EFFECT OF TAX REVENUE GENERATION ON ECONOMIC GROWTH IN NIGERIA

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ABSTRACT: *The contribution of taxation to all economies around the world cannot be exaggerated. Apart from the revenue function it performs for the government, it is also used to help the country achieve its macroeconomic goals in the areas of fiscal and monetary policy. While a significant portion of Nigeria's income comes from taxes, it has long been observed that the role of taxation in stimulating economic activity and growth remains unrecognized especially in the area of infrastructure and basic equipment. Earlier documents have shown that tax revenues in developed countries have a significant impact on economic growth, which is clearly reflected in the services provided by these countries. Therefore, the main purpose of this study is to investigate the relationship between Nigerian tax revenues and economic growth in Nigeria. Multiple linear regression analysis was used to analyze the data using the Microsoft Excel package. As a result, petroleum profit tax, company income tax and value added tax have a positive impact on Nigeria's economic growth, while custom excise and duties have a negative impact, but overall, between tax revenue and Nigeria's economic growth, there is a significant correlation. The use of generated tax revenue is a serious concern, requires special attention of policy makers, taxpayer violations of tax law are obstacles, and inefficient tax administration is a sufficient loophole for tax evasion. As a result, income is reduced. In particular, the Tax Administration is only responsible for qualified professionals and trusted persons, and it is advisable to thoroughly educate the importance of taxes for the entire population.*

KEYWORDS: tax, revenue, generation, economic, growth

INTRODUCTION

Taxes are mandatory charges or duties levied on the goods, services and income of individuals or organizations. Taxes levied on income are widely regarded as direct taxes, and taxes levied on goods are known as indirect taxes. One of the reasons for introducing and collecting taxes is to generate government income to fund specific projects that guarantee reliable and functioning economic growth and development. By collecting taxes, basic services are provided to local residents by redistributing income and improving living standards. National taxation is an important determinant of other macroeconomic indicators, especially for developed and developing countries. There is a link between the tax system and the level of economic growth in a country. Tax policy goals vary by stage of development. Similarly, the economic criteria for determining the tax structure and the relative importance of each tax source change over time, Vincent, (2001). For example, shortly after the colonial era and Nigeria's political independence in the 1960s, the sole purpose of tax collection was to generate income. The focus then shifted to the goal of protecting emerging industries and redistributing income. Tax revenue is a powerful tool for economic reform and a major player in all economies of the world. It is by no means static but dynamic and needs to reflect the current reality of the economy. The tax system is an opportunity for the state to generate the additional income it needs to meet its urgent obligations, among other sources of income. A good tax system provides itself as one of the most effective means to mobilize the country's internal resources and create a favorable and fostering environment for promoting economic growth (Ogbonna 2010).

In addition, the basic nature of the economy eliminates retail-style taxes. Even at this stage, Kiabel (2009) finds it difficult to collect taxes due to lack of skills and equipment of the tax Administration. With this in mind, complex tax systems are not feasible and the level of income tax revenue depends on taxpayer compliance and tax collector efficiency.

THEORETICAL FRAMEWORK

According to Bhartia (2009), tax revenue theory can be derived from the assumption that there is no connection between the taxes paid and the profits received from government activities. There are two theories in this group. Socio-political theory and convenience theory.

Social Political Theory: This tax revenue theory states that social and political goals should be the most important factor in tax choice. Theory argued that the tax system should not be designed to serve individuals, but should be used to cure illnesses throughout society.

Benefit received Theory: This theory, in principle, assumes that there is a commutation relation between the taxpayer and the state. The state provides certain goods and services to members of society and shares the cost of these supplies in proportion to the profits received by Bhartia (2009). Anyanfo (1996) argues that taxes should be distributed on the basis of profits from government spending.

Faculty Theory: According to Anyanfo (1996), this theory should be taxed according to the ability to pay tax. This is just an attempt to maximize a clear value judgment regarding the impact on tax distribution. Bhartia, (2009) argues that citizens should pay taxes solely because they can, and that his relative proportion of total tax burden is determined by his relative solvency.

Expediency theory: This theory states that all tax proposals must pass field trials. This should be the only important consideration for authorities when choosing a tax proposal. The economic and social goals of the state and the impact of taxation should be treated as insignificant in Bhartia, (2009). Anyafo, (1996) Blartia, (2009) explains that convenience theory is based on the link

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between tax obligations and government activities. It assumes that the services provided by the state should be charged to the members of society. This set of inferences justifies the collection of taxes to fund government activities by inference and provides the basis for sharing the tax burden among members of society.

There is truth in this sentence as paying taxes is useless .Some taxes cannot be collected and collected efficiently. There is pressure from economic, social and political groups. Each group aims to protect and move forward in its own interests, and authorities are often forced to redesign their tax regimes to meet these pressures. In addition, the administrative structure may not be efficient in collecting taxes at a reasonable collection cost. Tax revenues are a powerful policy tool for authorities and should be used effectively to address social economic and social issues such as income inequality, regional disparities, unemployment and economic fluctuations. Adolph Wagner argued that social and political goals should be a decisive factor in tax choices. Wagner did not believe in an individualistic approach to the problem. He wanted to see every economic problem in its social and political context and find a suitable solution.

Therefore, the tax system should not be designed to serve individual members of society, but to cure illnesses throughout society. This theory is relevant to the normal development process and provides a benchmark that can compare country-specific empirical evidence. Therefore, this study focuses on convenience theory that can assess how well Nigerian taxation is in compliance with this scenario, where the link between legal liability and economic activity is linked. If necessary, such characterization will improve the accuracy of tax revenue forecasting and targeting of a particular tax revenue source given a particular economic development profile. It also helps to assess the sustainable revenue profile there, among other things, by facilitating the effective management of the country's fiscal policy. This theory focuses on the taxes levied in all respects to achieve the economic goals that drive the growth and development of society. Socio-political, utility, and undergraduate theories are relevant, but with more emphasis on political, relational, and goal skills. Adereti (2011) conducted a survey on VAT and economic growth in Nigeria.They used both simple regression analysis and descriptive statistical methods to timeline their gross domestic product (GDP), petroleum profit tax, company income tax, and value added tax from 1994 to 2008 to analyze the data. The results of the survey showed that VAT receipts were responsible for significant fluctuations in Nigeria's GDP by up to 95%. There is a positive and significant correlation between VAT, revenue and GDP.

Federal Government Collectible Taxes in Nigeria

Buba (2007) emphasizes the fact that the development of the private sector, which is the main driver of national development growth and wealth creation, requires significant investment in areas such as infrastructure, energy and power. Investment of this size can only be obtained from the government. Improving income levels in poorer areas of society also requires sufficient investment in areas where it is possible, such as education and health that can create employment. The government can successfully implement all these projects if it can generate the necessary income. Its main source is taxes. According to Olawunmi and Ayinla (2007), policy advice is an economic policy goal. The most important fiscal policy measures are tax revenues and public spending. With this in mind, some forms of government-generated taxes and their functions are described below.

Petroleum Profit Tax
According to Buba (2007), Nigerian law under the Petroleum Profit Tax Act of 1990 requires all companies involved in oil mining and transportation to pay taxes. Adigbe, (2011) further noted that taxable income for oil companies includes income from the sale of oil and related substances used by the company at its refineries.

Companies Income Tax
The Companies Income Tax Act of 1990 is the current enforcement law that regulates the taxation of the profits of companies doing business in Nigeria, excluding those involved in oil exploration activities. The tax rate is 30%. (Adereti, 2011).

Valve Added Tax
VAT is a tax which is adopted in many countries around the world and is paid annually to assess the profits of a company. The Value Added Tax Act of 1993 regulates the collection of taxes paid on goods or services subject to VAT. Adereti, (2011). It was introduced to replace the old sales tax. This is the sales tax levied at each stage of the consumption chain and borne by the final consumer. It requires the taxable person when registering with the Federal Tax Office to charge and collect sales tax at a flat rate of 5% of all invoiced goods and services for taxable goods and services. Ariyo, (1998), Adereti, (2011) stated that the evidence so far supports the view that VAT income is an important source of income for Nigeria.

Personal Income Tax
Personal income tax are based on Pay As you Earn (PAYE). In other words, the amount of tax paid depends on the amount of income of the taxpayer. Taxes are withheld by relevant authorities, unlike the private sector, which must be filed on a taxpayer basis, so officials can easily collect them, but its not done in most cases Abu, (2012).

Customs and Excise Duties
Nigerian tariffs are the oldest form of modern tax revenue. Their introduction dates back to 1860 and is known as import duties. This is a tax on imports into Nigeria and is taxed as a percentage of the import value or as a fixed amount depending on the quantity of goods, Buba (2007). Tariffs are an important source of income for the federal government and must be paid by importers of certain goods Buyonge, (2008). The collected data will be analyzed using multiple regression and correlation techniques. From a correlation analysis perspective, the human product moment correlation coefficient (PPMC) is considered as follows: Multiple regression analysis uses the following model to establish the relationship between Nigerian tax revenue and GDP and see how this affects it.

Tax revenues on Nigeria's economic growth and development

$= mx + bY$

Where:

The decision correlations used are:
The residuals that measure the estimation error are also explained by plotting the scattered diagram. The residual value describes the difference between the actual values of the dependent variable (GDP). Taxation is represented by revenue from petroleum profit tax, company income tax, customs and excise duties and value added tax for the period under study. In order to examine the impact of tax revenue on Nigerian economic growth, the following function will be used.

GDP =∫ (PPT + CIT+ CED +VAT)
From the function above, the following model will be adopted to run the multiple linear regressions
$GDP = \alpha + \beta 1PPT + \beta 2CIT + \beta 3CED + \beta 4VAT$
Where
GDP: Gross Domestic Product
PPT: Petroleum Profit Tax
CIT: Company Income Tax
CED: Customs and Excise Duties
VAT: Value Added Tax
α is constant
β 1, β 2, β 3, are the coefficient of the parameter estimate

Data Presentation
Secondary data obtained as part of this research work will be used to empirically examine the impact of tax revenues on Nigeria's economic growth from 2010 to 2020. The dependent variables are GDP and the independent variables are petroleum profit tax, company income tax, customs and excise duties, and value added tax. The data was analyzed by ANOVA using Microsoft Excel Package

YEAR	GDP	PPT	CIT	CUSTOM & EXCISE DUTIES	VAT
	N'000000	N'000000	N'000000	N'000000	N'000000
2010	29,205,782.96	639,200	468,750	100,634	51,891
2011	49,987,986.98	783,513	840,375	226,811	68,646
2012	69,873,223.76	904,905	589,163	111,465	76,443
2013	54,723,465.87	692,253	613,432	144,234	121,615
2014	31,305,882.98	883,647	1,004,957	145,578	99,591
2015	38,457,478.55	1,038,308	614,8123	357,756	102,145
2016	78,409,654.67	1,600,605	1,207,896	341,498	198,698
2017	180,360,000	1,520,481.70	1,215,056.80	893,350	202,000
2018	190,651,200	2,467,580.70	1,340,329.40	15,797.40	1,108.40
2019	215,097,600	2,114,268.40	1,604,698.50	18,192	1,189.98
2020	207,499,200	1,516,993.40	1,275,380.60	120,157	1,531,170.90

Source: Annual Statistical Bulletin from Federal Inland Revenue Service (2020)

Table below summarizes the tax revenue results. This shows that tax revenues have had a significant impact on Nigeria's economic growth during the study period. The coefficient of determination is 78.5%, indicating a strong correlation between Nigerian GDP and tax revenue. This means that tax revenues account for up to 78.5% of fluctuations in Nigeria's economic growth, with the remaining 21.5% covered by other factors beyond the scope of this study. The overall significance level is 0.000431, well below 5%. This also suggests a strong link between GDP and tax revenue. It also explains that the probability of regression output is not random.

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.919680902
R Square	0.845812962
Adjusted R Square	0.722463331
Standard Error	40257843.62
Observations	10

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	4.44526E+16	1.11132E+16	6.857036852	0.029074518
Residual	5	8.10347E+15	1.62069E+15		
Total	9	5.25561E+16			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-41921609.21	38870856.39	-1.078484322	0.330074827	-141842326.5	57999108.1	-141842327	57999108.12
639200	104.9882814	22.62157607	4.641068379	0.005627259	46.83766886	163.138894	46.8376689	163.1388939
468750	-7.968883852	8.334873284	-0.956089383	0.382935535	-29.39435771	13.45659	-29.3943577	13.45659001
100634	42.27730782	53.12893686	0.795749178	0.46226672	-94.29497216	178.849588	-94.2949722	178.8495878
51891	58.97451942	29.36273839	2.008481588	0.100841561	-16.50480249	134.453841	-16.5048025	134.4538413

FINDINGS OF THE STUDY

From the above analysis, the relationship between Geoss Domestic Product (GDP) and income from Petroleum Profit tax, Company income tax, customs and excise tax and value added tax was established. The importance of GDP is to measure the level of economic growth in Nigeria. Multiple regression and correlation techniques using Microsoft Excel with ANOVA were used.

CONCLUSION

The findings of this study contributes towards a higher knowledge of tax revenue and economic growth in Nigeria. GDP and 4 different variables that constitute petroleum profit tax, company income tax, custom and excise duties, and value added tax had been advanced to test which elements high-quality describes monetary increase in Nigeria.

The end result indicates that petroleum income tax, company income tax, custom and excise duties, and value added tax are tremendous variables in explaining the monetary increase in Nigeria. The implication of the findings is majorly for coverage makers, particularly the Federal Board of Inland Revenue as maximum of the variables indicates a definitely tremendous courting with economic growth, that means that there ought to be no location in tax series that ought to be taken gently as they have all established to be main variables in connection to the increase of the financial system. Also, for researchers, the look at will re-introduce them to a one of a kind course of methods wherein tax revenue can make contributions to the monetary increase in Nigeria and add to the prevailing literatures in this problem be counted and additionally make certain that the regulatory frame enforce rules with the intention to reduce the loop holes in tax legal guidelines which tax payers capitalize directly to steer clear of tax.

One of the principle functions of tax revenue is to elevate revenue that the authorities can use to provide good services and infrastructure for its residents in addition to decorate increase and development however the case appears to be one of a kind in Nigeria because the bodily evidences does not show that budget generated from tax revenue are used for this purpose. Analysis has thrown a few mild at the effect of tax revenue on Nigeria`s financial system. It is glaring that the Nigerian overall tax revenue generated has a tremendous effect at the financial system and development in general.

Recommendations

The findings and conclusions reveal the following recommendations:

1. The introduction of a taxpayer number (TIN), which is the registration and storage of taxpayer data in Nigeria, is a welcome idea, but to be successful, make all potential taxpayers accountable, Must be configured, Citizens and businesses need to be able to hold a bank account only if they have a TIN number, State territories, multinationals,
conglomerates, and domestic companies should not hire suppliers without a TIN number. This will greatly help reduce tax evasion.

2. It is necessary to establish an arbitration committee recommended by the 1993 tax law, especially to reduce tax evasion and diversion of tax revenue. Only professionals and trusted hands should be responsible for tax administration.

3. All taxes must be transferred to the accounts of various tax authorities via electronic payment system or direct payment. This will strengthen and support the recently introduced cashless economic system.

4. Tax certificates and other tax documents used in government transactions must be referred to the appropriate tax authorities for certification.

5. The government needs to make taxes publicly available through printed matter and electronic media. The government's intention of such a tax should be communicated to the general public. Separate institutions need to be established to ensure that the funds generated by the government through each level of tax are being used properly.

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