European Journal of Accounting, Auditing and Finance Research
Vol.8, No.4, pp.112-120, April 2020
Published by ***ECRTD-UK***
Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)

RELEVANCE OF TAX REVENUE AND ECONOMIC GROWTH IN NIGERIA (2008-2018)

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ABSTACT: *This study aims at investigating the relevance of tax revenue in driving economic growth in emerging market economy context. . Using data extracted from central bank of Nigeria statistical bulletin for various years and auto-regression estimation model, our study documents the existence of significant and positive relationship between petroleum profit taxes (PPT), Company Income Tax (CIT) on economic growth in Nigeria. Our findings further reveal that Value Added Tax (VAT) and Custom –excise duty (CED) exert negative influence on economic growth. However, the study provide evidence that VAT and CED are insignificant in determining the economic growth in emerging market economy context with special interest in Nigeria This study provide further evidence that the higher the amount of tax revenue generated, the higher the level of economic growth in the economy. There is a recommendation therefore that strong institutional reforms are panacea to prevent leakages of revenue from VAT and CED.*

KEY WORDS: company income tax, petroleum profit tax, value added tax, economic growth, Nigeria economy

INTRODUCTION

Tax revenue is important for many reasons. First, level of economic growth and development depends much on the country's tax system (Libatatu, 2014). Second, taxation enhances the macro – economic indexes of a country and speedy up development in all sphere of human endeavor, thereby creating employments and balance of trade. With good tax system, revenue and the citizens' welfare will also be enhanced (see Aboyade 2010).. Thirdly, taxation enhances the financing of public goods, regulate production and consumption patterns as well as serve as vehicle for the protection of infant industries. It will also reduce income inequality (Okoye, 2014) The purpose of government in taxing the citizens, among others is to provide these basic amenities, protect the lives and property of the citizens as well as create the enabling environment for individuals and corporate organizations to strive. However, for the government to accomplish these responsibilities, it needs to mobilize enough revenue through the taxation of the citizens and her corporate organizations.

Okoye (2014) opined that taxation generates funds to finance public goods, regulate production and consumption of goods and services, control adverse economic conditions,

protect infant industries and reduce income inequality among others. Since the tax system is a veritable tool for mobilizing a nation's internal resources and creating an enabling environment for the growth of the economy. Whenever taxes are effectively and efficiently administered, there is always an increase in revenue generation. The citizen will always expect development of such revenue to provide amenities that will enhance their standard of living. In Nigeria, tax revenue has accounted for a small proportion of the total revenue accruable to government over the years compared with the bulk of revenue generated by the government.

Despite the benefit of taxation, there is available evidence to suggest that in Nigeria, tax revenue did not correlate with economic development. For instance, , unqualified tax personnel and fraudulent activities of tax collectors has posed great challenges to revenue generation as fraudulent tax collectors forge and divert government revenue into personal pockets. Also, the inability of government to reciprocate the sacrifice of tax payment, hence the continuous reduction in tax revenue generation.

The behavior of Nigerians with regards to taxation is nothing to write home about as many people prefer not to pay tax even if they have the chance to do so. The economy continues to lose huge amount of revenue through the unwholesome practices of tax avoidance and tax evasion. These loss of revenue can change the fortune of the country; Nigeria. As important as this area of research, much attention has not been paid on it by scholars. Therefore, the motivations for this research are in two folds: first, lack of local empirical evidence on the relevance of tax revenue on economic growth. Second, the unidirectional and contradictory findings of earlier scholars in develop countries. Based on the above lacuna, this study set to examine the effect of PPT, CIT, VAT AND CED on the economic growth in Nigeria. This study is significant as it will add to the development of local evidence on the implication of taxation revenue on economic growth in emerging market economy.

LITERATURE REVIEW

Earlier literatures differentiate tax from taxation. According to Ifurueze and Ekezie (2014) Tax represent compulsory payment by individuals, company and non-resident individual to government for a pre-determined purpose. The purpose of levying tax may include but not limited to provision of infrastructure and other social amenities to the citizenries. Taxation on the other hand represents compulsory payment to government or its agency on the income of individuals and organizations. Successive governments in Nigeria have expressed their concerns about the low level of productivity in tax administration and collection system, Complex legislation and apathy (Unegbu and Irefin, 2011). Available evidence suggest that taxation income is required for meeting government expenditure . Many developing nations such as Nigeria undertook two tax reforms in the 1980's. These reforms which were focused on tax structure rather than tax administration which were geared towards generating more tax revenue from existing tax sources. Unegbu and Irefin (2011) stated that the Nigerian tax system had undergone several reforms geared towards enhancing tax

administration with minimal enforcement cost. Among the reforms introduced were Tax payer Identification Number (TIN) which came into being in February 2008, automated tax system which was made to facilitate tracking of tax positions, E-payment system which was meant to enhance smooth payment procedures and reduce the incidences of tax touts among others. Integrated tax offices and authorities were created in order to have autonomy to assess, collect and record tax. Despite these arrangements, there were still a number of contentious issues that required government urgent attention such as appropriate tax authority to administer taxes, the issue of multiple taxes administered by different levels of government which sometimes imposed welfare cost and unavailability of database which resulted to tax avoidance and sometimes tax evasion in the country (Unegbu and Irefin 2011). They equally added that the issue of corruption in the country was and had reduced the confidence and trust reposed on the government by the tax payers to the discharge of their other responsibility/duty. The provision of Infrastructure and other social amenities were so deficit such that most facilities were often privately owned; hence, the taxpayer always questions the rationale behind tax payment.

Petroleum Profit Tax (PPT)

Petroleum Profit Tax (PPT) is imposed on any entity or companies that are engaged in the extraction and transportation of petroleum products. This tax which became effective under the PPT Act 1959 and has undergone several amendments provides for disposals. According to the Act disposal includes; the delivery of chargeable oil to refineries. As well as provision of petroleum operation. Petroleum operation involves exploration, development, production and sales of crude oil and other related costs such as rents and royalties among others. (Ekeocha et al 2012).

Abdul-Rahawah (2013) stated that aside of provision of revenue to government through PPT; it is also an instrument for regulating participants in the petroleum industry. Fasoranti (2013) noted that the importance of petroleum to Nigerian economy gives rise to the enactment of different laws regulating taxation of incomes accruing from petroleum operations. PPT is an important tax in Nigeria in terms of its contribution to the country's total revenue as it contributes over 70% to government revenue and 95% to foreign exchange earnings.

Company Income Tax CIT

CIT is imposed on the gain or income of any company accruing in, derived from, brought into or received in Nigeria. Appah (2010) submitted that CIT is payable by all incorporated companies in Nigeria. It also includes taxes on the profits accruing to non-resident companies carrying on business in Nigeria and is paid by both private and public limited liability companies. It is one of the taxes administered and collected by the Federal Inland Revenue Services (FIRS). The tax rate is 30% and it is applied on the chargeable profit of the company. Companies also pay education tax at the rate of 2% on the assessable profit of the company. It should be noted that oil companies are liable to pay tax under CITA at the rate of 20%. Owizy (2010) opined that CIT impact significantly on the economy of Nigeria since it serves as a stimulus to economic growth in the areas of fiscal and monetary policies.

Value Added Tax (VAT)

Bird (2005) defined VAT as a multi-stage tax imposed on the value added to goods and services. This type of tax are collected by the FIRS on behalf of federal government and are imposed on goods and services as they are rendered and consumed either during production or distribution stage. Abata (2014) described VAT as a tax burden that is passed on from the manufacturer to the wholesaler through the retailer and finally to the consumer who ultimately bears incidence and the burden. Anyanwu (1993) stated that VAT as a consumption tax is essential on economic operations including imports except those exempted as per the provisions of the Act because they are imposed on virtually all forms of goods and services VAT rate in Nigeria is one of the factors contributing to the collapse of the real sector of the economy because it disrupts the manufacturing sector by accelerating astronomical increase in the prices of goods and services. This is in addition to other teething problems already plaguing the sector

Custom and Excise Duties (CED)

Fasoranti (2013) described import duty as a levy by custom authorities in Nigeria to raise revenue for the government and protect (infant)/domestic industries from predator competitors abroad. Okoye and Gbegi (2013) believe that governments sometimes impose duties to hurt another country by making its exports more expensive. This is usually done as a retaliatory measure in a trade war between countries..

Tax Revenue and Economic Growth

The macro-economic indexes depend largely on the country's tax system that is in place. Such macroeconomic indexes such as inflation or unemployment rates may be controlled with the instrument of taxations. Anyanwu (1997) summarized a country's economic growth as a long-term rise in capacity building of the people to supply increasingly diverse economic goods and services to her citizens.

Economic growth includes expansion of a country's potentials such as its gross domestic product (GDP). Jarker (2011) concluded that at the early stage of economic development, the rate of growth in public expenditure maybe very high because the government will be providing basic infrastructural facilities and these facilities are capital intensive. Therefore, government's spending and investment in these projects could be in the form of education, health, roads, electricity as well as water, which are the key necessities that launch an economic growth and development in a country. (Bhartia 2009)

Empirical Review

Literatures on taxation are more on the implication of tax policies on economic growth in developing countries than as it is on the broad theme of taxation revenue and economic growth. Such studies on taxation policies include Magu (2013) who found increases in VAT in Kenya to have a positive effect on economic growth. Wilfred (2014), who revealed an inverse relationship between corporate and personal income taxes on one hand and economic growth and investment on another hand in Nigeria. Ojong, Anthony and Arikpo (2016) observed significant relationships between growth and non oil revenue and petroleum profit tax with the relationship between company tax and growth being

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insignificant in Nigeria; etc. While the consensus opinion among scholars is that tax policies have positive effects on economic growth, few that studied taxation revenue found mixed effect. For instance, Porison, (2006) who contends that empirical evidence is mixed. He studied the effect of taxes to be seen as negative for investment, employment and economic growth. His Findings showed that high tax rates may help generate growth in the "shadow economy", carrying costs with regards to foregone tax receipts and lower productivity growth. Similarly Oliver, Edeh, Anothoy and Chukwuma (2017) studied the effect of taxation on the development of infrastructure in Nigeria , The finding of the study indicate that VAT, PPT and CIT have insignificant relevance on Infrastructure Development in Nigeria . While there are litany of research that documents the existence of relationship between taxation and economic growth in developed countries, the same cannot be said of it in developing countries with notable exemption to India (Subramanya and Arab,i 2017) This therefore suggest that the direction of the relationship especially as it concerns developing countries are far from settled thereby motivating more studies in the area. Ramot and Ichibashi (2012) in his study examine tax structure and economic growth using panel data from 65 countries.. The finding of that study show that a negative relationship exists between company income tax and growth. Contextualizing the findings within the framework of revenue productivity theory, the study recommends for modest design that would enhance tax resources through broad-based tax structures.

THEORITICAL FRAMEWORK

This study is anchored on Revenue productivity theory propounded in 1826 by Von Thunen. The theory harp on the need for raising additiona; revenue.. According to Okwori and Ochuyabo (2014), argue in favour of tax base and higher revenue arguing for a robust tax base and fiscal economy in the cost of collecting tax. . Adam Smith (1776) also argued from the perspective of the canon of taxation stating that cost of collecting tax must not be higher than the tax collected and so on. Adam Smith provide additional theoretical evidence for taxation emphasizing equality, certainty, convenience and economy The theory further emphasizes the aspect of having a large/enough tax base to cover at a minimum cost and stresses an efficient tax administration so as to enforce compliance. (Okwori and Ochiyabo, 2014).

Earlier, other economists such as Keynes believe that these are not sufficient to meet all the purposes of modern economic policy which are partly achieved through the budget, which includes the allocation, distribution and standardization functions. As a result, they have proposed five broader criteria of taxation. These are the principles of equity, efficiency, simplicity, neutrality and economy (revenue).

METHODOLOGY

The purpose of this study is to investigate the relevance of taxation revenue on economic growth. In order to achieve this objective, the study made use of Exposé-facto research design.And Time series data sourced from Central Bank of Nigeria's Statistical Bulletin and

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Federal Inland Revenue Service (FIRS). The Macro-economic data used are tax revenue (TR), which include revenue from Petroleum Profit Tax (PPT), Company Income Tax (CIT), Value Added Tax (VAT), Custom and Excise Duty (CED), Economic Growth (EG) was used to proxy gross Domestic Product (GDP) for 10 years in Nigeria. Increased tax revenue is expected to have a direct effect on the Gross Domestic Product so the model specification shall be;

GDP = f (PPT, CIT, VAT, CED)-------------------- Eqn 1
GDP = $\beta_o + \beta_1 PPT + \beta_2 CIT + \beta_4 CED + \mu$ -----------Eqn 2
Where
β_0 = Constant
GDP= Growth rate of Gross Domestic product
PPT=Petroleum Profit Tax
CIT= Companies Income Tax
μ = Error Term

Method of Data Analysis

This study made use of Augmented Dickey Fuller (ADF) to test for the presence of a unit root test. Unit root test measures stationarity of variables. The long and short term relationship that exist between the two variables were tested using Johanson co-integration while the speed adjustment was measured using the Error Correction Model (ECM). We correct or eliminate discrepancy in the estimation model where each occur. Prior studies such as xxxxxxx have used this methods and they are replicated in this study. There observations using the model shows that the model is robust enough to determine long run relationship and to estimate equilibrium position.

Data Analysis and Interpretation

Unit root test was used to test for stationary of the data, Granger causality was used to test the cause of the independent variables on the dependent variable while Victor Error correction model, the co-integration test was used to determine whether a long term relationship exist and speeds of adjustment

Unit Root Test

In order to test for stationary of the data, the study carried out the unit root using Augmented Dickey Fuller (ADF). The summary of the result is presented below

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Table 1 Result and Findings

Variables	Order of Interpretation	ADF Level	1% (CO)	5%(CO)	10%(CO)
GDP	1(1)	-5.417701	-4.616209	-3.710482	-3.297799
PPT	1(1)	-6.398597	-4.571559	-3.690814	-3.286909
CIT	1(0)	-5.912865	-4.571559	-3.690814	-3.286909
VAT	1(0)	-5.862872	-4.616209	-3.710482	-3.297799
CED	1(0)	-5.091527	-4.571559	-3.640732	-3.286909

Sources; Author's Computation (2019)

The stationary result shows that CIT and CED are stationary at level. While GDP, PPT and VAT are stationary at first order that is after differential was taken. These results shows that the regression results that would be obtained from the models specified in equation 2 would return spurious results if there is no long run relationship among the variables in the model. As such, co-integration properties of the variables were investigated

Table2 Co-integration Test

Series: GDP, PPT, CIT, VAT, CED				
Sample 2008 2018 Null Hypothesis: Series are not co-integrated				
Dependent	Engle-Granger Tan-statistic	Prob*	Philip-	Prob*
GDP	-3.096522	0.9108	-3.604378	0.6547
PPT	-7.302731	0.0166	-6.482896	0.0259
CIT	-2.392732	0.9880	-3.468944	0.7078
VAT	-3.958532	0.2890	-4.879649	0.2116
CED	-3.403907	0.8363	-4.052576	0.4749

Source: Author's Computation (2019)

The results of Engle-Granger and Philip-Ouliaris co-integration tests for the growth model are presented in table 2 above. Engle-Granger tests indicate one co-integration equation while a Philips-ouliais co-integration test indicates two co-integration equations. This is clearly indicated by the corresponding tau-statistic (-7.303) and the P-value (0.0166) of PPT and for Engle-Granger test as well as the tau-statistics (-6.483 and -6.092) and the P- value (0.0259) and 0.4749 of PPT and CED respectively for Philips-oulirais tests. The P-value is less than 5% level of significance. Therefore, the test shows that there is a long run relationship between the dependent and independent variables

Table 3 Value Error Correction Mechanism

The Error correction model (ECM) was used to capture the short run and long run behavior of the variables

Variables	Coefficient	T-Statistics	Probability-Value
D (PPT(-1)	11.2706	4.5368	0.0033*
D (CIT(-1)	4.4928	2.9786	0.02371**
D(VAT(-1)	1.3187	2.4771	0.0446**
D(CED(-1)	2.8446	3.5368	0.0033*
GDP (-1)	0.6539	2.9326	0.0164*
R-sq (adj)	0.6149		
F-statistics	11.6499		
F-statistic Prob value	0.006**		

Source; Author's Computation (2019) summary from e-view software .
Note : *=1% **5% sign level.

The result reveals that PPT, CIT, VAT, and CED with one year lag have statistical significant effect on the economic growth in Nigeria. The long-run error correction mechanisms (ECM) proved to be statistically significantly in correcting the disequilibrium at lags one in the model. It shows that about 65% correction is made to the disequilibrium result from the co-integrating vector at every one year to position tax revenue to its equilibrium root. They also mean that tax revenue adjusts rapidly to change in the economic growth variables. The R-squared adjustment of 0.6149 shows that the tax policy variables can jointly explain about the 61.49% or changes in the economic growth of Nigeria. The F-statistic probability value of 0.006 shows that the regression result is statistically significant

CONCLUSION AND RECOMMENDATION

The government's desire to achieve sustainable economic growth and development can be fulfilled through sustained increase in tax revenue. This behavior is often reflected in their desire to generate more revenue through tax by blocking all the tax loop-holes with policies and programs among them is the just introduced new VAT rate etc. However, the sustained increased in government revenue can only translate into sustained economic growth if the revenue so generated is channeled towards building capital infrastructures and developing human resources. Our result reveal that PPT, CIT, VAT and CED with one year lag has statistical significant effect on the economic growth of Nigeria. Based on the findings, the following recommendations were suggested:

1. Government should ensure that the tax revenue generated are channeled towards building capital infrastructures; thereby creating more jobs which will generate more revenue to government through other forms of tax in order to boost economic growth in Nigeria

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Print ISSN: 2053-4086(Print), Online ISSN: 2053-4094(Online)

2. Government should also use tax policy more as a macro-economy policy not just as a tool for revenue generation as they will result to long run sustain economic growth and more tax revenue

3. The government should ensure that all tax loopholes are blocked or minimized. Both corporate and individual tax evaders should be properly investigated and appropriate sanctions meted out to such culprits. .

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