# EFFECT OF TAX REVENUE ON THE ECONOMIC GROWTH OF NIGERIA

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## Abstract

*Nigeria is an oil-producing nation, for a long time now the country has been a mono-product economy that has been described by Economists as a dangerous trend; for the revenue of the country to be solely based on oil revenue. It has been established by researchers that revenue from oil is very volatile. Oil revenue is high today, it drastically reduced tomorrow. This study examined the contribution of Tax revenue to the economic growth of the country within a period of 12 years, that is, from 2007 to 2018. Data were collected through secondary sources from the Nigeria Bureau of Statistics, the Quarterly Publications of the Central Bank of Nigeria Bulletins, and the Federal Inland Revenue Service (FIRS) Statistical Reports, Journals, textbooks, and other related publications were reviewed for the study. Data were analyzed using simply linear regression model. The findings revealed that there exists strong positive relationship between tax revenue and GDP with correlation coefficient of 0.6755 and it is significant but a very weak relationship between total revenue and GDP (r= 0.2488), that revenue from tax was significant to the economic growth of Nigeria, compared with total revenue that comprises oil revenue and non-oil revenue. This study recommends that the country should put more energy into non-oil sector of the economy such as income from taxation, export of non-oil products and technological products to generate the necessary foreign exchange needed to boost the economy of the country which will impact on the life of every citizen.*

**Keywords:** GDP, Taxation, Tax Revenue, Total Revenue, Non-oil Revenue

## Introduction

Nigeria is predominantly a mono-product economy for now, though in the recent past before the commercial exploration of crude oil for export, the country's export was basically farm produces from the three regions that made up the federation. This farm produces were cash-crops that brought in foreign exchange into the country, such crops like cocoa, palm kernel, groundnut, coffee, rubber, kola nut etc. Arguments were made in the 1970s against the exportation of these crops that they were very low in value because they were raw materials for finished goods that would be eventually imported into the country at high prices. This actually led to the loss of interest in the production of cash-crops and the movement of many from the farm into the cities and the attention of the government was drawn away from export of farm produces to exploration and export of crude oil, not minding the environmental challenges that are in exploration of crude oil.

Meanwhile, the international price for crude oil is not determined by the country but by the international market. The price may be high today but tomorrow it becomes very low

thereby leading to budget deficits. For some time now the country has been faced with budget deficits year in years out and creating gaps between public expenditure and revenue in spite of increase in oil revenue, especially in 2011 and 2012 when the oil revenue was very high. According to the Central Bank of Nigeria Statistical Bulletin of 2017, total oil revenue in 2011 amount to N8.88billion and N8.02billion in 2012 while the Gross Domestic Product (GDP) for the same period amount to N62.98billion and N71.71billion respectively, compared to 2015 and 2016 where the revenue from oil was the lowest in 10years at N3.83billion and N2.69billion respectively, while the GDP for the same period was N94.14billion and N101.49billion respectively (CBN, 2017). This increase in Gross Domestic Product during the period the country had a very low revenue from oil need to be assessed, what triggers the increase? Why with very low oil revenue the GDP increased by 41.53% in 2016 in comparison with 2012, but there was an increase in GDP in 2012 when the oil revenue was slightly down by 10.72%. Moreover (Okwori and Sule,2016) noted that the revenue of the country has not been growing above the expenditure for years.

During the pre-colonial era before the amalgamation of the northern and the southern protectorates which form the country called Nigeria, district heads, obas and emirs governed their territories with the resources at their disposal through taxes and levies from their subjects, such taxes include the 'zakat, shukka-shukka, jangali, and kuroin kasa' in the northern part of the country. The South-west subject the people to the payment of 'Isakole or owo ori' and through the use of community efforts to undertake projects that are of collective importance to the community, while the eastern part of Nigeria is into payment of 'egbu-nkuru' or the use of community efforts (Otusanya, 2001). All these forms of revenue or taxes and levies mentioned were given names that were peculiar to their area of use, this means that payment of taxes is not alien to the people, it has been there but the form and the law are what has been changing over the years. As in the pre-colonial era, revenue generation is very important for the economic growth of any country most especially to the government of Nigeria, in order for the government to provide infrastructures, health services, education, employment, communication systems as well as social services like maintenance of law and order, protection of life and properties of the citizens, therefore the efficient and steady expansion of non-oil revenue is very sacrosanct (Akhor & Ekuudayo, 2016).

The tax was defined by (Anyanwu, 1997) as the first and earliest sources of public revenue, he explained further that tax is an imposed levy and it is made compulsory by the authorities on the people without the citizens expecting any direct benefit or return on the amount paid. The social, economic and political growth of a nation is calculated and depends on the total income it is able to generate (Edame &Okoi, 2014). Taxes are collected by the government through direct means or indirect methods, countries all over the world have there different sources of finance ranging from oil revenue and non-oil revenue while the major source of income of some others is mainly non-oil, especially finances from tax. Nigeria has the lowest tax contribution to GDP ratio of 6% while the Organization for Economic Co-operation and Development average is 34% (Usman, 2017), compared with other countries like United States of America 19%, China 21%,

Germany 45%, South Africa 27%, Ghana 22%, Japan 35%, France 52% (PWC, 2016) cited in (Ajibade & Akintoye, 2018) also stated in the study that revenue from tax contributed significantly to the GDP growth of Lagos State, Nigeria.

Apart from tax is a means of revenue generation, it can also be used as a means of redistributing income in an economy, (Moore, 2007) was of the view that formation of accountability and affective states has been closely associated with the tax system emergency, while Akhor (2014) was of the opinion that the microeconomic effects of taxation is on the re-distribution of income and its effective use have macroeconomic effects on the level of employment, prices of goods and services, capacity output as well as general growth of the economy. Osinbajo, (2017) noted that majority of the high-income earners in the country evade tax, that only 214 taxpayers pay N20million or more per annum in Nigeria and all of these taxpayers are resident in Lagos, while 900 taxpayers paying N10million are also based in Lagos exempt two that are resident outside Lagos. What these implied is that the country is not earning as much as it is supposed to get from tax revenue, (Adelusi & Idowu, 2018) find out that non-oil revenue has a significant effect on economic growth of Nigeria, the economic growth was measured through the GDP, this study intends to find out what percentage of non-oil revenue is from tax proceeds and also to investigate the significance of tax revenue to economic growth from 2007 to 2018. The motivation for the study is the relevance of tax revenue to the revenue profile of the government and the insistence call for shift from dependence on oil revenue to non-oil revenue.

The main objective of this study is to examine the significance of revenue from the tax on Economic Growth of Nigeria between the period 2007 to 2018, also;
To find the effect of Total Revenue on the Gross Domestic Product (GDP) of Nigeria from 2007 to 2018

The research hypothesis one;
$H_0$: Revenue from Tax has no significant effect on the GDP of Nigeria
$H_1$: Revenue from Tax has a significant effect on the GDP of Nigeria

Hypothesis two;
$H_0$: Total Revenue has no significant effect on the GDP of Nigeria
$H_2$: Total Revenue has a significant effect on the GDP of Nigeria

**Literature Review**

Revenue is defined by (Ahmed, 2010) as every money collected or received by the government from all sources such as external debts, domestic debts, grants, aids from within and outside the countries, sale of investments, agency/private trust transactions and intra-government transfers. Public revenue consists of tax and non-tax revenue such as charges on administrative services, fines gifts, deficit financing by government and grants from International Organizations, in Nigeria public revenue is not only limited to oil and non-oil revenue but include other means that are available to the government to raise fund to execute its expenditure commitments.

In Nigeria, corporate entities are expected to contribute towards the public expenditure and the national development of the country like in other countries of the world. Income or profit of any taxable person whether corporate or otherwise is subjected to tax-exempt if such income is specifically exempted by law (Oyedele, 2014). The Company Income Tax (CIT) or the Petroleum Profit Tax (PPT) is a form of direct tax payable on the income or profit of every company carrying on business activities in Nigeria, whether resident or non-resident.

The personal income tax is also a form of direct tax that is levied on the income of a person. A person is defined in (Okoli, Njoku, & Kaka, 2014) as an individual, a partnership or an estate. Direct tax is the earliest form of taxes in Nigeria, the history of taxation in Nigeria can be traced back to the pre-colonial era but the principal law that started the regulation of tax system in the country was the Native Revenue Ordinance of 1904 in the then Northern Nigeria while that of Western and Eastern Nigeria was enacted in 1917 and 1928 respectively (Oyedele, 2014), which later was compiled together to become the Direct Taxation Ordinance of 1940. The Capital Gain Tax, Tertiary Education Tax and the National Information Technology Development levy with Stamp duties are also part of direct taxes and levies on corporate bodies and individuals in the country to generate funds for developmental projects in the country. The National Information Technology Development Levy (NITDL) is a special levy imposed on companies whose annual turnover is above N100million, it is a special levy or tax for the development of information technology in the country.

Apart from the direct tax system, the country also generates income through the indirect tax system, such as the Value Added Tax (VAT), custom and excise duties and the purchase tax. The indirect tax system is seen as a broad-based tax system which the country is expected to be given special attention, because of tax evasion and avoidance incidences that characterized the direct tax system. Odusola (2006) noted that the government had concentrated its tax system around petroleum profit tax and company income tax while neglecting the broad-based indirect tax. Oluba, (2008) as cited in (Akhor & Ekundayo, 2016) gave example of countries that increased their economic development through income from indirect taxes, the countries identified are the United Kingdom, Netherland, and Canada, they were reported to have generated a great part of their revenue from Value Added Tax and import duties which had aided the prosperity of these countries. Edame and Okoi (2014) studied the impact of taxation on investment in Nigeria, to investigate whether tax had any contribution to real Gross Domestic Product (GDP) in the country and also to determine whether the gross sectional allocation of resources through tax revenue has impact on investment in Nigeria. Ordinary least square of multiple regression was used to interpret the data sourced from the Central Bank Of Nigeria (CBN) statistical bulletins of various issues, the result shows that there is a direct relationship between taxation and government expenditure, the t-test shows that the parameter estimates of Company Income Tax (CIT) and Personal Income Tax (PIT) are statistically significant. In real term it means that taxation has a positive relationship with investment and economic development. Adelusi & Idowu (2018) concluded that there is a significant relationship between non-oil revenue and the Gross

Domestic Product GDP), while there was no significant relationship between GDP and oil revenue. The study further revealed that during the period of high revenue from oil in 2011 and 2012, the country's retained earnings were low. The country was not able to increase her retained earnings even when she was earning so much from oil, nor there was any positive significant effect on the GDP.

Gross Domestic Product (GDP) was described as the increase in the production of goods and services over a period of time in a country. Often GDP is used as the parameter to measure Economic growth, economic growth was explained by (Adebayo, 1996) to be a sustained increase in a country's real Gross National Product (GNP) and per capita GNP. The real GNP is also known as the nominal GNP in the measurement of economic growth so has to avoid the distortions of inflation. It was further explained that a country witnesses a true economic growth where there is a sustained increased in capital accumulation, technological progress and the growth in the labor force compared to the population. Smith (1776) stated that the factors of production like capital, labor, and land had a significant impact on economic growth of a nation.

**Empirical Framework**

Income from tax is an important source of revenue to states, which assist the states in the provision of social infrastructures for the people. It is, therefore, the civic responsibility of every member in a state to pay his tax without expecting any direct benefits from such payment. Edame & Okoi (2014) found out that tax revenue boasts the economy since it assists in the development of infrastructures which brought in investment, but if the tax is too high it can scare away potential investors. Gwaetney and Lavson (2006) noted that high marginal tax rate has serious effect on Gross Domestic Products in Nigeria, the study explained further that with high marginal rate of tax, individual is left with less disposable income where his spending ability had been eroded away through high marginal tax rate. Likewise it discouraged investors, most foreign investors would prefer to move to countries with low tax rate, eventually this leads to poor investment growth in the country with high tax rate or the incidence of multiple taxations (Ukegba, 2012) as cited in (Edame & Okoi, 2014). Okoli, Njoku, and kaka (2014) did a study on taxation and economic growth in Nigeria, granger causality approach was used to test the study's hypotheses, the taxation model that was used consisted of valued added tax, company income tax, and petroleum profit tax while the Gross Domestic Products was the variable used to assessed economic growth. The result showed that there is a significant relationship between taxation and economic growth in Nigeria from 1994 to 2012.

Taxation is seen as an aid or parameter to investment decisions, most foreign investors prefer to invest in countries with tax haven because of the natural nature of any businessman whose main intention is to earn as much profit as possible from his investment. Meanwhile the more returns on investment the more profit accruing to the government through corporation tax. Oloidi (2014) studied the effect of corporate income tax on the revenue profile of Nigeria, and also examined the corporate investment decisions of companies liable to tax under the Company Income Tax Act in the country. The population of the study is the universal set of all the small scale and

medium scale enterprises in the southwest zone of Nigeria,400 questionnaires were distributed, 300 was collected and only 180 questionnaires was used for the data analysis and presentation. Percentages and frequencies were employed to evaluate the research questions for the study, the findings revealed that tax is relevant to investment decisions compared with other factors that are related to investment decisions. The study recommended that government should encourage investments by designing proper tax policies that encourage economic growth and development. A tax policy that will enhance investment in new capital that brings new production techniques that might result in the emergence of new products. Matins (2009) stated that there is reduction in gross fixed capital formation wherever tax incentives are non-existing, he was also of the opinion that tax incentives are a factor that assists both foreign and domestic investors in their investment decision.

Adegbite (2015) carried out an empirical research analysis of the effect of corporation tax on revenue profile and the impact of corporate taxation on economic growth in Nigeria. The study used only secondary data and the data were sourced from the CBN statistical bulletins of various issues from 1993 to 2013, multiple regression analysis was used to analyze the relationship between dependent variable which is the GDP and independent variable that comprised the CIT, VAT, PPT, and inflation. He concluded that reduction in corporation tax will increase level of investment in the country. Gale and Samwick, (2016) looked into how changes in the individual income tax affect long-term economic growth, the finding suggested that not all changes in tax rate have common influence on economic growth. Bariyima, Nangib, and Oyedokun (2018) investigated the influence of tax disincentives on business growth in Nigeria while Dopemu & Monday (2018) examined tax incentives and business growth in Nigeria, the two studies used different parameter to carried out their study but the two studies agreed that tax policymakers should use tax incentives to encourage compliance among taxpayers and any policy that may be a form of dis-incentive in nature should be eliminated from our laws.

Giwa and Kase (2018) examined the contribution of tax revenue to the economic growth of Nigeria, the study found out that PPT had no significant impact on gross domestic product while CIT and VAT had significant contribution to the GDP, the period covered was 1997 to 2016.  Odia (2018) examined the public perception of tax policy and he recommended that government should be more accountable to the citizens and be responsive to their needs thereby enhancing their compliance with tax laws. Meanwhile, this study examined the total tax revenue accruing to the government of the Federal Republic of Nigeria and the effect on the Economic growth of the country, to examine whether any increase or decrease in tax revenue, there is a corresponding effect on the country's Gross Domestic Product from 2007 to 2018.

**Theoretical Framework**

The Abyssinia law related to the theory of equity and fairness in payment of taxes. Equity and fairness were explained using two principles known as the ability- to- pay theory and the benefits principle. Horizontal equity expects individuals on equal positions to pay the

same amount of tax. The taxpayer must have the ability to pay, that is for government to generate revenue through taxes, there must be economic activities that will bring returns to those that are assessable to tax. Benefits received theory was based on the assumption that there exists an exchange relationship between the taxpayers and the government. Anyanfo (1996) stated that payment of taxes should be based on the proportion of the service enjoyed or benefits received by the taxpayer. The inability of government and the taxpayer to measured accurately the number of benefits received or services rendered was a hindrance to the practicality of the theory, identified in (Ahuja, 2012). The cost of service theory is also relevant to tax revenue because it emphases that the citizens must collectively take care of the cost incurred in providing certain services to them by the government (Jhingan, 2009). The theory stated further that if an individual had not utilized the service of the state such a person should not be charged to tax.

**Methodology**

The source of data for the study mainly from secondary data from the periodical publication of the Central Bank Of Nigeria (CBN) to source for data for total revenue and the Gross Domestic Product (GDP) of Nigeria from 2007 to 2018, the Federal Inland Revenue Service (FIRS) provide the data on tax revenue from 2007 to 2018. All the sources of tax revenue accruing to the federal government were used to assessed revenue from tax, the taxes include Value AddedTtax, company income tax, custom and excise duties, petroleum profit tax, capital gain tax and other taxes and levies collectible by the Federal Inland Revenue Service. While the variable representing total revenue includes oil revenue and non-oil revenue. The data were subjected to analysis using descriptive statistics to calculate the mean and standard deviation while in order to explain the relationship among the three variables, line plot in figure 1 was used. Tables 1 and 2 described the descriptive analysis of the variables with the Correlation matrix of the relationship between GDP, Tax Revenue and Total Revenue through ordinary linear regression method.

**The model specification;**

To examined the effects that of total revenue on economic growth the study adopt the model used by (Okwori & Sule, 2016) and to access the effects of tax revenue on economic growth a cue was taken from the model used in (Giwa & Kase, 2018)

$$\text{Total revenue} = NONOIL + OIL \quad \ldots\ldots \quad 1$$
$$\text{Tax revenue} = PPT + CIT + VAT + CGT + EDT + OTH \quad \ldots\ldots \quad 2$$
$$GDP = a + bx_1 + bx_2 + r \quad \ldots\ldots \quad 3$$

Substitute $x_1$ for total revenue in equation 1 and $x_2$ for tax revenue in equation 2

$$GDP = a + b\,(NONOIL + OIL) + b\,(PPT + CIT + CGT + EDT + OTH) + r \ldots\ldots 4$$

Where

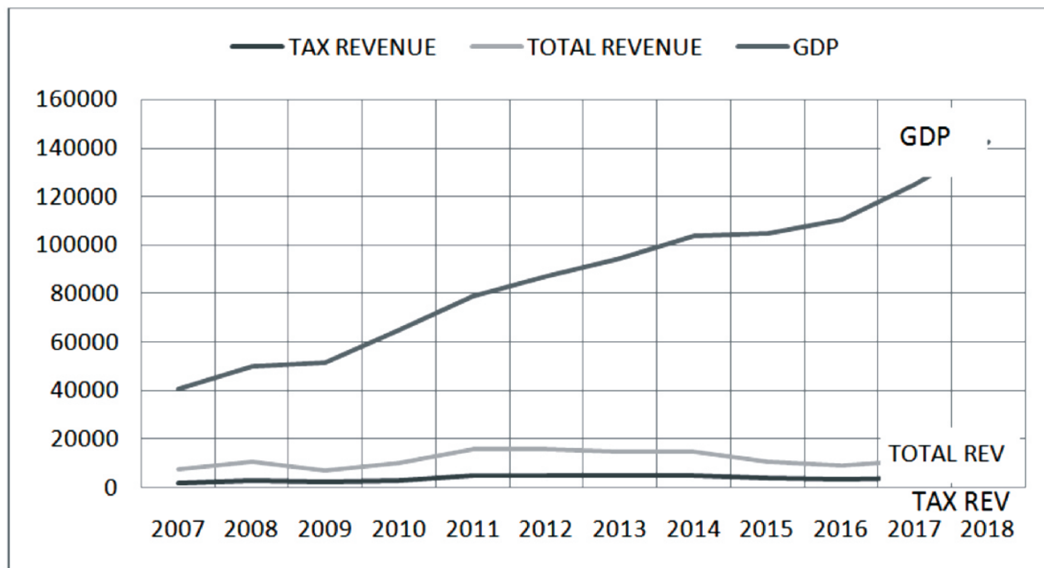
a is the constant

$_r$ is the error term.

b is the coefficient of the variables

GDP is the gross domestic product
NONOIL is the non-oil revenue
OIL is the oil revenue
PPT is the Petroleum Profit Tax
CIT is the Company Income Tax
CGT is the Capital Gain Tax
EDT is the Tertiary Education Tax
OTH representer other levies and taxes collectible by FIRS

**Discussion of Findings**




The line plot shown above shows the total value for each of GDP, tax revenue and total revenue. The graph depicts an increase in GDP over the years as it continues to increase over the period 2007 to 2018. A similar result was observed for total revenue and tax revenue. Though there was an increase over the years for tax revenue and total revenue the increase is not steady as there are fluctuations over the periods.

**Table 1: Descriptive analysis of the variables**

| Variable | Obs | Mean | S.td. Dev. | Min | Max |
|---|---|---|---|---|---|
| TAX RVENUE | 12 | 3784.18 | 1151.68 | 1864.9 | 5320.52 |
| TOTAL REVENUE | 12 | 8066.97 | 2113.857 | 4844.59 | 11116.85 |
| GDP | 12 | 75998.97 | 30338.94 | 32.995.38 | 127760 |

Figure 1: Line plot of GDP, Tax Revenue and Total Revenue

Table 1 above shows the description of the variables in terms of their mean, standard deviation, minimum value, and maximum value.

**Table 2: Correlation matrix of the relationship between GDP, Tax Revenue and Total Revenue**

| | GDP | TAX REVENUE | TOTAL REVENUE |
|---|---|---|---|
| GDP | 1 | 0.6755 | 0.2488 |
| TAX REVENUE | 0.6755 | 1 | 0.8644 |
| TOTAL REVENUE | 0.2488 | 0.8644 | 1 |

From table 2 above there exists a strong positive relationship between tax revenue and GDP with correlation coefficient of 0.6755 and it is significant but a very weak relationship between total revenue and GDP (r= 0.2488).

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| TAX_REVENUE | 0.000676 | 7.33E-05 | 9.227339 | 0.0000 |
| TOTAL_REVENUE | -0.000251 | 3.99E-05 | -6.298527 | 0.0001 |
| C | 10.62684 | 0.166970 | 63.64537 | 0.0000 |
| R-squared | 0.914506 | Mean dependent var | | 11.15703 |
| Adjusted R-squared | 0.895507 | S.D. dependent var | | 0.435404 |
| S.E. of regression | 0.140746 | Akaike info criterion | | 0.871407 |
| Sum squared resid | 0.178284 | Schwarz criterion | | 0.750181 |
| Log-likelihood | 8.228443 | Hannan-Quinn criteria. | | 0.916290 |
| F-statistic | 48.13532 | Durbin-Watson stat | | 1.972651 |
| Prob(F-statistic) | 0.000016 | | | |

Furthermore, the F-value for the test is 48.13532 with a p-value < 0.05 significant level which is an indication that the model is adequate and sufficient in relating the variables under study.

In order to establish the nature of the relationship that exists between the variables; GDP (dependent variable) and Total revenue and tax revenue (independent variables), regression analysis was employed using ordinary least square (OLS) method (Table 3). The result shows that for every unit increase in tax revenue taking total revenue constant, there is 0.067 percent increase in GDP. In addition, for every unit increase in total revenue, there is 0.025 percent decrease in GDP provided tax revenue is constant. All the independent variables are significant and we can conclude by accepting the alternative hypothesis that both tax revenue and total revenue significantly have effect on GDP.

Moreover, the coefficient of variation indicates that about 91% variation in GDP could be attributed to the joint effects of total revenue and tax revenue. The adjusted R-squared value also indicates that addition or subtraction of any other variable will still account for about 90% variations in GDP. The Durbin-Watson stat is 1.9726 which indicates non-existence of auto-correlation.

The model is written as:
**LogGDP = 10.62684 – 0.000251*TOTAL REVENUE + 0.000676*TAX REVENUE**

## Conclusion

There is no doubt that tax revenue is very relevant to economic growth, tax payment is from the proceeds of economic activities in an economy. The government should provide conducive environment for productive economic activities so that there would be flow of investments that will create employment and the development activities in the country. The finding revealed that tax revenue is significant to economic growth which was measured by Gross Domestic Product (GDP), but the government should be careful of high tax rate which might scare away foreign investments. This study is in agreement with the finding in (Gale & Sanwick, 2016), the focus of government should not only based on increase in tax rates but ensure to capture many people into the productive sector of the economy so more revenue can come in through company income tax and personal income tax (Giwa & Kase, 2018).

## Policy Recommendations

The study thereby makes the following recommendations

1. The government should create a secure environment where properties and life are protected
2. The provision of infrastructure should be given priority by the government of the day
3. The government should put more energy into the non-oil sector of the economy such as income from taxation, export of non-oil products and technological products to generate the necessary foreign exchange needed to boost the economy of the country which will impact on the life of every citizen.
4. Youth should be encouraged to be involved in the productive sector of the economy such as agriculture and manufacturing, financial assistance through loans should provided by government with technical assistance for any youth that has interest.
5. Government youth empowerment programs should not only be for young graduates but also for the youths who are school drop out that have little or no education but are possessed with youthful energy, that can be put into economic use which can later be captured into the country's tax nets
6. Proper and adequate penalties should be melted on tax-related offenses.

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**Appendix**

| YEAR | TAX REVENUE N'BILLIONS | TOTAL REVENUE N'BILLIONS | GDP N'BILLIONS |
|---|---|---|---|
| **2007** | 1,847 | 5,727.51 | 32,995.38 |
| **2008** | 2,972.20 | 7,866.60 | 39,157.88 |
| **2009** | 2,197.60 | 4,844.59 | 44,285.56 |
| **2010** | 2,839.30 | 7,303.67 | 54,612.26 |
| **2011** | 4,628.50 | 11,116.85 | 62,980.40 |
| **2012** | 5,007.70 | 10,654.75 | 71,713.94 |
| **2013** | 4,805.60 | 9,759.79 | 80,092.56 |
| **2014** | 4,714.60 | 10,068.85 | 89,043.62 |
| **2015** | 3,741.80 | 6,912.50 | 94,144.96 |
| **2016** | 3,307.50 | 5,679.03 | 101,489.49 |
| **2017** | 4,027.94 | 7,317.70 | 113,711.63 |
| **2018** | 5,320.52 | 9,551.80 | 127,760.00 |

Sources: Tax revenue from Federal Inland Revenue Service report while Total Revenue and Gross Domestic Product (GDP) was from CBN Statistical Bulletins of various issues.