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The Impact of Taxation Revenue on Economic Growth

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ABSTRACT

This research work explored the impact of tax revenue on economic growth in Nigeria. The Abia State Board of Internal Revenue in Nigeria as a whole, was the study population and it covered from 2014 to 2018. Frequencies, Percentages, Tables and Charts were used to present obtained data. Ordinary Least Square method was employed in testing the statistical significance of the null hypothesis. After subjecting each hypothesis under test, findings revealed that CIT had no significant relationship with the total revenue in Nigeria, however, PPT had a significant positive relationship with total revenue. Hence, it was concluded that government should pay more attention to the petroleum sector so as to maintain this significant relationship as well as improve other sectors of the economy so as to ensure steady flow of revenue. It was recommended that policies be developed to boost tax compliance on both informal and formal sector.

Keywords: *Taxation; Economic Development; Nigeria; Post-IFRS; GDP; Corruption; Total Revenue*

Introduction

Nigeria is currently in recession as a consequence of the dwindling revenue from crude oil and gas, which hitherto accounts for about 90 percent of its revenue. The fallen price of crude at the world market has orchestrated the devaluation of the Naira and increased inflation. The manufacturing and other productive sectors are the worst hit because, as the country is highly import dependent, they find it extremely difficult to bring in raw materials, especially now that the central bank has closed its auction market window. The dollar is expensive to procure at the interbank window and the black market. Looking at what this portends for the nation should this trend continue unchecked, experts have called on the government not to fold its hands, but to explore other potential sources of revenue through the diversification of the nation's economy. While some urged the government to redirect its focus to the agriculture sector, others asked the government to explore the numerous mineral resources for alternative source of income. Yet, few others said Nigeria, like many other advanced countries, can rely on tax revenue for survival. Against this backdrop, this paper seeks to examine taxation as an alternative to the dwindling oil revenue in Nigeria (Okauru, 2014).

Taxation is a means of generating revenue by government for the purpose of providing social services to the people. Taxation all over the world is a function of reciprocity. While the government owes it as a duty to empower the citizens by providing jobs, infrastructure and other development projects, the citizens are usually expected to reciprocate by performing their own obligations, principal of which is payment of taxes. Revenue generated from citizen's taxes is usually recycled by the government in the area of provision of basic amenities such as water, roads, electricity, schools, among others (Sani, 2016).

In both developed and developing economies, the government has to play an active role in achieving economic growth. In this sense, fiscal policy is an essential vital instrument of government in promoting economic growth. An important part of the fiscal policy is taxation. Many economists believe that tax revenue is one of the most significant factors that contribute to a country's growth (Myles, 2000). It has provided developing countries with a stable and predictable fiscal environment to promote growth and to finance their social and physical infrastructural needs. Garba (2016) observed that a country's tax system is a major determinant of other macroeconomic indexes.

The whole essence of tax revenue is to generate revenue to advance the welfare of the people of a nation with focus on promoting economic growth and development of a country through the provision of basic amenities for improved public services via proper administrative system, and structures. Tax revenue plays a crucial role in promoting economic activity growth and development. Through tax revenue, government ensures that resources are channeled towards important projects in the society, while giving succor to the weak. The role of tax revenue in promoting economic activity and growth may not be felt if poorly administered. This calls for a need for proper examination of the relationship between revenue generated from taxes and the economy, to enable proper policy formulation and strategy towards its efficiency. According to Olashore (2016), the Nigerian economy has remained in a deep slumber with macroeconomic indicators reflecting an economy in dire need of rejuvenation, revival and indeed radical reform. Also, in the view of Oni (2017), tax administration needs to be revamped and refunds of taxes as well as duty drawbacks administration are inefficient.

The new reality considering the present situation in Nigeria is that governments at all levels have to raise the bar by embarking on an aggressive tax drive, considering the dwindling revenue profile arising from the fall in oil prices. Therefore, Nigerians have to come to terms with the present reality. Taxes come in various forms, ranging from personal income tax, value added tax and company's income tax, among others. To bridge the yawning gap in revenue accruals, there arose the need for government to embark on aggressive taxation which is the most recognized and plausible means of generating revenue for social services across the globe. The Vanguard of December 15th, 2015 indicates that revenue accruable from Value Added Tax (VAT) from March to June 2015 came to about N376 billion, but this figure doubled between July and December.

However, tax revenue mobilization as a source of financing developmental activities in less developed economies has been a difficult issue primarily because of various forms of resistance, such as evasion, avoidance corrupt practices attending to it. These activities are considered as sabotaging the economy and are readily presented as reasons for the under development of the country. Government collects taxes in order to provide an efficient and steadily expanding non-revenue yielding services, such as infrastructure-education, health, communications system etc., employment opportunities and essential public services (such as the maintenance of laws and order) irrespective of the prevailing ideology or the political system of a particular nation. Tax is also the nexus between state and its citizens, and tax revenues are the life blood of the social contract. The very act of taxation has profoundly beneficial effects in fostering better and more accountable government (Tax Justice Network, 2012).

Musgrave & Musgrave (2016) also stated that the economic effects of tax include micro effects on the distribution of income and efficiency of resource use as well as macro effect on the level of capacity output, employment, prices, and growth. However, the use of tax as an instrument of fiscal policy to achieve economic growth in most less develops countries cannot be reliable because of dwindling level of revenue generation (Edame & Okoi, 2014).

A significant share of the tax revenue increase in Africa stems from natural resource taxes. This included income from production sharing, royalties, and corporate income tax on oil and mining companies. This probably influenced the decision of the Federal Government of Nigeria (FGN), which in 1991 set up a Study Group on the Review of the Nigerian Tax System and Administration. Also, that an accurate estimation of the optimal level of expenditure requires knowledge of the productivity of the tax system and that it will assist in identifying a sustainable revenue profile for the country.

Statement of the Problem

Generally, in Nigeria, it has been discovered that there is over dependence of the nation on oil revenue and so far the revenue from the oil sector is not what it used to be, in other words the oil revenue is dropping. The resultant effect of this drop in oil revenue is that the national budget is affected since a greater part of the budget is financed by oil revenue, this study views the way Company Income Tax (CIT), Value Added Tax (VAT), Personal Income Tax (PIT) and Petroleum Profit Tax (PPT) can serve as an alternative to dwindling revenue in Nigeria

Objectives of the Study

i. To examine the effect of Company Income Tax (CIT) as an alternative to total revenue in Nigeria.
ii. To examine the effect of Petroleum Profit Tax (PPT) as an alternative to total revenue in Nigeria.

Research Questions

i. What effect does Company Income Tax (CIT) have on total revenue in Nigeria?
ii. What effect does Petroleum Profit Tax (PPT) have on total revenue in Nigeria?

Research Hypothesis

i. There is no significant relationship between Company Income Tax (CIT) and total revenue in Nigeria
ii. There is no significant relationship between Petroleum Profit Tax (PPT) and total revenue in Nigeria

Theoretical Framework

a. Optimal Taxation Theory

The basic of the theory is theory is that a tax system operated by government should be to maximize the social welfare functions subject to a set of constraints. According to Mankiw, Wenizierl & Yargan (2009) optimal taxation treat the social planner as a utilitarian that makes the social welfare function to be based on the utilities of individuals in the society. The goal of social planner is t choose the tax system that maximizes the representative customers' welfare, knowing that the customers will respond to whatever incentives the tax system provides.

b. Khaldrun Theory

The second theory that helps to shape taxation is Khaldrun theory on taxation. This theory was explained in terms of two different effects that is the arithmetic effect and the economic effect which the tax rate have on revenues. The two effects have opposite results on revenue in case the rates are increased or decreased. According to the arithmetic effect, if tax rates are lowered, tax revenues will be lowered by the amount of the decrease in the rate. The reverse is true for an increase in tax rates. The economic effects however recognized the positive impact that lower tax rates have on work, output and employment and thereby the tax rates base used in providing incentives to increase these activities whereas rising tax rates here the opposite economic effect I used by penalizing participation in the tax activities. At a very high tax rate, negative economic effect dominates positive arithmetic effects, thereby, the tax revenue declines (Islahi, 2006).

The basic objective of a social planner is not but without a constraints' in setting up a tax system. In the view of Ramsey (1924) social planner must raise a given amount revenue through taxes or commodities only that it should be imposed in inverse proportion to the representative's customers' elasticity of demand for the good, so that commodities which experience inelastic demands are taxed more heavily. These contributions have had a significant impact on tax theory as well as other fields such as public goods pricing and regulations.

In a situation whereby, the social planner is allowed to be unrestricted in choosing a tax system, then the problem of optimal taxation becomes very easy and which makes the optimal tax a lump-sum tax and using microeconomic view where the economy is described by a representative customer and that consumer is going to pay the entire tax bill of the government is one form or another. In absence of any imperfection in the economy the lump-sum tax accomplishes exactly what the social planner wants (Mankiw, Wenizierl & Yargan (2009).

Mirrlees (1971) studying the optimal tax models, suggested the way to formalize the planners' problem that deals explicitly with unobserved heterogeneity among tax payers, stating that the planner can observe income, which depend on both ability and effort, but the planner can observe neither ability nor efforts directly and that if the social planning taxes income in an attempt to tax those of high ability, individuals will be discouraged from exacting as much effort to earn that income, recognizing the unobserved heterogeneity, diminishing marginal utility of consumption and incentive effects he formalized the classic thread off between equality and efficiency that real governments faced and it has become the dominant approach foe tax terrorists.

c. Benefit theory

This states that individuals a taxed according to the benefits that receive from expenditures and that taxes are seen as serving a purpose similar to that of prices in private transactions (Abbasin & Myles, 2006). This means that taxes help determine what activities government undertakes as well as who pay for them.

Taxed based on benefits are desirable first, when the benefits and beneficiaries of government expenditure programs can be identified relatively clearly, second, when a modified distribution of wealth and income is not a policy objective and that when the imposition of benefits-related charges on the users or beneficiaries of service will not result in an inefficient use of that service (Bird, 1976). Also, Moulin (1987) who proposes the egalitarian-equivalent solution as an alternative method of allocating tax burdens in a way that avoids the problem of endogenous prices. In this scheme every consumer is treated as if he received an endowment of public goods which is less than that provided by the government.

Empirical Review

Okwara & Amori (2017) Impact of Tax Revenue on Economic Growth in Nigeria. this study examines the impact of tax revenue on the economic growth in Nigeria for the period of 2013-2015. Secondary data were used and sourced from journals, textbooks and Central Bank of Nigeria (CBN) statistical bulletin. The variables considered are: Gross Domestic Product (GDP) as a proxy for economic growth, Value Added Tax (VAT), and non-oil income (tax). To avoid spurious results, Ordinary Least Square (OLS) with the aids of Statistical Package for Social Sciences (SPSS) was used to test the significant impact of value added tax and non-oil income on Gross Domestic Product (GDP). The results revealed that non-oil income has significant impact on gross domestic product while value added tax has negative relationship and statistically insignificant for the period under review. The study concludes that tax revenue has significant impact on Nigerian economy growth. The paper therefore recommends that government should diversify the main revenue source from crude oil to other sectors of the economy such as agriculture, extractive industries in order to attract direct and indirect taxes.

Ogbonna & Odoemelam (2015) carried out a study on the Impact of Taxation on Economic Development of Nigeria: 2000-2013. The objective of this study is to investigate the impact of taxation on economic development of Nigeria proxy by the gross domestic product (GDP). The study further looked at the relation between companies' income tax (CIT), petroleum profit tax (PPT) and gross domestic product in post-IFRS period. Secondary data were sourced from Central Bank of Nigeria (CBN) Statistical Bulletin, Federal Inland Revenue Services (FIRS) and other relevant government agencies for the period covered in the study, 2000-2013. The data were analyzed using descriptive statistics, econometric model with the aid SPSS version 20. The results show that a strong positive and significant relationship exist between economic development and Tax variables used. It also documented a decline in tax revenue in post –IFRS period. The study further revealed rise and fall in tax revenue and economic development occasioned by corruption, tax evasion, 2008 economic meltdown, dysfunctionalities in the income tax system, and loopholes in tax laws and inefficient tax administration. However, it was recommended that the economy should be diversified to enhance revenue base of the country, to rid corruption from the system, investing in economic activities that will generate jobs, harmonize our tax laws and administration to acceptable global standard. Also checkmating the activities of corporate bodies in their tax sheltering through accounting choices was also recommended.

Amos, Uniamikogbo & Osasere (2017) carried out a study on Tax Revenue and Economic Growth of Nigeria. The dwindling price of Crude oil has lowered the revenue generation to government thereby, impacting negatively on the Nigeria economic growth. To this end, the government opted for other alternative source of growing her economy through taxation. Broadly, the study focused on tax revenue and economic growth in Nigeria. The specific objective of this paper was to explore the effect of income tax revenue on the economic growth of Nigeria, proxied by Gross Domestic Product (GDP). Data were collected from secondary sources, that was, the Statistical Bulletins of Federal Inland Revenue Service and the Central Bank of Nigeria respectively for the period 1995 to 2015[27]. Econometric Model of Multiple Linear Regressions and Ordinary Least Square (OLS) technique were adopted to explore the relationship between GDP (the dependent variable) and a set of government income tax revenue heads over the period 1995 to 2015. Our findings showed that tax revenues that determine government economic growth are Petroleum Profit Tax and Company Income Tax. This implies that taxes that have positive effect on economic growth are direct taxes, thus direct taxes exert more significant effect on economic growth of Nigeria than indirect taxes. The anomaly was attributed to dysfunctionalities in the income tax system, loopholes in tax laws and inefficient tax administration. It was recommended that tax policymakers and regulatory bodies should strengthen the legal and regulatory framework in order to control tax evasion and avoidance by taxpayers. Also, strategies should be adopted to improve on the system of tax administration to increase tax revenue generation in Nigeria.

Ihendinihe (2014) used Autoregressive Distributed lag (ARDL) Bounds Test General-to specific Approach to Co-integration to assess the long run equilibrium relationship between tax revenue and economic growth in Nigeria (1986-2012 and found that total tax revenue has significant effect on economic growth. With about 73.4% of the total variations in the real gross domestic product (economic growth) explained by aggregate changes in all the tax revenue component in model, the however, identified no significant causal link between petroleum profit tax (PPT) and economy growth in Nigeria both on the long and short run equilibrium position. Their study correlated CBN (2008) report that the industrial output fell by 2.2% due mainly to the poor performance of the oil sector. Also, they argued that the mean value of the percentage point growth of petroleum profit tax has a value of -9.36% during the period covered by their study and that the bane of the poor performance could be attributable to the unstable growth rate in the petroleum sector, allusion of physical indiscipline, corruption and financial mismanagement in the oil sector.

Ogbonna & Appah (2012) investigating the impact of reforms and economic growth of Nigeria using time series data from 2013 to 2009 (a period of eleven years) utilizing petroleum profit tax, company income tax, value added tax, education tax, personal income tax and customs and excise duties as proxy for tax reforms (independent variables) and Gross domestic product (GDP) as the dependent variable, claim that there is a positive relationship between tax revenue and economic growth of Nigeria. They argued that 54% variation in the dependent variable (GDP) is as a result of change in tax revenue and that there exists long run equilibrium relationship between GDP and the independent variables. They used the Augumented Dickey-Fuller test for the unit root test and the Johansan's cointegration test and error correction technique to run the regression analysis. The Augumented Dickey-Fuller test conducted on the variables showed that all the series were stationary at 1(1) and that the series were significant between 1 and 5% except for companies' income tax and customs and excise duties that were significant at 5%. In a similar study by Okafor (2012) on tax revenue generation and economic development of Nigeria (1981-2014) usi8n8g multiple correlation and regression methods, she argued that there exists significant relationship between the Gross domestic product (GDP) used as the dependent variable and the independent variables (petroleum profit tax, companies income tax, customs and excise duties and value added tax). She claimed that 99% of changes in the GDP were influenced by changes in the independent variables (petroleum profit tax, companies' income tax, customs and excise duties and value added tax).

Research Methodology

In this study, ex-post facto research design was adopted for the study. The reason for the adoption of this type of research design is based on the fact that the researcher used secondary data from financial statements as published.

The secondary data used in the research work was extracted from various issues of Central Bank of Nigeria statistical bulletin, publications of Nation al bureau of statistics, academic journals and the publications of Abia State Board of Internal Revenue

The population of the study consist of the entire Abia State Board of Internal Revenue in Nigeria as a whole, it covers from 2014 to 2018. The sample of the study is the Abia State board of internal revenue and the reason for the selection of this sample is the availability of materials and tax statement available to the researcher.

Table 1 Company Income Tax, Petroleum Profit Tax, Value Added Tax and Total Revenue from 2009 to 2018

Year	*CIT*	*PPT*	*VAT*	*TR*
2009	568.1	2250.0024	229.3232	4844.592
2010	657.3	2011.9	275.5746	7303.672
2011	700.5	2308.7824	318	11116.85
2012	848.57	3201.3194	347.6882	10654.75
2013	963.55	2666.3669	389.5263	9759.794
2014	1,006.24	2453.9474	388.8523	10068.85
2015	993.1873	884.0386	381.2652	6912.502
2016	985.3531	1157.8081	397.0641	5616.4
2017	1215.057	1,520.48	473.7655	7445
2018	14235.22	2467.5807	533.7396	9551.8

CIT: Company Income Tax
PPT: Petroleum Profit Tax
VAT: Value Added Tax
TR: Total Revenue

Statistical analysis is a vital aspect of research. The choice of an appropriate statistical method depends on factors such as sample size and characteristics, hypothesis being tested, and research design. In this research work, the secondary data was analyzed through the use of ordinary least square, using a computer programme called Statistical Package For Social Sciences (SPSS) while the primary data was analyzed through descriptive statistics.

Decision Rule: Reject H_0 if P-value ≤ .05, otherwise do not reject H_0

Table 2 Correlations [Hypothesis I]

There is no significant relationship between Company Income Tax (CIT) and total revenue in Nigeria

		CIT	TR
CIT	Pearson Correlation	1	.201
	Sig. (2-tailed)		.579
	N	10	10
TR	Pearson Correlation	.201	1
	Sig. (2-tailed)	.579	
	N	10	10

Table 2 shows the Pearson Correlation using SPSS Version 25. The correlation of .201 shows that there is a weak positive relationship between Company income tax and Total Revenue at a non-statistical significance of p-value [.579].

Since the p-value [.579] > [.05], we cannot reject the null hypothesis and state in affirmative that there is no significant relationship between Company Income Tax (CIT) and total revenue in Nigeria.

Table 3 Correlations [Hypothesis II]

There is no significant relationship between Petroleum Profit Tax (PPT) and total revenue in Nigeria.

		PPT	TR
PPT	Pearson Correlation	1	.668*
	Sig. (2-tailed)		.035
	N	10	10
TR	Pearson Correlation	.668*	1
	Sig. (2-tailed)	.035	
	N	10	10

*. Correlation is significant at the 0.05 level (2-tailed).

Table 3 shows the Pearson Correlation using SPSS Version 25. The correlation of .668 shows that there is a fairly positive relationship between Petroleum tax and Total Revenue at a statistical significance of p-value [.035].

Since the p-value [.035] < [.05], we reject the null hypothesis and state alternately that there is positive significant relationship between Petroleum Profit Tax (PPT) and total revenue in Nigeria.

Research Findings

1. There is no significant relationship between Company Income Tax (CIT) and total revenue in Nigeria.
2. There is significant positive relationship between Petroleum Profit Tax (PPT) and total revenue in Nigeria.

Conclusion

The study examined the relationship between tax revenue components and economic growth in Nigeria. One strong outcome of the study is that CIT, has no significant impact on economic growth. However, PPT has more impact on the total revenue as well as economic growth of Nigeria, as such great attention should be given to the petroleum sector so as to maintain this impact. The study also recommends that, since tax revenue components play critical role in the growth of the country's economy, more policies should be developed that will boost tax compliance in both the formal and informal sector. There is also a need to explore other sectors of the economy such as the agriculture sub-sector, mining, industrial processing as well as infrastructural development to help increase the total revenue of the nation as well as improve economic growth.

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