TAXATION AND NIGERIAN ECONOMY

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Abstract
The study examined taxation and Nigeria's economy. An Ex-post-facto research design was used and secondary data were sourced from CBN statistical bulletin and Federal Inland Revenue report. Multiple linear regression was used to check for the effect of taxation on Nigeria while analysis of variance (ANOVA) was used to test the hypotheses. From the result of the analysis, taxation has high significant positive effect on the growth of Nigeria's economy. Based on this finding the study recommends, that government should make more adequate policies with respect to tax system to enable a high percentage of tax revenue collection which will create more avenues for the government to engage more in the infrastructural development and growth of the country.
Keyword*: Economic growth, Taxation, Nigeria***

1. Introduction

Taxation is one of the most important revenue sources for many nations like Nigeria. According to Organisation for Economic Co-operation and Development (OECD) (2017) tax has been ranked as the main supply of revenue in international locations consisting of the UK, France, Sweden, Norway, and different excessive earnings for the government. In Africa, tax revenue has substantially contributed closer to the monetary increase of various international countries. In Nigeria, taxation has been current even earlier than the amalgamation in 1914 of the North and South protectorates to shape the territory now referred to as Nigeria. The sorts of taxes paid in those days were of homage paid to Oba`s family in contribution for the renovation of peace and renovation of safety guards, soldiers, the penalty paid for the overall performance of civil proper, and contribution to academic development. However, the form of Nigeria taxation is not the same as that of the international countries. For example, in Africa like Nigeria, tax is categorized into tax-revenue and non-tax revenue. In Nigeria, federally accumulated revenue is labeled oil revenue and non-oil revenue. It is likewise discouraging to show that tax revenue is now no longer contributing substantially in the direction of the monetary increase of Nigeria whilst as compared with the tax-to-GDP ratio of different African international revenue like Cameroon, Senegal, Tunisia, and so on. (Economic Co-operation and Development (OECD[1]) (2017).

One of the major problems facing the taxation system in Nigeria is the problem of tax noncompliance among taxpayers which may be due to a lack of time on the part of taxpayers to visit the tax office to pay their taxes or due to some other reasons(Wasao 2014). Whatever could be the reason for tax noncompliance, non-compliance comes in form of tax evasion or avoidance.

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This challenge hampers adequate tax revenue generation that could have been used for national development. Almost all Nigerian taxpayers are married with children. Similarly, despite tax provision meant to minimize the tax gap between the rich and poor, through which taxable persons can minimize tax liability, the self-employed persons use all kinds of evasion methods to minimize or escape tax liability. This makes one wonder whether there are still any tax officials working in that capacity. Such scenario, no doubt, speaks a lot about tax administration system in Nigeria both in its design and the attitudes of taxpayers towards taxation. This in return affected economic development and growth in Nigeria. The continued existence of these ills makes one thinks that tax administration in Nigeria lacks the ability to convert tax funds into programme and projects that enhance development. Therefore, there is a need to look for a way that will enable adequate tax revenue generation for economic development. It is against this backdrops that this study focuses on taxation and Nigeria economy.

The major objective of the study is to ascertain the effect of taxation on Nigeria economy. Specifically, the objective will ascertain

1 The extent taxation affects Nigeria economy.
2 The extent taxation affects Per Capital Income (PCI) in Nigeria economy
3 The extent taxation affects gross national income (GNI) of Nigeria economy

1.2 Research Questions

To give direction to this study, the following research questions are posed to guide the conduct of the study:

1 To what extent does taxation affect Nigeria economy?
2 To what extent does taxation affect Per Capital Income (PCI) in Nigeria economy?
3 To what extent does taxation affect Gross National Income (GNI)in Nigeria economy?

1.3 Research Hypothesis

The following null hypothesis is posed to test the study:

H_{01}: There is no significant effect of tax on Nigeria economy.

1.4 Scope

The scope of the study covers Taxation and Nigerian Economy. It also covers a period of 10year (2011-2020). The study used secondary sources of data that are sourced from the CBN statistical bulletin.

2. Review of Related Literature

2.1 Concept of Taxation

Taxation refers to obligatory or coercive cash collection through a levying authority, typically a government. The term "taxation" applies to all forms of involuntary levies, from profits to capital profits to property taxes. According to McLure (2015), taxation is an obligatory monetary price or a few different form of levy imposed upon a taxpayer (a person or different felony entity) through a governmental company with the intention to fund numerous public expenditures.

Taxation according to Chijioke *et al*(2018), is an obligatory levy by the Government collected through its agency from its subjects. These levies are made on non-public income, inclusive of salaries, commercial enterprise profits, interests, dividends, reductions, and royalties. It is likewise levied towards the company`s profits, petroleum profits, capital profits, and capital transfer. Taxation is the most important source of revenue for modern governments, typically accounting for ninety percent or more of their income. Tax is a common source of income generation for financing government activities. Individuals and organizations are expected to fulfill their obligations on tax payments as required by law to give the government financial power. Therefore, effective taxation becomes important as it is a source required for financial power for a government to provide social services for its citizens (Chijioke *et al*,2018).

2.1.2 E-Taxation and economic growth

E-taxation is the process of assessing, collecting and administering taxation process through an electronic media. In the words of Che-Azmi and Kamarulzaman (2014), E-taxation is one of the ways through which governments around the world utilize information and communication technologies to improve the delivery of public services and the dissemination of public administration information to the public. Wasao (2014), describes an electronic tax system as an online platform whereby the taxpayer can access through the internet all the services offered by a financial authority such as the registration for a personal identification number, filing of returns and application for a compliance certificate, a perfect example of such system is the Electronic taxation system that was rolled out by FIRS in Nigeria. E-taxation was first introduced in 1986 in the U.S.A. (Australian National Audit Office 2015). In Australia electronic tax-filling was introduced in 1987 through its modernization programme. By 1993, Canadian taxpayers commenced electronic filling of tax returns through the E-fills, Malaysia, Netherlands & Uganda all introduced electronic payment of tax to their taxpayers for the payment of taxes to their government in 2009. In March 2013, Egypt launched electronic payment of tax for its taxpayers, to keep pace with the international trades using automated payments systems, especially for government services.

Nigeria Government joined the trend in 2015 when Federal Inland Revenue Service (FIRS) in collaboration with Inter – bank settlement System (NIBSS) implemented the technology in the Nigeria tax system (Okunowo, 2015). The electronic tax system was introduced by Nigeria Tax Authority to increase financial tax collection, administration, render services to the taxpayers all the time from anywhere, reduce costs of compliance and improve tax compliance. Promising many advantages over the traditional method of hard copy tax filing, these systems promise faster processes, lower costs, and increased efficiency. FIRS also has provided a centralized Information Communication Technology (ICT) department that provides support services in terms of electronic systems to the entire organization. All these are done to achieve its goals of increased revenue collection and facilitating voluntary compliance by taxpayers.

2.1.3 Government revenue

Government revenue simply refers to the money received by a government via taxation or from other sources like sales. It is the amount of money that a company actually receives during a specific period. Revenues earned by the government are received from sources such as taxes levied on the incomes and wealth accumulation of individuals and corporations and the goods and services produced, exports and imports, non-taxable sources such as government-owned corporations' incomes, central bank revenue, and capital receipts in the form of external loans and debts from international financial institutions (Coyle (2014). Government revenue is an important tool of the fiscal policy of the government. Governments use revenue for the development of the country, such as: construction of roads, bridges, build homes, fix schools etc. Tax money that government collects from the taxpayers are used to provide social services to the citizens.

In Nigeria, federally collected revenue is divided into oil revenue and non-oil revenue. While oil revenue covers all revenue generated from oil and gas activities in the country, non-oil revenue looks at any revenue earned from sources other than oil and gas activities. While other countries within and outside Africa segment their revenues into tax and non-tax revenue, Nigeria preferred oil and non-oil since oil is the major revenue driver of the economy.

2.1.4 Taxation and it effect on per capital income and economy growth of Nigeria

Gross Domestic Product (GDP) is a monetary measure of the market value of all final goods and services produced in a period. Nominal GDP estimates are commonly used to determine the economic performance of a whole country or region, and to make international comparisons. The OECD (2017) defines GDP as an aggregate measure of production equal to the sum of the gross values added of all resident and institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs). Coyle (2014) states that "GDP measures the monetary value of final goods and services - that is, those that are bought by the final user - produced in a country in a given time. GDP is considered the "world's most powerful statistical indicator of national development and progress. Total GDP can also be broken down into the contribution of each industry or sector of the economy. In most developed and developing countries, Tax revenue accounts for a significant portion of their revenue. According to OECD (2015) Denmark, Finland, Norway, Sweden, Timor-Leste have a tax-to-GDP ratio of above 50% in 2015, with Timor-Leste recording the highest ratio (61.5%). In Africa, Cote d'Ivoire has a tax to GDP ratio of 15.3% , Cameroon has 18.2% , and Ghana has 20.8% while Nigeria has 6.1% .

According to Etim (2020), economic growth is a sustained increase in per capita national output or net national product over a long period. Economic growth is the study process of increasing the national income through governments conscious effort of influencing economic variables through fiscal policy or monetary policy measures (Etim, Nweze, Umoffong and Elias, 2020). This as well contribute to the Growth of a nation.

2.1.5 Tax Administration

It is one thing to make policies, rules, and regulations in an attempt to attain a desired goal or objective and it is another thing to implement these policies, rules, and regulations. The organs or agencies in charge of tax policy implementation in Nigeria are referred to as the administrative organ or agency in this research work. Efficiency and effectiveness should be the watch word in designing a tax administration structure that will give the desired result. Put differently, tax administration in Nigeria is the responsibility of the various tax authorities as established by the relevant tax laws (Kiabel and Nwokah 2009). Citing Section 100 of the Personal Income Tax Decree, 1993 and amended by Decree No 18- Finance (Miscellaneous Taxation Provisions) Decree 1998, Kiabel and Nwokah (2009) noted "Tax authority "to mean Federal Board of Inland Revenue, the State Board of Internal Revenue and the Local Government Revenue Committee. Together with the Joint Tax Board (ITB) and Joint State Revenue Committee or Local Revenue Committee, the Nigerian tax authority administers taxes in Nigeria. The fiscal autonomy granted the three-tier of government had led to a multiplicity of tax. Taxpayers and corporate bodies had been subjected to multiple levies or charges of tax of the same name in a different forms. This increased evasion and avoidance as such payment either eats deep into the profit of the business or affect negatively, the distributable income of the individual.

2.2 Theoretical Framework

2.2.1 Economic Theory of Tax Administration

The economic theory of tax administration propounded by Chattopadhyay and Das-Gupta (2002) states that people are rational actors and will respond to incentives when it comes to tax administration. This theory assumes that people make decisions based on their self-interest and that they will try to maximize their incomes which as well have significant effect of how they respond to tax payment. The use of this theory is significant in that if taxpayers pay their tax levy, it can have a positive effect on the economy of the nation.

2.3 Empirical Review

Monica, Makokha, and Namusonge (2017) study “Effects of Electronic Tax System on Tax Collection Efficiency in Domestic Taxes Department of Kenya Revenue Authority (KRA), Rift Valley Region’ adopted a case study research design to establish the effects of electronic tax payment on revenue collection efficiency by KRA in Rift Valley region; they found out that there is an effect of electronic tax filing on revenue collection efficiency.

Owino, Otieno, and Odoyo (2017) in their study, “Influence of Information and Communication Technology on Revenue Collection in County Governments in Kenya: A Comparative Study of Migori and Homa Bay County Governments”, used a correlation study research design to determine the influence of ICT system for single business permits on revenue collection. They evaluated the influence of the ICT system for land rates on revenue collection. The target population was 864 consisting of 848 revenue clerks and 16 revenue officers from which a Sample size of 86 respondents was selected using a stratified random sampling technique. Primary data were collected with the use of a questionnaire, and analyzed using percentages,

means, and regression techniques. The findings showed that a strong and almost perfect association existed between ICT systems adopted and revenue collection; the application of the information communication technology systems explains up to 91.9% variation in revenue collection efficiency. Further findings revealed that the application of these systems improved revenue collection efficiency in the county governments.

Eneojo and Gabriel (2014) study Taxation and Revenue Generation: an Empirical Investigation of Selected States in Nigeria. examined the extent to which tax revenue generation has contributed towards the economy's total revenue and Gross Domestic Product and the effect of tax evasion and tax avoidance on revenue generation in Nigeria. The study employed both primary and secondary sources of data. Using a survey research design, the study focused on all staff of Federal Inland Revenue Service Abuja FCT office, the States Board of Internal Revenue in Kogi State (North Central Zone), in Delta State (South Southern Zone), in Ondo State (Southwestern zone), in Niger State (North-Western Zone), in Ebonyi State (Southeastern State) and Abuja FCT was chosen by the researcher to replace Taraba State (North Eastern State). For the secondary data, Internally Generated Revenue by the six Geo-Political Zones, taxes collected by Federal Inland Revenue Service, Abuja FCT, and the country's GPD were collected from 2002 to 2011. Both descriptive and regression analyses were carried out on the data. Findings from the study revealed that taxation has a significant contribution to revenue generation, taxation has a significant contribution to Gross Domestic Product (GDP) and tax evasion and tax avoidance have a significant effect on revenue generation in Nigeria.
Oriakhi and Ahuru (2014) examined the relationship between federally collected revenue and specific tax revenue generation sources such as custom and Excise Duties (CED), value-added tax (VAT), petroleum profit tax (PPT), company income tax (CIT). Secondary data were collected for each of the tax sources from 1981 – to 2011. The study employed advanced econometric analysis such as regression, co-integration, error correction modelling and pairwise granger causality tests. The various income taxes were used as the independent variables while "Federal collected Revenue" was used as the dependent variable. The study concludes that the various income taxes were statistically significant and had a positive relationship with federally collected revenue.

Okwu (2011) examined the contribution of Tax to the growth of Lagos State Economy, using simple regression models as abstractions, their study considered a vector of economic growth indicators as dependent variables and in regressing each on VAT revenue of Lagos State. They noted that economic growth such as infrastructural development, environmental management, education sector development, youth, and social development, agricultural sector development, health sector development and transportation sector development, etc; are dependent on V AT revenue and other forms of revenue which has contributed positively to the economic growth of the respective sectors.

Also, Unegbu and Irefin(2011) in their paper, the effect of value-added tax (VAT) on economic and human developments of emerging Nations from 2001 to 2009, using regression, discriminant

analysis, and ANOV A, found out that VAT allocations have a very significant effect on expenditure pattern of the state during the same period.
Adegbie & Fakile(2011) concentrated on the Company Income Tax and Nigeria Economic Development relationship. Using Chi-square and Multiple Linear Regression analysis in analyzing the primary and secondary data respectively concluded that there is a significant relationship between company income tax and Nigerian economic growth. And that tax evasion and avoidance are major hindrances to revenue generation.

Liadiale *et al*. (2010) conducted a study in Nigeria while examining the relationship between personal income tax evasion and cultural factors like religiosity, trust in government, and legal enforcement. In his study, he found a positive effect on personal income tax of trust in government and legal enforcement. However, he noted that they were no significant relationship found between religious variables and tax evasion in Nigeria. Liadial's study is related to the present study in that both studies were carried out in Nigeria and looked at tax evasion, factors that could lead to it, and the relationship between tax variables.

3. Methodology

Secondary data sources were used in the work, the data were sourced from the Central Bank of Nigeria Statistical bulletin and Reports of federal inland revenue. The data sourced were tax to GDP ratio, per capital income, ang gross national income). For this study, the quasi-experimental research design was adopted. Among the different types of Quasi-experimental designs, the pre-post (difference in time) design was considered appropriate for the study. It calculates the effect of a treatment (i.e., an explanatory variable or an independent variable) on an outcome (i.e., a response variable or dependent variable) by comparing the average change over time in the outcome variable for the treatment group, compared to the average change over time for the control group.

In view of the research design, a multi-linear regression analysis technique was used. This test is a statistical procedure used to determine whether there are differences. The appropriateness of this method can be justified by the fact that each variable was grouped into dependent and independent variables. On the other ANOVA analysis was used to test the hypothesis.

3.1 Model Specification

The model expresses the federal tax revenue (FTR) as a function of Gross Domestic Product (GDP), gross national income (GNI), and per capital income (PCI). This can be mathematically expressed as FTR =f(GDP+GNI+PCI). This can be further proxied mathematically as follows

Economic growth model

FTR=f(GDP, GNI, PCI)--(I)

$FTR = B_o+B_1GDP+ B_2nGNI +B_3rPCI +Ut$- ---(2)

Where FTR =Federal tax revenue, GDP= Gross Domestic Product, GNI =Gross national income PCI = Per capital income (PCI), Bo= Constant, Ut = error term

4. Results and Discussion

Table 1: Regression Result

Variables	Coefficient	Std. Error	t	P	VIF	
Constant	3.2150		1032		6532	0.301
GDP	0.5832	34.672		56.23	0.001	0.132
GNI	40.5120	20.5340	0.8677	0.005	0.342	
PCI	0.2306	53.349	0.165	0.000	0.491	

FTR= Federal Tax Revenue; GDP=gross domestic product ; GNI = Gross National income

FR = 3.2150+ (0.5832* GDP) +(40.5120* GNI) + (0.2306 * PCI)

R = 0.5506 Rsqr = 0.651 Adj Rsqr = 0.9230

Standard Error of Estimate = 10.30

Table1, shows taxation account for 58% effect on growth of Nigeria economy, while it contributed to the gross national income up to 40.5%. With respect to per capital income, the result showed that taxation accounted for 23.06% positive effect. This result implies that taxation has some level of positive effect on the economic growth of the country over the period of 10years being studied.

Hypotheses Testing: H_{01}: There is no significant effect of tax on Nigeria economy

Table 2: Analysis of Variance (ANOVA)

	DF	SS	MS	F	P
Regression	6	2451.096	4513.219	0.822	0.001
Residual	4	3218.121	4513.338		
Total	9	6165.123	3085.0113		

Tested at 0.5% level of significance

Table 3 shows that the p-value is less than 0.5%. At this level of significance, the null hypothesis stated is rejected. Therefore, it can be concluded that taxation do have a significant effect on the economy of Nigeria.

5. Summary and Conclusion

The findings of the study showed that taxation has a positive effect on the economy of the country. This positive contribution by taxation could be due to the ease and flexibility of the tax system which has made it easier for taxpayers to be able to pay their tax levies. This could be a a result of the fact that taxpayers see it as a means to grow the economy of the country in other for the government to provide the social needs of its citizens. These findings agree with the finding of Owino, Otieno, and Odoyo (2017) who in their study said there is a strong and almost a perfect association which exist between tax systems adopted and the revenue collection and who also reported that the application of the information communication technology systems explains up to 91.9% variation in revenue collection efficiency that contribute to the growth of the economy positively.

Taxation has has positive effects on the level and rate of economic growth. Hence, there is a need to balance the system to enhance effective tax revenue generation. That is why this study recommends, that government should make more adequate policies with respect to tax system to enable a high percentage of tax revenue collection which will create more avenues for the government to engage more in the infrastructural development and growth of the country.

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