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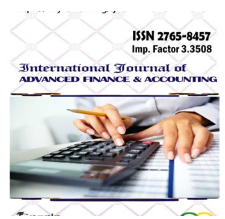

RESEARCH ARTICLE

Effect of Tax Reforms on Federal Government Internally Generated Revenue in Nigeria

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ABSTRACT

This study examined the effect of tax reforms on Federal Government Internally Generated Revenue in Nigeria for the period 2005 - 2020. The specific objectives are to evaluate effect of petroleum profit tax reform and company income tax reform on internally generated revenue system in Nigeria. The theoretical underpinning of this study is based on the Ability-to-pay theory. The study was an ex-post-facto research which made use of secondary data obtained from the Central Bank Statistical Bulletin. The study employed descriptive statistics and graphical representation using E-Views 10 software to check for the trends, linearity or otherwise of the data. Regression model was applied in determining the extent of the effect exerted on federal government internally generated revenue by Petroleum Profit Tax (PPT) and Company Income Tax (CIT). The result of the analysis revealed that petroleum profit tax has significant and positive effect on internally generated revenue while company income tax depicts a negative and insignificant effect on IGR. The implication of this finding is that the level of internally generated revenue has been very much influenced by petroleum profit tax. The study concluded that tax reform is necessary and healthy for emerging nation economies like Nigeria, as it helps to increase revenue generation, reduce or block leakages and improve efficiency thereby increasing or promoting government internally generated revenue. This study therefore recommends that the Federal Government of Nigeria should continue to enact friendlier Petroleum Profit Tax Reforms which will ensure persistent improvement on internal revenue generation in the short and long run.

Keywords: *Tax Reforms; Company Income Tax; Petroleum Profit Tax; Internally Generated Revenue*

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Introduction

Tax reforms activities have drawn much attention from various scholars in Nigeria. It is series of action taken by Nigeria's government to promote the tax system. It is not novel as Nigeria has embarked on series of tax reforms. Azubike (2009) posited that tax reform is an ongoing process which tax policymakers and tax administrators in consonance with the economic and socio-political realities continued to adopt so as to restructure the tax system for efficient revenue generation in the country. Tax reforms improve the revenue generating machinery of government to undertake socially desirable expenditure that will translate to economic growth in real output and per capita basis. Somorin (2010) noted that "tax reforms are embarked upon to correct the weaknesses in the existing tax system and enhance its efficiency". The reasons for tax reforms may range from the need for additional revenue to economic growth. Tax reforms can lead to a new tax, a new rate, a new legal clause, a new assessment system such as the self-assessment system introduced in 1991 or a new collection system of 2004. Tax reforms can be either progressive or retrogressive and dysfunctional. A progressive tax system is one that "is growth-oriented; aggressively seeks to minimize the distortions of market signals by the tax system, and promotes convergent expectations, serving in this way to attenuate uncertainties and obstacles to investment, innovation, entrepreneurship and other drivers of economic growth (Ogbonna, 2009).

The Nigerian tax system has experienced series of reforms since 1904 to date. The results of the various reforms in the country are: introduction of income tax in Nigeria between 1904 and 1926; grant of autonomy to the Nigerian Inland Revenue in 1945; the Raisman Fiscal Commission of 1957; formation of the Inland Revenue Board in 1958; the promulgation of the Petroleum Profit Tax Ordinance No. 15 of 1959; the promulgation of Income Tax Management Act 1961; establishment of the Lagos State Inland Revenue Department; the promulgation of the Companies Income Tax Act (CITA) 1979; establishment of the Federal Board of Inland Revenue under CITA 1979; establishment of the Federal Inland Revenue Service between 1991 and 1992; and tax policy and administration reforms amendment 2001 and 2004 (Adegbie & Fakile, 2011).

The major tax laws in existence as of September 2003, and various related amendments include the following: Personal Income Tax Act of 1993; Company Income Tax Act of 1990; Petroleum Profits Tax Act of 1990; The Petroleum Act of 1990; Value-Added Tax Act of 1993; Education Tax Act of 1993; Capital Gains Act of 1990; Customs and Excise Management Act of 1990; Minerals and Mining Act of 1999; Stamp Duties Act of 1990; Taxes and Levies (Approved List for Collection) Act of 1998; and 1999 Constitution of the Federal Republic of Nigeria. (UNU World Institute for Development Economics Research (UNU-WIDER, 2006).

The government embarked upon the latest tax reform process by instituting Study Group on the Nigerian Tax System, consisting of individuals from business, academia, and the government to study the present tax laws and recommend the appropriate reform in general and their impact to the overall economy. As a result of the reform, nine (9) bills on tax reforms were approved by the Federal Executive Council for the consideration of the National Assembly and subsequently passed as Act. The Acts, are as enumerated as follows: Federal Inland Revenue Service Act 2004; Companies Income Tax Act 2004; Petroleum Profit Tax Act 2004; Personal Income Tax Act 2004; Value Added Tax Act 2004; Education Tax Act 2004; Customs, Excise Tariffs, and others (Consolidation) Act 2004; National Sugar Development Act 2004; and National Automotive Council Act 2004.

The Chartered Institute of Taxation of Nigeria (CITN), established in 1982 and Chartered by Act No. 6 of 1992 to regulate tax practice and administration in the country, and to this extent a major stakeholder in the Nigerian tax system submitted a memorandum on the proposed 2004 amendment. Their memorandum objectives include: to strengthen the powers of the Accountant General of the Federation to monitor the revenue being generated by ministries, extra-ministerial departments and parastatals; to enforce remittance of the revenues collected to the consolidated revenue fund or federation account; to strengthen the oversight functions of the National Assembly in monitoring the revenue generated by ministries, and others; to increase the penalty for under declaration of revenue generated from three to five years.

The Nigerian Technology Development Agency Act 2007 – introduced a 1% technology tax on selected companies – administered by the Federal Inland Revenue Service; and The Federal Inland Revenue Service Establishment Act (2007) – laws regulating the administration of the Federal Inland Revenue Service and granting it autonomy (Taiwo

et al 2015). Were taxation not a mandatory civic responsibility, there would be little or no incentive for economic entities to voluntarily part with a portion of their incomes to the state, (Wilson, Nwarogu & Nwabueze, 2018). There are at least two conceptual logics that underpin this inertia; the natural tendency of man toward aversion to tax payment provides a conceptual reason why taxation is a compulsory contribution to government revenue from the totality of earnings (income or profit) or wealth of business entities.

The Nigeria tax system is actually saddled with the issue of how to diversify its revenue base, drop in earnings from crude oil sales which made revenue not to match the increasing public expenditure, reduction in the demand for Nigeria crude oil in the international market by consuming nations, creation of synthetic products that may eventually reduce dependency on crude oil, the lopsided nature of the Nigeria tax structure, over dependent on import and excise duties, narrow tax base with high tax rate, excessive borrowing to finance recurrent expenditure and others. The quality of management associated with regular and result-oriented tax reforms has a significant bearing on the overall macroeconomic performance and the distribution of resources between public and private sectors as well as within the public sector. A common feature of tax structure in most emerging economy is that they are complex inelastic, inefficient, inequitable and unfair. Therefore, it is imperative to review them from time to time in line with the current economic realities especially at this time of global drop in the price of oil in the international market (Omesi & Nzor, 2016).

Onuiri, Faroun, Erhinyeme and Jegede (2015) noted that the tax system in Nigeria is bounded by series of issues starting from insufficient data available on the history of tax revenues or taxpayers due to absence of good record keeping system, the nonexistence of complete tax figures and a centralized archive for the current ones, inadequate manpower and other essential capitals into redundant parts and job purposes (Ariyo, 1997); repetition of taxes and its bad influence on taxpayers a problem resulting from a clash in the administrations' fiscal accountability and its fiscal power (Odusola, 2002); and thoughtful efforts by taxpayers to evade taxes (Odusola, 2003). All these features of our tax system actually call for the need for consistent tax reform in Nigeria, hence the promulgation of the 2001, 2004, 2007 2009, 2019, 2020 Finance Act, and other tax policies and reforms by the Federal government of Nigeria towards the improvement of the Nigeria tax system and revenue generation in particular.

Akwe (2014) stated that tax policies and reforms play two important roles in financing economic development. One is to maintain an economy at a higher employment level so that the saving capacity of the people is raised with an increase in income per head. The second is to raise the marginal propensity to save the community as far above the average propensity to the maximum extent possible without discouraging work effort or violating canons of equity. Hence, the several tax reforms were designed to broaden the tax base, reduce the tax burden on tax payers, restore the confidence of the tax payer on the tax system, and promote voluntary compliance on the part of the tax payer. On the whole, the ultimate goal of tax reform is the enhancement of public revenue generation. Several studies pertaining to tax reforms in Nigeria have tied tax reform on economic growth undermining public generated revenue (Oriakhi & Ahuru, 2014). This study reviewed Nigerian's various tax reforms within the scope of the study and beyond, to find out the relationship between tax reforms and federal government internally generated revenue system in Nigeria. It also reviewed most of some recent Finance Acts, up to 2020.
The broad objective of the study is to ascertain the effect of tax reforms on federal government internally generated revenue system in Nigeria. Specifically, the study was set to;

I. Evaluate effect of Petroleum Profit Tax reform on federal government internally generated revenue system in Nigeria.
II. Examine effect of Company Income Tax reform on federal government internally generated revenue system in Nigeria.

The hypotheses stated in null form are denoted by (H_0):

Ho_1: Petroleum Profit Tax reform have no significant influence on federal government internally generated revenue system in Nigeria.
Ho_2: Company Income Tax reform does not have significant effect on federal government internally generated revenue system in Nigeria.

Review of Related Literature
Conceptual Review

Tax has been defined in many ways by different authors. Anyanwu (2007) defines tax as "compulsory transfer or payment of money or occasionally of goods and services from private individuals, institutions or and services from private individuals, institutions or groups to the government. It may be levied upon wealth or income or in the form of surcharge on price. Nwokoye and Rolle (2015) are of the view that tax is the transfer of resources and income from the private sector to the public sector in order to achieve some of the nation's economic and social goals, maybe in the form of provision of additional government basic services particularly in education, public health, transportation, capital formation and in the provision of facilities.

The Institute of Chartered Accountants of Nigeria (2006) and the Chartered Institute of Taxation of Nigeria (2002) define tax as an enforced contribution of money to government pursuant to a defined authorized legislation. The World Bank (2000) defines tax as a compulsory transfer of resources to the government from the rest of the economy. Tax is a compulsory levy imposed on individuals and corporate identities regardless of their status. Anyanwaokoro (2004) defines tax as a compulsory payment imposed by the government on individuals and corporate bodies in the governed area for which no direct goods or services are given in exchange of the payment made. Adebao (2009) also defines tax as a compulsory levy imposed by the government on individuals and business organizations. It is a payment in return for which no direct and specific "quid pro quo" is offered by the government and indirect benefit to different individual taxpayers cannot be determined. Emekekwue (2009), defined tax as the collection of a share of individual and organization income and wealth by the government under the authority of the law. From the above definitions Okwo (2011) summarized tax as a compulsory payment made by individuals and corporate bodies to the government for financing government expenditure or for general purpose of government aimed at improving the tax payers' welfare and in which both the taxpayer and the public at large benefit.

Tax revenue is a veritable source of government revenue. However, it is still debatable in the literature what should be the optimal tax revenue to be imposed to enhance development without unjustly inflicting welfare cost (Nwezeaku, 2012). Economic theories of taxation approach the question of how to minimize the loss of economic welfare through taxation and also discuss how a nation can perform redistribution of wealth in the most efficient manner. Taxation according to The Nigerian tax System has undergone significant changes in recent times. The Tax Laws are being reviewed with the aim of repelling obsolete provisions and simplifying the main ones. Under current Nigerian law, tax revenue is enforced by the 3 tiers of Government, which are Federal, State, and Local Government with each having its sphere clearly spelt out in the Taxes and Levies Act, 1999 as amended.

A recent reform embarked upon by the Nigerian government was instituting the Study Group on the Nigerian Tax System (Akwe, 2014). This group which was launched on the 6th of August, 2002, was in a bid to examine the tax system and make appropriate recommendations towards achieving a better tax policy and overall improvement in the tax administration within the country. This group consists of individuals from business, academia, intellectuals and the government. The result of the reform was the approval of nine (9) new bills on tax reforms by the Federal Executive Council for the consideration of the National Assembly and was subsequently passed as Acts. The Acts, include (Adebao, 2009): Federal Inland Revenue Service Act 2019; Companies Income Tax Act 2019; Petroleum Profit Tax Act 2019; Personal Income Tax Act 2019; Value Added Tax Act 2019; Education Tax Act 2019; Customs, Excise Tariffs, etc. (Consolidation) Act 2019; National Sugar Development Act 2019; and National Automotive Council Act 2019.

Also the 2020 Finance Act which took effect from 1st January 2021, amends some key provisions of the Capital Gains Tax Act, Companies Income Tax Act, Industrial Development (Income Tax Relief) Act, Personal Income Tax Act, Tertiary Education Trust Fund Act, Customs & Excise Tariff (Consolidation) Act, Value Added Tax Act, Federal Inland Revenue Service (Establishment) Act, Fiscal Responsibility Act, Public Procurement Act, Companies and Allied Matters Act, Nigerian Export Processing Zone Act and Oil and Gas Export Processing Free Zone Act. Some of the prominent amendments effected by the Act include Introduction of the concept of Significant Economic Presence (SEP) to Personal Income Tax; Exemption of small companies with less than ₦25million turnover from payment of Tertiary Education Tax; The introduction of a one-off levy of ₦50 known as the Electronic Money Transfer Levy on electronic transfers and deposits of money in the sum of ₦10,000 or more to replace the imposition of Stamp Duties

on such transfers. This levy is to be accounted for by the person to whom the transfer or deposit is made and will be distributed between the Federal and State Government on a derivation basis of 15% and 85% respectively; Reduction of minimum tax payable by companies to 0.25% of gross turnover provided that the tax returns are prepared and filed in respect of an accounting period that ends on any date between January 2020 and 31st December 2021; Requirement for FIRS to utilize adhesive stamp produced by the Nigerian Postal Service when denoting documents by adhesive stamp; Deductibility of donations made in cash or in kind to the government in respect of any pandemic or natural disaster; Empowerment of the Tax Appeal Tribunal to conduct hearings remotely via virtual proceedings; Exclusion of land and buildings, money and securities from the definition of goods and services for VAT purposes; Requirement for companies operating in the Free Trade Zones to file returns with the FIRS; Downward review of Excise Duty rates on tractors and motor vehicles for transportation as well as duty-free importation of aircrafts and its parts for commercial airlines in Nigeria; Introduction of Excise Duty.

Internally Generated Revenues (IGR) are those sources of government revenue collected mainly by the three tiers of government; federal, state, and local government areas, which helps them to increase their non-oil revenue base. Internally Generated Revenue (IGR) are those sources of government finance generated majorly by the federal, state, and local government councils, which helps in broadening and widening the overall non-oil revenue structure (Oti & Odey, 2017).

The constitution of the Federal Republic of Nigeria 1991 CAP C23 L.F, N. 2004 specifically states the types of Internally generated revenue that are exclusive for the federal Government. The internally generated revenue of Nigerian States includes taxes and levies such as Personal income tax: Pay-As-You-Earn (PAYE); Withholding tax (individuals only); Capital gains tax; Stamp duties (instruments executed by individuals); Pools betting, lotteries, gaming and casino taxes; Road taxes, etc. (Mamidu, 2022)

Internally Generated Revenue: Fayemi (1991) classified government revenue into two kinds – recurrent revenue and capital revenue; he defined Internally Generated Revenue as all tools of income to government. Some of such revenues are: taxes, rates, fees, fines, duties, penalties, rents, dues, proceeds and other receipts. Revenue had been defined in various ways by various researchers. Hence, there is no consistent way of defining it. Adam (2006) defined revenue as the cash needed by the governments to finance its programmes to meet public needs. He stressed that every government must stride to meet the yearnings and aspirations of her citizens. Funds are needed to effect government activities in order to meet this public demand.

Ishaq (2002) and Hamid (2008) defined internally generated revenue as funds derived within the federal, state or local government area. Government revenue includes charges, tax collections, utility and insurance trust, revenue for all funds and agencies of a government and miscellaneous revenues (Anyafo, 1996 and Adam, 2006). Internally generated revenue are all monies collected by the three tiers of government within their constitutional jurisdictions with which they use to provide for the societal needs.

The internally generated revenue of Nigerian includes; taxes and levies such as Personal income tax: Pay-As-You-Earn (PAYE); Petroleum Profit Tax (PPT), Company Income Tac (CIT), Custom and Excise Duty Tax (CEDT), Value Added Tax (VAT), Withholding tax (individuals only); Capital Gains Tax, etc. (Asimiyu & Kizito, 2014).

Petroleum taxation is an instrument used for sharing income made from petroleum business on exploration and production, between the host government and international oil companies. It is a direct tax, charged on the net profit of a petroleum tax payer annually (Evans & Hunt, 2011). Petroleum taxation has some particular features as a result of oil industry's unique characteristics: the huge central contribution of revenue to the economy, the volatility of oil prices, the large operating and development costs, the high uncertainty associated with petroleum geology, the specific characteristics of individual oilfields, and the possibility of re-investment. The cost of petroleum projects tends to be incurred up-front and the time lags between the discoveries of oil or gas reserves to the time of first production can be significant. This adds to the challenge of designing and implementing appropriate petroleum tax system aimed at achieving a balance between both government and industry interest. A variety of tax instruments have been used to capture the economic rent from oil activity over the years namely; gross royalty, brown tax, resource rent tax (RRT) and income tax.

Okoh, Onyekwelu and Iyidiobi (2016) asserted that petroleum profit tax is levied, assessed and payable on the profits or income of each accounting period of any corporation engaged in petroleum operations during any such accounting period, usually one year (January to December). Odusola (2006) defined petroleum profit tax as a tax applicable to upstream operations in the oil industry.65.75% for non-PSC operations, including joint ventures (JVs), in the first five years during which the company has not fully amortized all pre-production capitalized expenditure. Then 85% for non-PSC operations after the first five years. Upstream gas profits are taxed at 30%. Of the chargeable profit, and gas companies involved in downstream operations are taxed under CITA, the tax rate is 25%.

The Petroleum Profit Tax Act (PPTA) is the tax law that regulates the taxation of companies engaged in petroleum operations (Adedeji & Oboh, 2012). The Act defines petroleum operations as "the winning or obtaining and transportation of petroleum or chargeable oil in Nigeria by or on behalf of a company for its own account by any drilling, mining, extracting or other like operations or process, not including refining at a refinery, in the course of a business carried by the company engaged in such operations, and all operations incidental there to and sale of or any disposal of chargeable oil by or on behalf of the company".

Aboyade (2010) states that Petroleum Profit Tax is a major source of revenue for the Federal Government of Nigeria to meet its statutory obligations of ensuring the economic development of Nigeria. It assists the government to achieve the country's macroeconomic objective in the areas of fiscal and monetary policies. However, it has been observed that non-provision of corporate social responsibilities in the communities where there is extraction of crude oil result into constant destruction of production installations, decreases production; causes tax avoidance and evasion, poor tax administration, and weak fiscal policy which negates increase in tax income.

Nwete (2004) describe the following as the objectives of petroleum taxation in Nigeria;

I. To achieve government's objective of exercising right and control over the public asset, government imposes very high tax as a way of regulating the number of participants in the industry and discouraging its rapid depletion in other to conserve some of it for future generation. This in effect will achieve government aim of controlling the petroleum sector development. The high profit profile of a successful investment in the oil industry makes it a veritable source for satisfying government objective of raising money to meet its socio-political and economic obligations to the citizenry.
II. To re-distribute wealth between the wealthy and industrialized economic represented by the multinational organizations, who own the technology, expertise and capital needed to develop the industry and the poor and emerging economies from where the petroleum resources are extracted. The high potential for environmental pollution and degradation stemming from industry activities makes it a target for environmental taxation, as a way of regulating its activity and promoting government quest for a cleaner and healthy environment. Cleaner production may be achieved by imposing tax on it for pollution and environmental offences.

Companies Income Tax (CIT) is tax on the profits of incorporated entities in Nigeria (Wooldridge, 2006). It also includes the tax on the profits of non-resident companies carrying on business in Nigeria. The tax is paid by limited liability companies inclusive of the public limited liability companies. It is therefore commonly referred to as corporate tax.

Company income tax (CIT) was introduced in 1961 by the Income Tax Management Act 1961. CIT was created by the Companies Income Tax Act (CITA) 1979 as amended. The original law (Company Income Tax) has been amended many times and is currently codified as the Company Income Tax Act 1990 (CITA). The Federal Inland Revenue Services (FIRS), is empowered to administer and collect the tax. Tax rates on company profits, payable on trade profits and investment income, was reduced 30% in 2019 to 25% in 2020 as contained in the Finance Act 2020. It is one of the taxes administered and collected by the Federal Inland Revenue Service ('FIRS' or 'the Service'). The tax contributes significantly to the revenue profile of the Service. In 2020, the revenue target for Companies Income Tax was ₦1.767 trillion, while the actual collection was 1,275.0 trillion representing approximately 13.7% of the total tax revenue of ₦9,303.2 trillion for the year 2020.

Tosun and Abizadeh (2005) are of the view that company income tax is a direct tax imposed by a jurisdiction on the income or capital of corporations or analogous legal entities. Many countries impose such taxes at the national level, and a similar tax may be imposed at state or local levels. Partnerships are generally not taxed at the entity level. A country's corporate tax may apply to (Osiegbu & Nnamdi, 2009), corporations incorporated in the country, corporations doing business in the country on income from that country, foreign corporations who have a permanent establishment in the country, or corporations deemed to be resident for tax purposes in the country.

Onaolapo, Aworemi and Ajala (2013) state that companies are mandated by law to pay Company Income Tax (CIT) in Nigeria based on the profit. Companies' resident in Nigeria are liable for CIT on their worldwide income and non - resident companies are liable only to CIT on their Nigerian source income.

Relationship between Tax Reforms and Internally Generated Revenue in Nigeria

Adebao (2009) is of the view that tax reforms refer to the process and procedure by means of which structural and administrative changes in the tax system are affected. It is the continual process of recommending and implementing desirable changes which are directed towards achieving a better tax system. As new ideas and fashions take hold, as the technology of tax collection changes, and as the country's economic circumstances are altered, there is bound to be new opportunities which will engender improvement in a country's tax system. However, the primary objective of the reform process is to ensure an increase in the revenue base of the government (Easterly & Rebelo, 2010).

Adereti, Adesina and Sanni (2011) stated that the objectives of tax reforms in Nigeria are: to ensure taxation as a fiscal policy instrument, to achieve improved service delivery to all; to improve on the level of tax derivable from non-oil activities, vis-à-vis revenue from oil activities; efforts at constantly reviewing the tax laws to reduce/manage tax evasion and avoidance; and to improve the tax administration to make it more responsive, reliable, skillful and taxpayer friendly and to achieve other fiscal objectives (Anidiobu, Agu & Ezinwa, 2016).

According to Alli (2009), some of the objectives of tax reform in Nigeria are: To bridge the gap between national development needs and the funding of the needs. To accelerate improved service delivery to the public. To boosts non-oil revenue by structurally diversifying the economy. Make pragmatic efforts at reviewing the tax, laws thereby ameliorating the incidence of tax avoidance and Evasion. To increase the confidence of the public on the tax system, thereby provoking voluntary compliance. To improve the system of tax administration thereby making it more responsive, reliable, skillful and tax payer's friendly. To reduce the complexity of the tax system both for the tax administrator and the tax payer.

Tax reforms that reduce the tax rate and eschew multiplicity of taxation will not only improve the investment climate, but leverage investment capacity by beefing internal fund for business enterprises. Thus, Akwe (2014) states that tax reforms are designed to serve three functions. They are: amendatory function, the innovative function and the revenue function. While the amendatory role attempts to correct weakness in the tax system, the innovative function attempts to introduce something new in the tax regime and the revenue role attempts to beef up public tax generated revenue by broadening the tax base and preventing tax evasion and avoidance.

Adedeji and Oboh (2010) state that a successful tax reform process should stem from a well thought out programme of action and a clear perception of the problems of the pre-reform tax system; should be supported by leading policy makers and technocrats; should be carefully and systematically implemented and monitored; should make some effort to reduce the burden of tax on the poor; should pay attention to interactions among different components of the tax system, and recognize the importance of revenue adequacy; should invest more time and resources in the training and upgrading of the level of administrative performance.

Theoretical Framework

The theoretical framework of this study is based on the Ability-to-pay theory. This theory according to Bhatia (2006), was put up by, E.R.A. Seligman a German economist in his book, Progressive Taxation in Theory and Practice (1968). The theory considers the tax liability in its true form-a compulsory payment to the state without quid pro quo. According to this theory, a citizen is to pay taxes just because he can, and his relative share in the total tax burden is to be determined by his relative paying capacity. The approach found support among socialist thinkers because of its conformity with the ideas and concepts of justice and equity. However, the doctrine received an equally strong

support from non-socialist thinkers also and a part of the theory of welfare economics. The basic tenet of the ability-to-pay doctrine is that the burden of taxation should be shared by the members of society on the principles of justice and equity, and that these principles necessitate that the tax burden is apportioned according to their relative ability to pay. In this connection, however, the following points have to be borne in mind;

I. The doctrine of ability-to-pay is also combined, in certain cases, with the objectives of maximum welfare of the society. This happens when the index of paying ability is compiled on the basis of equi-marginal meeting a given tax liability.
II. The ability to pay is not an absolute quantity which depends upon a number of variables such as the expenditure side of the government budget.
III. There are several indices for determining relative ability to pay of the taxpayers such as, income, property and wealth, and consumption expenditure.
IV. Ability to pay is not an invariant quantity and amongst other things, depends upon the expenditure side of the government budget. A modern government is generally eager to adopt all feasible measures to help, guide and protect the economy and society. Basically, therefore, it is the overall budgetary policy which matters, and not just the taxation in isolation of the rest of the budget.
V. While cost-of-service approach to the distribution of tax burden implies that the government should try to have a balanced budget the ability-to-pay approach does not have any direct implication.

The theory is basically on taxation. This makes it germane for the work-problems of tax administration in Nigeria. It is rooted on one of the most cardinal principles of taxation, which is justice and equity. The theory also recognizes the fact that income is not the only index upon which taxation is based. Hence, it believes that taxes could be extracted on other indices such as property, wealth and consumption expenditure. The ability-to-pay theory dwells prominently on the fact that tax is an instrument of fiscal policy. The theory admits the interdependence of government expenditure and the paying ability of tax payers. This theory relates to tax reforms because it incorporates most tools needed for a good tax system.

Empirical Review

Abdullahi, Madu and Abdullahi (2015) examined the evidence of petroleum resources on Nigeria economic using simple linear regression model from 2000 to 2009 and found that petroleum has a direct and positive significant relationship with the Nigeria economy and therefore concluded that petroleum has been the mainstay of Nigeria economy since it discovery and it constitutes the major source of our foreign reserves and main source of development capital. They showed no evidence of whether a unit root was conducted, and as such one would not be inclined to affirm a generalized statement as claimed by them.

Abdul-Rahamoh, Taiwo, and Adejare (2013) studied the Analysis of the effect of Petroleum Profit Tax on Nigerian Economy. Asian Journal of Humanities and Social Sciences (AJHSS), 1(1), 25-36. The relationship between the firm cost of equity and corporate tax avoidance was examined by (Goh, Lee, Lim & Shevlin, 2013) using three measures that capture fewer extreme forms of corporate tax avoidance: book-tax differences, permanent book-tax differences, and long-run cash effective tax rates. The study found that less aggressive forms of corporate tax avoidance significantly reduce a firm's cost of equity. Further analysis reveals that this effect is stronger for firms with better outside monitoring. It is also applicable to firms that likely realize higher marginal benefits from tax savings, and firms with better information quality.

Nwokoye and Rolle (2015) studied tax reforms and investment in Nigeria: An empirical examination. Annual time series data spanning the years (1981-2012) were utilized. Preliminary diagnostic test was conducted to examine whether the estimated model satisfies the OLS assumptions. The basic assumptions of the OLS were satisfied. The result of the estimated OLS model showed that tax reform as proxied by VAT and CIT, both positively and significantly stimulate investment in Nigeria.

Jelilov, Abdulrahman and Abdurahman (2016) studied the impact of tax reforms and economic growth of Nigeria from 1986 to 2012. Regression analysis was adopted for the study while it was found out that tax reforms is positively and significantly related to economic growth and that tax reforms indeed causes economic growth.

Yahaya and Bakare (2018) evaluated the effect of petroleum profit tax and company income tax on Nigerian economy growth. Fully Modified Least Square (FMOLS) Regression Technique was used to estimate the model over a 34 years period (1981-2014) while Augmented Dickey Fuller Unit Root Test and Single Equation Co-integration Test were carried out. It was found that petroleum profit tax (PPT) and company income tax (CIT) have positive significant impact on gross domestic product (GDP) in Nigeria with the Adjusted R^2 of 87.6% which directly enhanced growth in Nigeria. The study then concluded that PPT and CIT serves as the major source of revenue to the Nigeria economy, and contribute to the growth of Nigeria economy.

David and Anyiwe (2013) studied tax structures and economic growth in Nigeria: Disaggregated Empirical Evidence. The study investigated the empiricism behind the New National Tax Policy in Nigeria by employing cointegration and error correction as methods of empirical estimation with an empirical strategy of disaggregation. The study found out that tax-based revenue profile in Nigeria is skewed towards direct taxes. By implication, the global transition from direct taxation to indirect taxation lack empirical justification in developing countries such as Nigeria.

Heitzman and Ogneva (2015) evaluated the relationship between Corporate Tax Planning and Stock Returns of all U.S. firms traded on NYSE, AMEX or Nasdaq from 1988 to 2013 using panel regression analysis; they concluded that high tax planning firms do indeed earn higher returns, but only during periods when tax enforcement is low; that small firms have less diversified tax strategies than large complex firms due to: lack of scale and complexity, high exposure to adverse consequences of government actions inability to finance high fixed costs of tax planning strategies. The study found that large firms are less exposed to tax policy risk due because they are consistently audited. The study suggested that boards and managers should primarily focus on the expected incremental cash flows from tax planning.

Afuberoh and Okoye (2014) also studied the impact of taxation on revenue generation in Nigeria for the period 1994 to 2004. Using petroleum profit tax, education tax and personal income tax as proxy for taxation (independent variables) and gross domestic product as the dependent variable. Regression analysis was employed by the researcher to analyze the data used in the study, and discovered that taxation has a significant contribution to revenue generation and that taxation has a significant contribution on Gross Domestic Product (GDP).

Adegbite (2015) examined the effects of corporate income tax on revenue profile; it also determined the impact of corporate tax revenue on economic growth in Nigeria using multiple regression analysis method from 1993 to 2013 and found that there is a positive significant impact of corporate tax on revenue in Nigeria. The study concluded that government should reduce corporate income tax rather than eliminate corporate tax in Nigeria; lower corporate tax will increase the demand for labour which will in turn raises wages and increases consumption.

Methodology

The study is ex post facto research which provides a systematic and empirical solution to research problems, by using data which are already in existence. The study was carried out in Nigeria. Data series were collected for Petroleum Profit Tax, Company Income Tax and Internally Generated Revenue from the Central Bank Statistical Bulletin for the periods spanning from 2005 to 2022. The model is represented thus:

$$IR_t = \beta_0 + \beta_1 PPT_t + \beta_2 CIT_t + \varepsilon_t \quad (1)$$

Where:
IR = Internally Generated Revenue
PPT = Petroleum Profit Tax
CIT = Company Income Tax
β_0 = Coefficient (constant) to be estimated
t = *Current Period*
ε = *Stochastic disturbance (error) term*

The effect of tax reforms on Federal Government Internally Generated Revenue in Nigeria is tested using the multiple regression analysis. The nature and significance for interpretation of the result for test of hypotheses is provided by EViews Statistical software. The decision rule for the test of hypothesis accepts significant coefficient when its p-value is equal or less than 0.05.

Discussion of Findings

Descriptive Statistics of the Variables and Graphical Representations

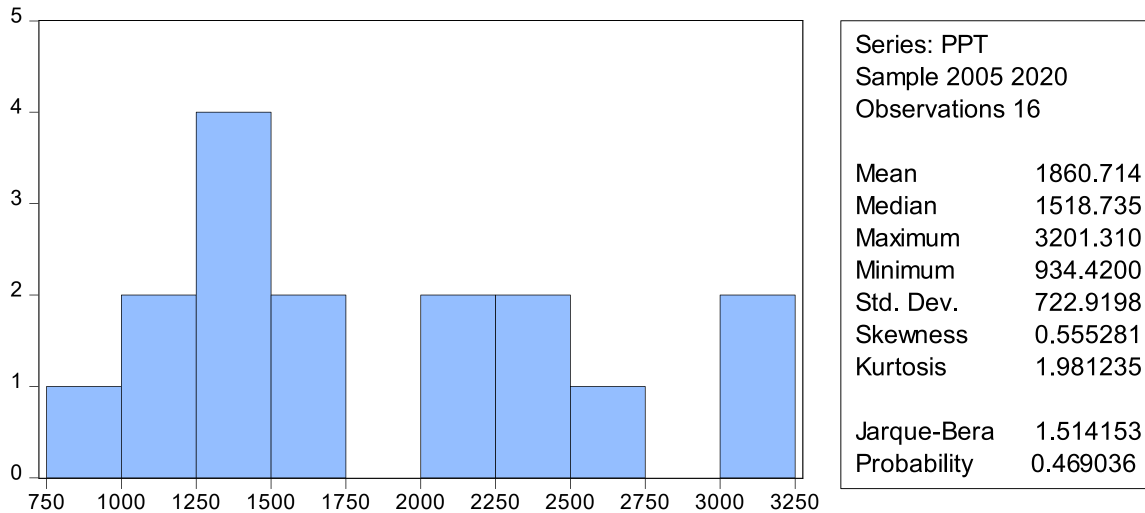

Figure 1: Representation of Petroleum Profit Tax **Source:** ***EViews 10 Statistical Software***

The mean value for Petroleum Profit Tax is 1860.714 while the median is 1518.735. The standard deviation is 722.9198 while the insignificant Jarque-Bera Statistic of 0.469036 depicts a normal distribution of the time series data. The petroleum profit tax graph shows some fluctuations resulting from unsteadiness in petroleum tax revenue indices.

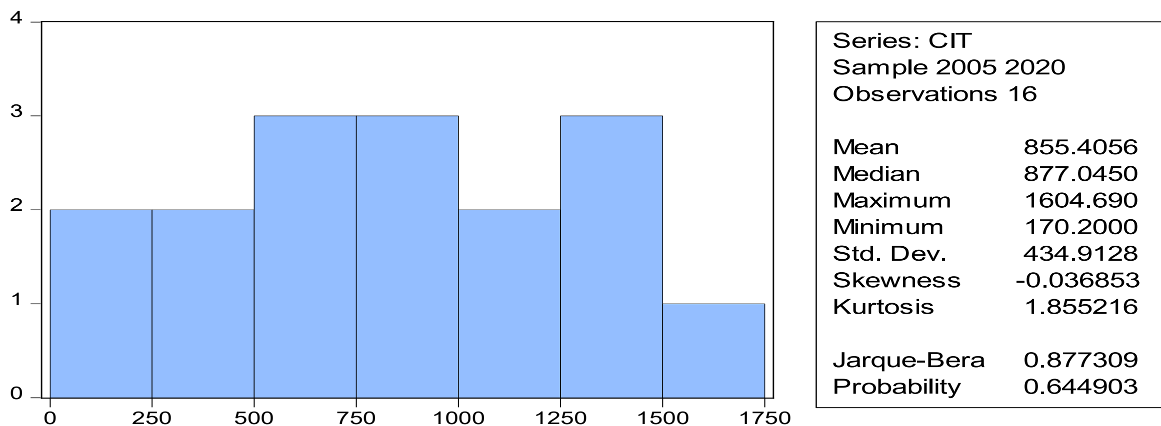

Figure 2: Representation of Company Income Tax **Source:** ***EViews 10 Statistical Software***

The mean value for Company Income Tax is 855.4056 while the median is 877.0450. The standard deviation is 434.9128 while the insignificant Jarque-Bera Statistic of 0.644903 shows a normal distribution of the time series data for CIT. The graph for CIT depicts some form of fluctuations caused from inconsistent and unrelated figures of CIT.

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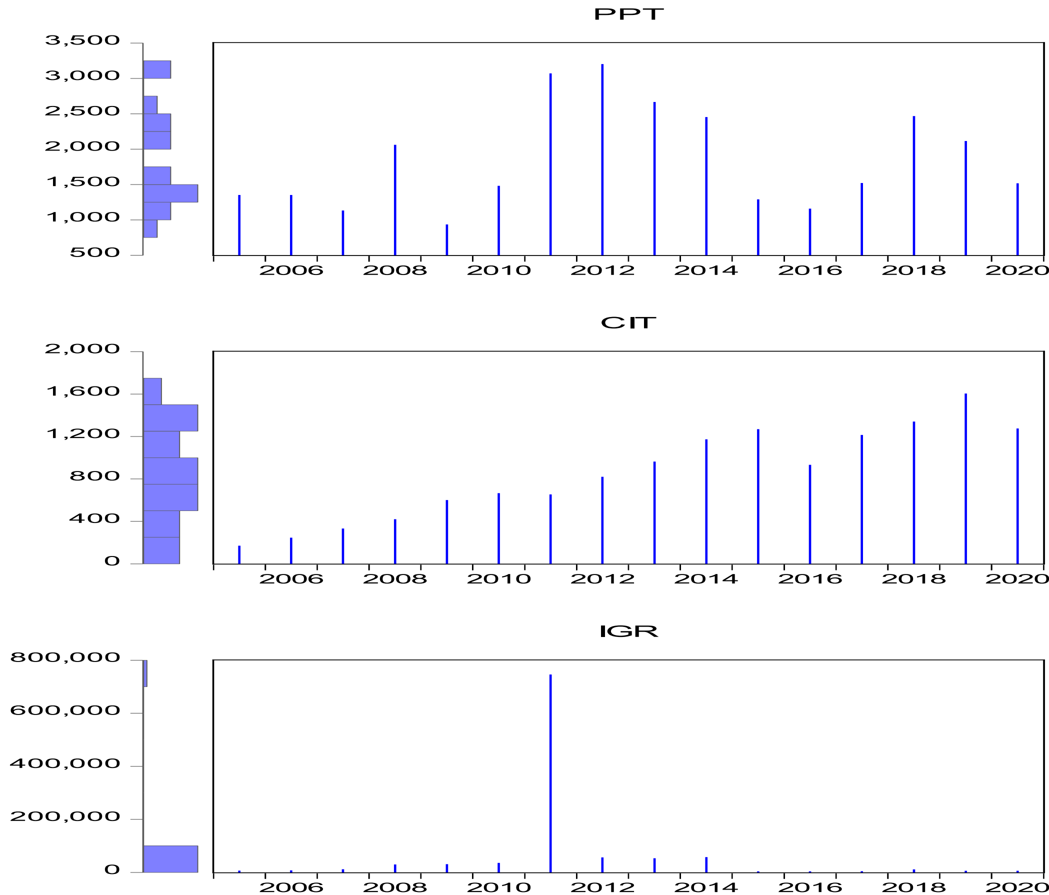

Figure 3: Composite representation of PPT, CIT & IGR **Source:** ***EViews 10 Statistical Software***

The interactions between the above variables will be elucidated in further analysis below.

Test of Hypothesis 1

Restatement of the Hypothesis in Null and Alternate forms;

Ho_1: Petroleum Profit Tax reform have no significant influence on federal government internally generated revenue system in Nigeria.
Ha_1: Petroleum Profit Tax reform have significant effect on federal government internally generated revenue system in Nigeria.

Table 1: Regression Analysis Result
Dependent Variable: IGR
Method: Least Squares
Date: 08/27/22 Time: 02:37
Sample: 2005 2020
Included observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
PPT	127.9183	58.01302	2.204994	0.0447
C	-170958.8	115330.8	-1.482335	0.1604

R-squared	0.827767	Mean dependent var	67060.60
Adjusted R-squared	0.784750	S.D. dependent var	182141.7
S.E. of regression	162428.1	Akaike info criterion	26.95033
Sum squared resid	3.693411	Schwarz criterion	27.04690
Log likelihood	-213.6026	Hannan-Quinn criter.	26.95527
F-statistic	4.861998	Durbin-Watson stat	2.246956
Prob(F-statistic)	0.044680		

Source: EViews 10 Statistical Software

Table 1 revealed the regression analysis of the effect of tax reforms on federal government internally generated revenue in Nigeria. The table shows that petroleum profit tax has a positive and significant effect on internally generated revenue in Nigeria. The decision rule is that the null hypothesis will always be rejected when the t-statistic is greater than 2. In this case, the t-statistic is 2.204994 which is greater than 2. Hence, the null hypothesis is rejected and the alternate accepted. The adjusted R-Squared is 0.784750. This means that about 78% of the variations in internally generated revenue could be explained by Petroleum Profit Tax while about 22% of the variations in IGR could be attributable to other factors not considered in this work. The F-statistic of 4.861998 shows a significant probability value of 0.044680 which means that the effect of tax reforms on federal government internally generated revenue in Nigeria may not have occurred by chance. This means that the interactions between PPT and IGR are sustainable both at the short and long run in Nigeria.

Test of Hypothesis 2

Restatement of the Hypothesis in Null and Alternate forms;

Ho_2: Company Income Tax reform have no significant influence on federal government internally generated revenue system in Nigeria.
Ha_2: Company Income Tax reform have significant effect on federal government internally generated revenue system in Nigeria.

Table 2: Regression Analysis Result

Dependent Variable: IGR
Method: Least Squares
Date: 08/27/22 Time: 03:34
Sample: 2005 2020
Included observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CIT	-54.44377	110.9793	-0.490576	0.6313
C	113632.1	105812.0	1.073905	0.3010

R-squared	0.016900	Mean dependent var	67060.60
Adjusted R-squared	-0.053322	S.D. dependent var	182141.7
S.E. of regression	186934.7	Akaike info criterion	27.23137
Sum squared resid	4.893411	Schwarz criterion	27.32795
Log likelihood	-215.8510	Hannan-Quinn criter.	27.23632
F-statistic	0.240665	Durbin-Watson stat	1.986372
Prob(F-statistic)	0.631326		

Source: EViews 10 Statistical Software

Table 2 indicates that company income tax has a negative and insignificant effect on internally generated revenue in Nigeria. The decision rule is that the null hypothesis will always be rejected when the t-statistic is greater than 2. In this case, the t-statistic is less than 2. Hence, the null hypothesis is accepted and the alternate rejected. This output means that company income tax reform does not have significant effect on federal government internally generated revenue system in Nigeria. The F-statistic of 0.240665 shows a non-significant probability value of 0.631326 which implies that the short run effects will not be sustainable in the long run.

Summary

It is palpable that not all tax reforms and changes will exert similar effect on federal government internally generated revenue. In this study, the analysis of data depicts that petroleum profit tax reform has a positive and significant effect on internally generated revenue in Nigeria due to the fact that its t-statistics of 2.204994 is greater than 2.0 and its probability value being 0.0447 was less than 0.05. However, company income tax reform exerts a negative and insignificant effect on federal government internally generated revenue system in Nigeria as the t-statistics as -0.490576 was less than 2.0 while its probability value of 0.6313 was greater than 0.05. Hence, this study concluded that tax reform is necessary and healthy for developing nations as it helps to increase revenue generation, reduce or block leakages and improve efficiency thereby increasing or promoting federal government internally generated revenue. This study therefore recommends that Federal Government should continue to enact more friendly Petroleum Profit Tax Reforms which will ensure persistent improvement on internal revenue generation both in the short and long run.

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