact of taxation on the economic growth of Nigeria. The study design was ex-post facto. Secondary data was gathered from Federal Inland Revenue Services and CBN Statistical Bulletin for the years of the study 1999 to 2020. The study employed the Ordinary Least Square (OLS) technique in the analysis of data. The results were that CIT has a negative impact on Real Gross Domestic Product (RGDP). Petroleum Profit Tax (PPT) offers a positive but insignificant effect on RGDP and there is a positive but insignificant impact of Value Added Tax (VAT) on economic growth in Nigeria. Custom and Excise Duty (CED) has a negative and insignificant effect on RGDP in Nigeria. It was concluded that taxation has a weak impact on the economic growth of Nigeria. It is recommended that the Nigerian government should restructure its petroleum sector by intensifying efforts at processing crude oil and only selling processed oil to the international market and that there should be greater transparency by the government on the management and utilization of tax resources to give taxpayers greater assurance of its application. Also, there should be an enhancement of Nigeria's tax administrative management efficiency by blocking leakages in tax revenue collection and the expansion of the nation's tax base to attract more tax revenue.

Keywords: Petroleum profit tax, Company income tax, Value added tax, Custom and excise duty, Economic growth

1. INTRODUCTION

The task of any government globally is to cater for the welfare of its citizens which is achieved by formulating and implementing necessary economic plans and activities. Governments make these efforts to fulfill this great objective by supplying the public needs such as education, good road, sanitation, security, healthcare facilities, and electricity among others. According to Karumba (2016), what

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initiates and sustains the economic growth of any economy is whether goods and services are sufficient for the citizens. Economic growth can be described as the process that gradually leads to the capacity of the economy to improve over a given period due to increases in the income and output of a nation (Todaro & Smith, 2006).

The level of growth and the changes in the economic growth of any nation are grossly affected by policies including among others, taxation. Tax is a compulsory levy imposed by the government on firms and households (Goode, 1984). Tax is not just used by the government to generate revenue alone but to also initiate fiscal policy aims that affect strongly the position of investment, control government expenditure, and interest rate and create necessary goods and services.

Following this, Anyanwu and Anyanfo (1996) acknowledged that taxes are levies imposed by the government to control the creation of goods and services as well as to protect local and small industries, coordinate the affairs of businesses, and control inflation. It rests on the government to effectively formulate and implement fiscal policies that can improve the revenue base of the economy over time (Edame & Okoi, 2014). This is achieved by varying the tax rates from time to time to address the economic conditions prevalent at a particular point in time. Tosun and Abizadeh (2005) highlighted the methods through which taxes have an impact on economic growth. They maintained that the imposition of tax rates on corporations and persons can impede the level at which investments are made.

However, various forms of taxes such as PPT and VAT collection are said to contribute significantly to the government's overall revenue. The company income tax which started in 1961 has not shown remarkable progress and has not lived up to expectations. According to Onaolapo, Fasina, and Adegbite (2013), companies see this tax as a penalty for success without compensation for failure. Similarly, the issue of tax avoidance and evasion has remained a problem in the tax system of Nigeria. This has continued to affect tax revenue highly needed to contribute to economic growth. In addition, the results of prior studies such as Anisere-Hameed (2021), Mamuda and Alhassan (2021), and Uzoka and Chiedu (2018) among others produced mixed results giving rise to further research in the subject area. This has informed the researchers' interest to investigate the impact of taxation on the economic growth of Nigeria. The specific objectives include ascertaining whether VAT has a significant effect on economic growth in Nigeria; determine the effect of PPT on economic growth in Nigeria; ascertain the effect of CIT on economic growth in Nigeria; and determine whether CED has a significant effect on economic growth in Nigeria.

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2. LITERATURE REVIEW

2.1 Economic Growth

Economic growth is defined as an increase in economic activity that leads to an increase in a country's prospective GDP or productivity. It can also be defined as a long-term increase in per capita national output or net national product. It also means that the rate of increase in total productivity must be greater than the rate of increase in the population (Egbunike, Emudainohwo & Gunardi, 2018). When a country's production potential frontier (PPF) shifts outward, economic growth happens. Economic growth is a key government goal because it is linked to rising average real earnings and a living standard of a country (Olapade, 2010).

Economic growth is understood to be the long-term expansion of any economy's productive potential. Therefore, growth is defined as an increase in the output that a country's economy produces over a certain amount of time. This is typically quantified by an increase in the nation's GDP. Accordingly, we can say that GDP is a model that reflects the value of a nation's output measured in monetary terms over time. Economic growth is obtained by increasing a nation's production capacity and making efficient use of its resources (Haller, 2012). Considerable increases in physical stock, the size of the labor force that is actively working, the number of workers as a result of training and human capital development, technological advancements, and rising consumer demand are among the factors that contribute to economic growth.

As a result of the aforementioned, GDP is used as a stand-in for economic expansion. The annual total output of goods and services, also known as the aggregate output, is the primary indicator of an economy's performance and is known as the gross domestic product (GDP). Bureau of Economic Analysis (2015) states that GDP is the value of goods and services produced by the country's economy less the value of goods and services used up in production. GDP measures the total market value of the goods and services a nation's economy produces over a given time frame. It includes all finished products and services, i.e., those created by economic actors based in that nation, regardless of ownership, and not in any way resold. It is the primary indicator of output and economic activity used across the globe.

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2.1.1 Taxation

Taxation refers to a mandatory levy imposed by the government on individuals and organizations as an avenue of financing its activities. Okonkwo and Chukwu (2019) affirmed that taxation is an ideal source of government revenue. Unegbu and Irefin (2011) also agreed that tax is a levy compulsorily imposed by the government to finance its expenditure needs for a given period. The above description of taxation provides the main essence for which taxation helps to raise revenue to cover the government's service costs. Taxation also tries to remove disequilibrium in wealth distribution, reduce the consumption of certain products, protect local industries, and control certain areas of the economy. Some of the taxes collected by the government in Nigeria are discussed below:

2.1.2 Value Added Tax (VAT)

According to Abata (2014), VAT is a tax for the consumption of goods and services along the consumption chain. In this tax system, the incidence of the tax is shifted from the manufacturer to the final consumer. The incidence can only be reduced by reducing the consumption rate of vatable goods and services. It is a tax collected on the value added on goods and services by individuals and corporate and governmental organizations.

2.1.3 Petroleum Profit Tax (PPT)

PPT, as defined by the Petroleum Profit Tax Act (PPTA) of 1959, is a liability incurred when a corporation sells chargeable oil and gas. Delivery of chargeable oil to a refinery is part of the disposal process. The tax is on the profit of the company from petroleum operations under the provision of PPTA in Nigeria. Petroleum operation essentially involves petroleum exploration, development, production, and sales of crude oil. PPT is important tax revenue to the federal government since petroleum activities are the major revenue earner for Nigeria.

2.1.4 Company Income Tax (CIT)

CIT became operational following the promulgation of CITA 1979 emanating from the Income Tax Management Act of 1961. The Federal Inland Revenue Service (FIRS) administers and collects this tax on behalf of the government and it contributes significantly to the revenue profile of the nation. It is taxed on profits obtained from carrying on a trade or business, rent on use of property, dividends, interest, royalty, discounts, charges, annuities, fees for services rendered, and other

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sources of annual profits or gains. It accrues to Nigeria wherever business is conducted in the world whether or not they are brought into Nigeria.

2.1.5 Custom and Excise Duty (CED)

Customs duty is charged on the importation of goods into a country while export duty is charged on the locally produced goods in a country and sold abroad. This means that custom duty is collected by customs authorities on imports of a country. A higher rate may be charged to discourage the importation of certain goods or to reduce their consumption. Sometimes it is increased to protect a country's local industries from foreign competition. It is also a major source of revenue for the federal government.

2.2 Theoretical Framework

The theories that underpin this study are the expediency theory and the benefits received theory. The justification for the adoption of these theories is that, the system of tax collection put in place is supposed to be relevant in achieving economic growth of the country, and that taxes collected by the government are meant to provide benefits for the taxpayers in line with government social contract to them.

2.2.1 The expediency theory

This theory postulates that a tax system must be practically easier to administer and collect. The economic and social objective of the state is to put in place an effective tax system that should be relevant to the growth of a nation's economy (Kiabel & Nwokah, 2009). Kiabel and Nwokah (2009) argued that a tax system should be levied and collected effectively and efficiently too due to the presence of economic and social pressures groups that each try to protect their interest.

2.2.2. Benefits received theory

According to this theory, tax to be paid by citizens should be commensurate with the benefits they are expected to get for paying such tax to the government. The theory assumes that there is a relationship between the taxpayers and the government and to maintain this is for the government to make good use of taxes collected from payers to wage tax avoidance and evasion that are detrimental to the government. The theory is of the view that government has a social contract when it collects taxes from payers and when social services are not provided with the money, it renders such a system inapplicable.

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2.3 Empirical Studies

Anisere-Hameed (2021) examined the way PPT, capital gains tax, and CIT affect GDP in the Nigerian economy. The study design was ex-post facto and applied the OLS to analyse the data. Findings showed that CGT and PPT were not significant to the generation of revenue that will enhance the economic growth of Nigeria. Meanwhile, CIT was found to be significant in doing so. Mamuda and Alhassan (2021) evaluated the impact of tax revenue on the economic growth of Nigeria. The study ascertained the impact of taxes, domestic investment, and government expenditure on Nigeria's economic growth. To determine the factors that influence tax revenue and economic growth in Nigeria, an exploratory design was used. The Central Bank Statistical Bulletin was one of the secondary data sources used. A multiple regression model was used to analyse the data collected for this study. Using GDP as an index economy, the results revealed a positive association between tax revenue and economic growth.

Joseph and Omodero (2020) used data from CBN statistical bulletin, FIRS, and the National Bureau of Statistics to explore the association between government income and Nigeria's economic growth from 1981 to 2018. The data was examined using OLS. The result showed that federal revenue collection and VAT related moderately and positively with economic growth. Edewusi and Ajayi (2019) examined the relation between PPT, CIT, and VAT on the economic growth of Nigeria by applying an ex-post facto research design where data was collected from the FIRS and CBN statistical bulletin. Multiple Regression Analysis, Cointegration, and other post-estimation tests were employed for data analysis. The result showed that PPT and CIT had a positive significant effect on the economic growth of Nigeria while VAT was positive but insignificant in impacting economic growth.

Yahaya and Bakare (2018) examined the effect of PPT and companies' income tax on economic growth (GDP) in Nigeria. Data for 34 years from 1981 – 2014 was used. The secondary data was collected from the FIRS and CBN statistical bulletin. It applied the modified least square regression technique, Augmented Dicker Fuller, unit root test, and co-integration test in analyzing the data of the study. The findings were that PPT and CIT had a significant positive impact on GDP in Nigeria. Uzoka and Chiedu (2018) investigated the effect of CIT, CED, EDT, PPT, and RDT on the economic growth of Nigeria between 1997 -2016. The times series data was obtained from CBN Statistical Bulletin and FIRS while the analysis included unit root tests, co-integration tests, and vector error correction mechanism (VECM). The results showed that CGT and EDT had an insignificant effect on economic growth

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while PPT, CIT, VAT, and CED were significant in affecting the economic growth in Nigeria.

Ogundana, Ogundana, Ogundana, Ibidunni, and Adetoyinbo (2017) studied the impact of direct tax (PPT and CIT) and indirect tax (CED and VAT) on the Nigerian economic growth. It applied a descriptive research design where secondary data was collected from CBN statistical bulletin and annual report for several years. Trend analysis and the OLS regression techniques were used for analysis. The result revealed that both direct and indirect taxes have positive impacts on the economy of Nigeria. Ojong, Anthony, and Arikpo (2016) investigated the impact of PPT, CIT, and PIT on the economic growth in Nigeria. The study applied data spanning 1986 – 2010 that was collected from the CBN statistical bulletin. OLS multiple regression was employed in analyzing the link between the variables. It was found that PPT had a noticeable connection with economic growth and the that CIT and PIT had significant relation with the economic growth of the Nigeria economy

Onakoya and Afintinni (2016) evaluated the effect of PPT, CIT, PIT, and VAT on the economic growth of Nigeria. Secondary data for thirty-four years (1980-2013) from the CBN (2014) was used and the National Bureau of Statistics, 2014 data sets. The analysis was done with augmented dickey fuller (ADF), co-integration test, and vector error correction model used in the analysis of the study's data. The result was a significant positive link between PPT, CIT, and economic growth while negative effects were found between economic growth, CED, and PIT.

Karumba (2016) examined how taxation can impact economic growth in Kenya. The study covered a period of forty years from 1975-2014. Employing an econometric model to capture variables including indirect tax, direct tax, other taxes, interest rates, foreign direct investment, net export, and gross domestic product. Indirect taxes were found to be negative and significant in influencing Kenya's economic development in the short run, while FDI and net exports were found to be positive and independently significant in influencing Kenya's economic growth in the short run.

Edame and Okoi (2014) looked at the impact of taxation on investment and economic development in Nigeria. Secondary data for company income tax, personal income tax, GDP, investment level in Nigeria, and government expenditure were collected from the chartered institute of taxation of Nigeria (CITN), CBN statistical bulletin (CBN), NBS, and published data from the federal ministry of finance and analysis was done using the ordinary least square of multiple regression.

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The study found that taxation had an insignificant effect on investment, GDP, and government expenditure in Nigeria. Egbunike, Emudainohwo, and Gunardi (2018) investigated to find out if tax revenue has a positive effect on the economic growth of Nigeria and Ghana. The study's secondary data for 17 years from 2000-2016 was extracted from the CBN Statistical Bulletin and Bank of Ghana Statistical Bulletin. The study used the granger causality and multiple regressions in analyzing the data of the study. The study discovered that tax income had a favorable impact on Nigeria's and Ghana's gross domestic product.

3. METHODOLOGY

The ex-post facto design was employed since it does not provide the possibility to influence the factors, mostly because they have already occurred and cannot be modified. The use of ex-post fact is justified since data on the various taxes (VAT, PPT, CIT, and CED), as well as GDP, already exist. They are not primary data to be generated by the researchers. The population and sample size of this study covers the entire Nigerian economy for the relevant years of the study (1991 – 2020). Time series data were gathered from legitimate sites of FIRS and the CBN Statistical Bulletin for the relevant years of the study. The dependent variable in this study is economic growth proxied by real gross domestic product (RGDP). This is provided in percentage form representing the RGDP growth from one year to another. The independent variables of the study are divided into four tax heads of revenues accruing to Nigeria. Data for PIT, CIT, VAT, and Custom and Excise Duties (CED) were collected in Naira but were transformed using natural logarithms to scale them down to match the GDP (%). Based on the perceived causal relationship between the variables of the research, a multiple regression model which is stochastic was specified to link tax revenue and economic growth. The study employed the Ordinary Least Square (OLS) technique.

The functional model of this study is specified thus;

Economic growth $= f$ (taxation) + τ

Where;

Economic growth = RGDP (Dependent Variable);

Taxation (Explanatory/Independent Variable) = PPT, CIT, VAT, CED

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$RGDP = \int(PPT, CIT, VAT, CED)$…….. (i)

Where;

$RGDP = \beta o + \beta_1 PPT + \beta_2 CIT + \beta_3 VAT + \beta_4 CED + \tau$ (ii)

The logarithmic transformation of equation 2 is designed to bring the variables to the same base hence the model becomes:

$RGDP = \beta o + \beta_1 \log(PPT) + \beta_2 \log(CIT) + \beta_3 \log(VAT) + \beta_4 \log CED + \tau$……. (iii)

Where;

$\beta 0$ = Constant term (Intercept);

$\beta 1\text{-}4$ = Coefficient of parameters of taxation;

μ = Stochastic error term

A priori = $\beta 0 > 0, \beta 1 > 0, \beta 2 > 0, \beta 3 > 0, \beta 4 > 0$

1. RESULTS AND DISCUSSION

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
RGDP	30	.0014	.6424	.187417	.1335382	1.525	3.395
LNCIT	30	1.0892	3.1942	2.303130	.6638576	-.151	-1.401
LNPPT	30	1.6317	3.5053	2.760413	.6783653	-.660	-1.244
LNVAT	30	.0000	3.0944	2.098677	.9275680	-1.115	.495
LNCED	30	4.0591	5.3645	5.064387	.4155094	-1.384	.561
Valid N (listwise)	30						

SOURCE: SPSS output, 2022.

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Table 1 presents the descriptive statistics of the means values of 0.1874, 2.303, 2.7604, 2.0987, and 5.0644 which culminate in N200.909b, N575,97b, N125.52b, and N114.815b for CIT, PPT, VAT and CED respectively with their standard deviations of 0.6639, 0.6784, 0.9276 and 0.4155 which translates to N4.61b, N4.769, N8.464b, and N2. 603b for CIT, PPT, VAT, and CED respectively. The skewness and kurtosis results show that the data are normally distributed since skewness values fall within ±2 while kurtosis values also fall within ±5.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.661[a]	.436	.346	.1079714	.436	4.840	4	25	.005	1.743

a. Predictors: (Constant), LNCED, LNCIT, LNPPT, LNVAT

b. Dependent Variable: RGDP

Table 2 shows that the coefficient of determination (R-Square) shows that 46.3% of the variation in economic growth is a result of changes in CIT, PPT, VAT, and CED while the remaining 53.7% is due to other factors not included in the model. The F-ratio of 4.84 and sig F change value of 0.005 confirms the fitness of the model to test the data. The Durbin Watson of 1.743 indicates positive autocorrelation among the variables as it is close to 2 and indicates the absence of autocorrelation.

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Table 3: The regression result of the study

Coefficients								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.037	.877		1.183	.248		
	LNCIT	-.245	.072	-1.217	-3.384	.002	.211	4.737
	LNPPT	.109	.104	.554	1.050	.304	.425	2.351
	LNVAT	.093	.088	.646	1.051	.303	.570	1.753
	LNCED	-.154	.220	-.480	-.700	.490	.352	2.841

a. Dependent Variable: RGDP

Source: SPSS statistics, 2022

The OLS results presented in Table 3 revealed that CIT and custom and excise duties have a negative effect on economic growth while PPT and VAT have a positive effect on the economic growth of Nigeria. This is evidenced by their correlation coefficients of -1.217, -0.48, 0.554, and 0.646 respectively. Thus, the result implies that taxation has both positive and negative effects on the economic growth of Nigeria. Table 3 also includes the logarithmic transformation of the econometric linear model specified in our model equation. The result suggests that a one percent rise in CIT leads to a 1.217 percent decrease in RGDP growth which is the proxy for economic growth. The probability value (0.002) is less than the test significance level of < 0.05. Also, a one percent rise in PPT leads to a mere 0.554% increase in RGDP growth (a proxy for economic growth). The PPT probability value of 0.304 is thus greater than the test significance level of 0.05 implying that PPT offers a little or insignificant impact on GDP growth. The result also revealed a one percent rise in VAT leads to a 0.646 percent increase in RGDP (a proxy for economic growth) in Nigeria. The probability value of the VAT (0.303) is greater than the test significance level of < 0.05, implying the insignificant effect VAT revenue has on economic growth in Nigeria. More so, a unit increase in CED will result in a 0.48% decrease in the RGDP of Nigeria. The probability value of 0.0.490 is greater than the test of the significance level of < 0.05, implying that CED has no

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significant effect on GDPR in Nigeria. Meanwhile, the VIF values are all less than 5 implying that a multicollinearity problem is absent amongst the independent variables used in the study.

4.2 Discussion of Findings

Positive and insignificant relationships between the variables as stated in Table 3 exist between CIT, PPT, and economic growth. Thus, the result implies taxation has a weak association with the economic growth of Nigeria. Notwithstanding, the discouraging negative relationship, the relationship between CIT and RGDP is significant ($p = 0.002$). This may be attributable to the incessant global meltdowns and recessions that have affected the global market impacting on taxable profits of companies liable to tax. This corresponded with the studies by (Ojong et al., 2016; Uzoka & Chiedu, 2018) that posited a long-run relationship between tax revenue and RGDP and further stated that CIT has a significant effect on economic growth measured by RGDP.

The result in Table 3 also revealed a one percent increase in PPT leads to a mere 0.026 % increase in RGDP with a PPT probability value of 0.557 which is greater than the test significance level of 0.05 implying that PPT offers a little or insignificant impact on RGDP growth. This is consistent with the work of (Ojong et al., 2016). This may be the result of the drop in crude oil prices in the international market and the Organization of Petroleum Exporting Countries (OPEC) quota of crude oil sales Nigeria is required to sell in the international market. Also, maybe as a result of the ratio of contribution of PPT against other tax revenue streams on GDP growth. The result runs contrary to previous studies by (Ogbonna & Ebimobowei, 2012, and Appah & Ebiringa, 2012).

Similarly, a one percent increase in VAT leads to a 0.306 percent increase in GDP. The probability value of the VAT (0.303) is greater than the test significance level of> 0.05. This is partly due to enhanced efficiency in tax collection, administration, and advocacy and broadened tax base for VAT collection. The result is also in line with the study of Joseph and Omodero (2020) which revealed the positive but insignificance of VAT on economic growth as against other non-oil revenues.

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5. CONCLUSION AND RECOMMENDATIONS

i. This study revealed an insignificant relationship between PPT and RGDP growth. However, the positive relationship between PPT and GDP may be a result of OPEC production/sales quota as well as continuous drop in crude oil prices in the international market for over a decade now which is impacting the profits subject to a tax of the oil companies operating in Nigeria.

ii. The relationship between CIT and RGDP is significant. However, the negative relationship may be attributable to the incessant global meltdowns and recessions that have affected the global market impacting on taxable profits of companies liable to tax.

iii. Similarly, there is an insignificant relationship between VAT and GDP. This insignificant result can be attributed to the inefficient collection of VAT revenue and administration but is positive because of advocacy and the recent broadening of the tax base for VAT collection. The ratio of tax revenue to GDP is still very low compared to other economies as Nigeria depends largely on crude oil export.

iv. There is also an insignificant relationship between custom and excise duties and RGDP. Although taxation remains a strong socio-political and economic tool for economic growth the Nigerian experience is adverse due to tax leakages arising from tax evasion, avoidance, and low tax base. This study found that tax leakages are a global concern but the Nigerian experience is cancerous due to corruption in the system. The study collaborated with other studies that believe what triggers the non-compliance to a large extent is accelerated by the lack of transparency and good governance on the part of the state which highly discourages tax/potential taxpayers from willingly complying with their tax obligations.

It is recommended that:

i. Nigerian government should restructure its petroleum sector by intensifying efforts at processing crude oil and only selling processed oil to the international market. This will overcome the present effect of external shocks arising from price fluctuation of crude oil due to gloat or quota restrictions by OPEC or financial crises in the international market.

ii. There should be greater transparency by the government on the management and utilization of proceeds of CIT, VAT, and CED. Where there is transparency in the utilization of tax revenues, tax compliance by taxpayers may be higher compared to

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where there is a lack of transparency and poor governance in tax matters.

iii. There should be an enhancement of Nigeria's tax administrative management efficiency by blocking leakages in tax revenue collection.

iv. Also, there is a need for the expansion of the nation's tax base to attract more tax revenue.

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