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Taxation and Economic Growth in Nigeria

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Abstract
The relationship between taxes as a tool for budgetary policy with the purpose of ensuring the constancy and reliability of the overall economy and the economic development of developing nations is one of the most crucial topics covered in economics. The study's goal is to determine how taxes serve as a stimulus to economic growth. Multiple regression analysis was used to analyze data. Secondary data were collected from Federal Inland Revenue Statistical Report and from CBN Statistical Bulletin for the period 2011 – 2021. The study concluded that Petroleum profit tax (PPT) has a negative relationship with GDP, which is not statistically significant, whereas capital gain tax (CGT) and company income tax (CIT) have positive relationship with GDP because it is statistically significant. It is recommended that government should make sure that all businesses are included in the tax system and completely adhere to the tax payment requirements. In reality, it is necessary to impose penalties on businesses that evade taxes. Also, there is the need to enhance the mechanisms towards collection of tax.

Keywords: Taxation; Government, Revenue, Capital Gain Tax, Company Income Tax, Economy

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Introduction

The provision of fundamental necessities, such as high standard of education, safe and reliable transportation, infrastructural development and social obligations and so on are the obligation of any government to its population. In order to deliver the aforementioned services, the government needs funds from a variety of sources, the most important of which is tax. Tax is a keen instrument that the government can use to help an economy to achieve growth and development. Taxation as we know does not entails a newly concept in Nigeria or the rest of the world. Taxation is "the process or instrument by which communities or groups of people are forced to contribute in some agreed-upon amount and manner for the purpose of the management and development of the society" (Dellaportas, Kanapathippillai, Khan, & Leung, 2014).

In Nigeria, taxes have been in place even before the revolution. It is among the key sources of generating internally revenue for the Nigerian government. To finance their operations, all governmental levels require funding. Keep in mind that in order to operate or survive, government institutions, organizations, enterprises and parastatals must incur costs in some way. This necessitates the necessity for the government to find methods of raising the money/revenues needed to meet the expenses and financial commitments of such government institutions/organizations or parastatals. It's interesting to note. that the government has access to many different funding sources, such as taxes, royalties, levies, fines, penalties, loans, grants, and donations made to the government, as well as the proceeds from the sale of assets like lands, buildings, and other assets owned by the government as well as businesses. Dividends earned by the government on shares it owns in corporations, interest on loans it has made, rent it receives on assets it owns, money it makes from the sale of services it provides, etc. The word "taxes" is a real source of income for every government; hence this section's main focus is on that word (Irsyadillah & Lasyoud, 2018).

Many research, have been conducted to provide an overview of the link between taxation and growth of the economy. It has a major function prior to transforming a country. It is not only utilized by the government to increase part of its budgetary policy, but also as a tool to create revenue (Dibia & Onwuchekwa, 2019). A tax is a regulatory levy that is necessary to be paid by individuals, firms, corporate bodies and organization without "quid pro quo" which implies that tax payers does not expect any direct or corresponding services in return for the tax paid.

It is also described as "the compelled proportional pay ments imposed by the government placed upon an individual and property, for which it does not entail a willingly payment but a compulsory payment. Thus, taxes are defined as an imposed money charge or levy by a state or a component of the state on an individual, institution, or legal organization (Yaya, 2013). Taxation has three primary goals: revenue generation for the government of a nation, regulating an economy, managing income and employment. Furthermore, the link between the two concepts has recently emerged as one of the most pressing economic challenges. This is attributable, in part, to poor fiscal performance in a number of emerging nations including Nigeria. The connection is mostly empirical, requiring the application of scientific inquiry procedures that do not give aprioristic conclusions and external truths, thereby merely declarations of validity restricted by the nature of the model utilized or the relevance of data supplied (Dalibor, 2005).

Taxation has remained a common tool for economic growth both in Nigeria and throughout the world. Most countries, especially those with established economies. The increasing desire of governments at various levels and jurisdictions to increase or broaden their income base led to the resolution of tax imposition. Governments now use taxation as a tool to share in the wealth of individuals and business entities. It is a mandatory tax that the government imposes on people and business entities in order to broaden the economy's revenue base and enable it to provide social services, security, and other amenities for the wellbeing of society (Bracci, Tallaki, & Castellini, 2020). Today, there is no government that does not rely on taxation. Across the world. Both in affluent and developing nations, tax revenues differ significantly from government to government. Despite considerable GDP growth, Nigeria has continued to face significant levels of poverty and inequality, therefore this growth has not translated into social development (Adegbite & Owolabi, 2017). Economic growth has been stifled by taxes such as capital gains taxes, withholding taxes, value added taxes, personal and corporate income taxes, and others that have long been a feature of the economy. In addition, records reveal that, despite numerous tax revisions over the years, Nigeria's tax revenue contribution to economic growth remained low, suggesting that tax income has fallen short of expectations on the part of both the government and the general public.

The success of macro economies, including Nigeria's, has historically prioritized achieving full employment, a high level of price stability and sustainable economic development due to their respective susceptibilities to economic instability. Any nation's economic growth is significantly influenced by its tax system and Nigeria is no exception. However, there are several challenges that the Nigerian economy faces when it comes to taxation which deters and leads to inefficiency of the system which also affect the economy as a whole. One major challenge is the high levels of tax evasion and avoidance in Nigeria, and which significantly impact the government's revenue generation efforts. This is due to factors such as weak tax administration systems, inadequate tax education, and corrupt practices among taxpayers and tax officials.

Finally, one of the major issues or challenges are that there are multiple tax regimes in Nigeria, including state and local government taxes, which may cause taxpayer misconception and make it challenging for the government to enforce tax laws effectively. Despite these challenges, improving the tax administration system in Nigeria is crucial to achieving development and growth of the economy that is sustainable. This is achievable by way of the implementation of effective tax policies, increased tax education, and the adoption of technology-based tax administration systems to improve efficiency and reduce corruption.

The major purpose of every developing country, such as Nigeria, is to assure or begin the influence of tax in the long run of economic activities and sustainability, which leads to a higher quality of life, economic stability, promote social and encourage production. Hence, taxation may be utilized as a stimulant to enhance the Nigerian economy growth. As a result, it is clear that tax revenue and economy have been increasing in absolute terms since the country's democracy was restored. Other macro-economic metrics are heavily influenced by a country's tax system and there exit a connection with tax structure with economic growth in both developed and developing nations (Kiabel, 2009).

The use of a fiscal policy tool like taxation has an impact on the achievement of this specific objective. The Nigerian government has received a sizable amount of tax revenue, but this has not resulted in complete employment or economic growth (Chigbu, Akujuobi & Ebunohowei, 2012). Against this backdrop, the goal of the study is to assess how taxes affect the Nigerian economy, paying particular emphasis to direct taxes like the capital gains tax, the company income tax, and the petroleum profit tax. It is therefore pertinent to state that the cluster of this study will not go beyond the confines of the Nigerian data usage only which covers a period of 11year (2011-2021). Using secondary sources of data, such as those sourced from the CBN statistical bulletin, can be a valuable approach in this study.

Theoretically, the study is props by Benefit Received, Cost Service Theory and The Expediency Theory. According to benefit received theory, there is essentially an exchange connection between the state and the tax-paying public. People of the society get some services and product from the government, and they cover a portion of the expense in accordance to the value of the advantages they received (Bhartia, 2009).

The Cost-of-Service Theory places more emphasis on the state-citizen relationship which is partially commercial. According to this argument, the state is being urged to renounce its fundamental protection, welfarism and humanitarian obligations. This approach suggests a balanced budget strategy since it is to meticulously recoup the cost of the service. It also states that costs incurred by the government must be covered jointly by individuals who will eventually get services. (Jhingan 2009) According, to this notion, a person who does not use a states services should not be subjected to paying any tax because tax is viewed as being equal to price. This hypothesis has come under scrutiny.

The Expediency Theory is another. The underlying premise of this idea is that there does not necessarily need to be a connection between taxes paid and benefits obtained from the government. Every tax proposal, according to the proponents, must satisfy the practicability test. It must be the only factor taken into account by the authorities when deciding on a tax proposal. This statement is true since a tax that cannot be assessed or collected effectively is pointless. The Hinrichs tax structure development hypothesis, which holds that changes in tax structure have a tendency to boost government revenue and boost a country's economy, is related to the expediency theory.

Empirically, Anisere-Hameed (2021) looked into how taxes affected the expansion and advancement of the Nigerian economy. The study used GDP as an independent variable to measure economic growth while using the following dependent variables: Petroleum Profit Tax (PPT), Capital Gain Tax (CGT), and Company Income Tax (CIT). The results of this analysis indicate that CGT and PPT have a little impact on income generation for Nigeria's economic expansion. On the other hand, CIT has a significant beneficial effect on Nigeria's economic growth. The researcher suggested the Nigerian government to raise tax revenue from PPT and CGT so that it can be used to develop infrastructure for the populace based on the study's findings.

The dataset used in Eze and John's (2020) study, which examined how Real Gross Domestic Product responds to tax revenues, was obtained from the Federal Inland Revenue Service website and the Central Bank of Nigeria Bulletin for the years 2008 through 2019. The results of multiple regressions performed using the Ordinary Least Square statistical technique revealed a statistically significant positive relationship between real gross domestic product and all tax revenues, with the exception of Value Added Tax, which revealed a negative relationship.

Materials and Method

In order to investigate the existence of a relationship and/or causal influence between two economic series, ex-post facto research method was used in this study. More importantly, the research design adopted enables the current researchers to determine the effect of the explanatory variables prior to economic situations in Nigeria before 2022. This methodology depicts the techniques and procedures used by the researcher in conducting the study. It's It is crucial to note that every data has a period range from 2011 to 2021 for sake of uniformity. Research model specification is given below:

GDP = F (CGT, CIT, PPT) ……………. (1)

$GDP=\beta_0+\beta_1CGT+\beta_2CIT+\beta_3PPT+\mu$ ………… (2)

Due to an attempt to normalize the data on variables employed as the value is provided in billion of naira, equation 2 is transformed as:

$LNGDP=\beta_0+\beta_1LNCGT+\beta_2LNCIT+\beta_3LNPPT+\mu$ …(3)

GDP= Gross Domestic Product
CGT = Capital Gain Tax
CIT = Company Income Tax
PPT = Petroleum Profit Tax
LN = Logarithm
β_0 = Constant
β_1 - β_3 = Coefficient of independent variables
μ = error term

Using multiple regression in conjunction with the Ordinary Least Square (OLS) method, one of the main econometric tools in the E-view 9 regression analysis framework, at the 5% level of significance.

Results and Discussion

Presentation and interpretation of result

Table 1: Descriptive Statistics

	LNGDP	LNCIT	LNCGT	LNPPT
Mean	11.57292	7.038010	2.308521	7.612306
Median	11.53835	7.102546	2.230498	7.656464
Maximum	12.07867	7.466222	4.599186	8.071318
Minimum	11.06215	6.483784	0.974484	7.054284
Std. Dev.	0.325286	0.289681	1.039877	0.349013
Skewness	0.021804	-0.397181	0.693494	-0.262449
Kurtosis	1.881637	2.448050	3.209273	1.741805
Jarque-Bera	0.574126	0.428844	0.901784	0.851846
Probability	0.750465	0.807008	0.637060	0.653167
Sum	127.3021	77.41811	25.39373	83.73536
Sum Sq. Dev.	1.058108	0.839150	10.81344	1.218098
Observations	11	11	11	11

Source: E-view 9 output

The descriptors for the variables used are displayed in Table 1 below. The outcome displays the statistics for the mean, median, maximum, minimum, and standard deviation as well as the skewness, Kurtosis, and Jarque-Bera statistics. It demonstrates that the average level of gross domestic product (LNGDP) is 11.57292, LN CIT is 7.038010, LNCGT is 2.308521, and LNPPT is 7.612306. LNGDP is 11.53835, LNCIT is 7.102546, LNCGT is 2.230498, and LNPPT is 7.656464, according to the median result. The above table equally displayed the maximum, minimum, and standard deviation. While LNCIT and LNPPT are negatively skewed with values of -0.397181 and -0.262449, LNGDP and LNCGT are positively skewed with values of 0.021804 and 0.693494, respectively, according to the skewness statistics. According to the Kurtosis statistics, LNGDP, LNCIT, and LNPPT are platykurtic, meaning they are fewer than 3, whereas LNCGT is leptokurtic, meaning they are greater than 3. The Jarque-Bera statistics' probability reveals that while the LNPPT, LNCIT, and LNGDP variables are not normally distributed during the study period, the CGT variables are because their probability is highly statistically insignificant, the Jarque-Bera statistics' probability indicates that they are.

Table 2: Multiple Regression Analysis

Dependent Variable: LNGDP
Method: Least Squares
Date: 09/14/22 Time: 13:32
Sample: 2011 2021
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.681995	2.360355	2.407263	0.0470
LNCGT	0.008215	0.054392	0.151028	0.8842
LNCIT	0.963140	0.201043	4.790722	0.0020
LNPPT	-0.119101	0.170785	-0.697373	0.5081
R-squared	0.825573	Mean dependent var		11.57292
Adjusted R-squared	0.750819	S.D. dependent var		0.325286
S.E. of regression	0.162376	Akaike info criterion		-0.522514
Sum squared resid	0.184562	Schwarz criterion		-0.377825
Log likelihood	6.873827	Hannan-Quinn criter.		-0.613720
F-statistic	11.04383	Durbin-Watson stat		1.331239
Prob(F-statistic)	0.004797			

Source: Authors Computation from E-view 9 Outputs

From Table 2 above, important findings emerged. Therefore, the result of the intercept (5.6810) shows that the GDP will stay at 5.6810, while the petroleum profit tax (PPT) has a negative association with the GDP but is not statistically significant with a coefficient value of -0.1191. However, there is a positive correlation between the gross domestic product and the co-efficient values of corporation income tax (CIT) and capital gain tax (CGT), which are 0.008215 and 0.963140 respectively. In contrast to CIT, which was determined to be statistically significant, CGT was found to be insignificant since the probability value (0.8842) was higher than the significant value (0.05). Similarly, the R2 (0.825573) suggests that the explanatory variables capital gain, firm income, and petroleum profit tax affect 82% of the variation in gross domestic product, with other variables outside the model accounting for the remaining 16% of the variation. Additionally, the corrected R2 explains the regression's fitness by about 0.750819. The design's 1.33123 Durbin-Watson stat this indicates that the model has a strong positive connection.

Discussion of Result

Based on the result, it was discovered the gross domestic product (GDP) and the petroleum profit tax (PPT) have a negative association that is not statistically significant, whereas the co-efficient of the CGT and the CIT has a positive link that is both statistically significant and has an impact on GDP. The f-statistical (11.04383) result also shows that the Gross domestic product (5.6810) have a positive relationship, Petroleum profit tax (-0.119101) exact insignificant negative correlation with the Gross domestic product. Also, according to the benefit received theory, the government should provide adequate services in relation to the tax been generated from the tax-paying public and corporations.

This study investigates the effect of taxation and economic growth with inferences drawn from CIT, CGT and PPT which can be regarded as part the tools of direct taxes in Nigeria. The purpose of taxation is to enlighten taxpayers as well as government by providing an explanation of the methodical process of issuing directions. Taxpayers, tax bodies and government will be able to get extra information and obtain the essential professional credentials if they follow the direction that has been offered to them. This study is provided so that all bodies and parastatals engaging in taxation can improve their knowledge and their level of effort. To have an effective enlargement and overall function as well productivity, we need to be dedicated to the profession, maintain constant training in taxes principles, and have the resilience to persevere through any challenge. Therefore, the growth of taxation ought to be the outcome of a continual relationship and conversation between the country and her citizens and the economical world. It should not be considered as an end in itself, particularly in the formation of good prospects; rather, it should be regarded as a means to an end, which is to create accountability in both the government and private sectors of the economy. As a country that is developing at a rapid pace, Nigeria is in need of a good tax system as well as intellectual bodies that are properly established so that it can continue to advance.

Conclusion

The study concluded that the economy can perform well with a good mix of tax and can as well serve as a stimulus in her quest to achieving sustainable growth. Also, out of the independent construct employed in the study only one construct was found to be negative and statistically insignificant, while others were statistically significant and positive to the growth. In view of the findings, the study concludes by recommending that the government should ensure that all companies are captured in the tax net and fully comply with the payment of tax. As a matter of fact, there is the need to enforce penalty for companies that evade tax, and to further strengthen the collection of tax from companies in order to promote economical growth in Nigeria. Government should also monitor the tax administration system by ensuring they are diligent in their discharge of duties. Also, there is the need to enhance the mechanisms towards collection of petroleum profit tax; this would help in the economy sustainability. In order to create the necessary funds to alter the rate of economic growth, the government should make the nation's tax system functional. This will help to stop behaviors that undermine the system's ability to function effectively.

Contribution to Knowledge

This study has filled the gap on the Nigerian economy's expansion and taxation. Even though several studies have been done, this one concentrated on the direct taxation. One may simply conclude from the results that the taxation-related elements have had a significant, positive impact on the idea of growth in the Nigerian economy.

It is believed that this study will contribute a lot to academics, firms and government and if the recommendations made in this study are judiciously implemented, it will bring huge positive growth in Nigeria and a huge impact in the tax system.

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Appendices

Input Data for the Study

PERIOD	GDP	CGT	CIT	PPT
2011	63713.36	9.3045	654.4428	3070.591
2012	72599.63	8.9166	820.5655	3201.32
2013	81009.96	19.6559	963.4508	2666.367
2014	90136.98	2.6498	1173.491	2453.947
2015	95177.74	16.802	1268.977	1289.961
2016	102575.4	99.4034	933.5373	1157.808
2017	114899.2	3.1803	1215.057	1520.482
2018	129086.9	12.59	1340.329	2467.581
2019	145639.1	5.997	1604.699	2114.268
2020	154252.3	3.5186	1275.381	1,516.99
2021	176075.5	17.5	1747.99	2008.45