EFFECT OF TAX REVENUES ON THE ECONOMIC DEVELOPMENT OF NIGERIA

Abstract

The main objective of this study is to examine empirically the effect of tax revenues on the economic development of Nigeria, judging its impact on relationship between tax revenue and economic growth. Data was sourced from CBN statistical bulletin and the World Bank data. A multiple regression analysis was used for the analysis of the data which would consist of a fusion between the dimensions of time (time series). Quantitative research approach was used to analyze the regression results. Consequently, the findings from the study showed that custom and excise duties, companies income tax, petroleum profit tax, value added tax have significant combine effect on gross domestics product in Nigeria. Similarly, results show that custom and excise duties (B = . 0.117, t=0.031948, p>0.05) and companies income tax (B = 0.539657, t = 2.2215895, p>0.05), petroleum profit tax (B = 0.103431, t = 2.370469, p>0.05), positive effect on GDP and have insignificant effect on gross domestics product, whereas cc (B=-0.452577, t=-0.836510, p>0.05) negative effect on gross domestics product but have insignificant effect on gross domestics product in Nigeria. It was concluded that tax revenue have effect on the economic development in Nigeria. It was recommended that government established a long term goal through investment in infrastructural development.

KEYWORDS: *Custom and Excise Duties, Companies Income Tax, Petroleum Profit Tax and Gross Domestics Product*

Introduction

Most developing countries are increasingly focusing on domestic resources mobilization which has been aimed at economic development. Earlier studies on growth have demonstrated that raising domestic revenues is the most feasible way to achieve fiscal sustainability. (Tanzi& Zee 1997). In this context, strengthening domestic revenue bases is very crucial especially for the developing countries in West African Sub- region. Tax is one of the major sources of revenue for a country where they are collected from citizens, companies and investors in order to develop the economy. However, while it is clearly important that the principal source of government revenue should be taxation, in many West African countries this is often not the case.Nigeria is situated in West Africa Sub-region with a land mass of 923,768 square kilometers and a population of about 180 million people (NBS, 2016). The global perception of Nigeria is that of a rich oil producing nation but with a growing poverty index (Yakub, 2008). However, lack of transparency and accountability, increased unemployment, poor health facilities and lack of adequate power supply are some of the economic problems that have resulted in low economic development of Nigeria. The United Kingdom (UK) has the fifth largest national economy (and second largest in Europe) measured by nominal GDP and eighth largest in the world measured by purchasing power parity (PPP). The UK economy comprises the economies of England, Scotland, Wales and Northern Ireland. UK tax revenues come from a variety of sources. The main sources of tax revenue include: Income tax rate is 20% ,National Insurance, VAT rate is 20% for most goods and services, Corporation tax rate is 21%, Council Tax from local government, Business rates, Excise duties from alcohol, cigarettes, Other taxes include stamp duty, carbon tax, airport tax, inheritance tax, capital gains, (TejvanPettinger, 2014). Nigeria is a developing country whose major export is mainly crude oil. The country is also endowed with other natural resources such as: natural gas, coal, iron ore, tin, limestone, zinc, lead and vast arable land (Economy Watch 2011). In achieving the Millennium Development Goals (MDGs) for instance, low-income countries (LICs) are required to increase their domestic revenues by about 4 percent of their GDP. In addition, in order to meet the MDGs, the OECD countries have been urged to raise their level of aids to LICs to about 0.7 percent of their Gross Domestic Income (United Nations, 2005), but this cannot be compared to potential tax revenues if properly harnessed. In order to reawaken the consciousness of government of Nigeria whose level of development seems not to justify the tax revenue being generated by the country and the need for Nigerian citizens to know how efficiently and effectively taxation has been a major tool for the economic development of the nation; this work becomes very relevant, especially when one considers the dwindling revenue from the major source which is oil and gas following the serious crash of oil price in the international market. There is no doubt that taxation must have affected the economic development of West African Sub-region. Effort shall therefore be made in this research to see how far the sub–region have been able to achieve her economic goals with her tax policies and administration using Nigeria as reference point. The administrative role of the Federal, state and local governments shall as well be examined in order to identify the causes of tax evasion and avoidance.Nigeria's GDP was recently rebased from about USD 270 billion to USD 510 billion for 2013. The increase of about 90% was attributed to the new sectors of the economy such as telecommunications, movies and others which were previously not captured or underreported. According to the former Minister of Finance, Okonjo-Iweala (2013), the Federal Inland Revenue Service (FIRS) was charged to raise the ratio of tax revenue to GDP to at least 20%, thereby bringing the revenue target of about NGN 14 trillion (USD 87.5 billion) up from the current NGN 6 trillion (about 37.5 billion) for the FIRS alone. Nigeria rebased GDP growth rates for 2011, 2012 and 2013 were 17%, 13% and 13% respectively (NBS, 2015). The World economy continues to suffer from the global economic and financial crisis with far- reaching consequences, especially for emerging and middle income economies (IMF, 2014a).Soyode and Kajola (2006) described tax as a compulsory exaction of money by a public authority for public purpose, and taxation is a system of raising money for the purposes of government by means of contribution from individual person or corporate body. Nightingale (1997), on his own described tax as a compulsory contribution imposed by the government and he concluded that even though tax payers may receive nothing identifiable in return for their contribution, they nevertheless have the benefit of living in a relatively educated, healthy and safe society. It should be noted that levying taxes is within the jurisdiction of government either at the local, state or federal level. The need to meet the expectation of good governance in a modern society is the rationale for levying taxes (Bird, 1992). Tax revenue is of vital importance for the sustainability of both developed and developing countries. Taxation is the main source of central government revenue, since tax collection is mandatory and regular which can guarantee the stability of income. Taxation aims to meet the social and public needs by providing public goods and services. In addition, government need tax revenue to establish armed forces and judicial systems to ensure the security and justice of the society (Jonathan, 2009). One of the necessary conditions for rapid, equitable, and sustainable economic growth in Africa and elsewhere is a healthy system of public finance. According to Bird (1992), the tax system constitutes one of the most important instruments of development policy in any country. In November, 2010 at a summit organized by G9-20 leaders, the importance of strengthening revenue mobilization of developing countries was highly stressed. Many developing countries need substantial additional 4 percent of GDP especially in many low-income countries if they are to have a good chance of meeting the United Nations Millennium Development Goals (MDGS) – as well as pressing needs for infrastructure and adaptation into climate change. In the same vein, the dire post-crisis fiscal position of many developed economies is naturally focusing attention on the extent and effectiveness of the aid they provide to developing countries and on ensuring that it supports rather than discourage the latter's own revenue-raising efforts . Sound fiscal responsibility is central to achieving macro- economic stability and ensuring that the benefits of economic growth are achieved (The World Bank, 2010). Revenue should be accurate to finance basic services such as security and primary education. In many developing countries, a low-tax revenue/GDP ratio prevents these nations from undertaking ambitious expenditure programmes. Thus a rapid increase in domestic revenue and a corresponding increase in public services is a policy priority. However, government needs to be cautious about increased public spending and increased taxation, as distortionary taxes begin to reduce growth when pushed beyond certain levels; tax bases are not simply given to governments; they can be grown or destroyed (Bird, 2008).Nzotta (2007) argues that taxes constitute key sources of revenue to the federation account, shared by the federal, state and local governments. This is why Odusola (2006) stated that in Nigeria, the government's fiscal power is divided into three-tiered tax structure between the federal, state and local governments, each of which has different tax jurisdictions. The system is lopsided and dominated by oil revenue. He further argues that over the past decades oil revenue has accounted for more than 70% of the total revenue, thus indicating that traditional tax revenue has never assumed a strong role in the country's management of fiscal policy. Instead of transforming the existing revenue base, fiscal management has merely transited from one primary product based revenue to another, making the economy susceptible to fluctuations of the international market. It is on the account of this lopsided revenue structure that tax experts and scholars stated in clear terms that the tax system in Nigeria needed to be reformed to achieve long term economic growth and development. Tax is a compulsory levy imposed on a subject upon his property by the government to provide security, social amenities and create conditions for the economic well-being of the society (Appah, 2004; Appah&Oyandonghan, 2011). Anyanfo (1996) and Anyanwu (1997) stated that taxes are imposed to regulate the production of certain goods and services, protection of infant industries, control business and curb inflation, reduce income inequalities etc. Tosun&Abizadeh (2005) posited that taxes are used as proxy for fiscal policy. They outlined five possible mechanisms by which taxes can affect economic growth. First, taxes can inhibit investment rate, for instance corporate tax, personal income tax, capital gain tax, withholding tax among others. Secondly, taxes can slow down growth in labour supply by disposing labour leisure choice in favour of leisure. Thirdly, tax policy can affect productivity growth through its discouraging effect on research and development expenditures. Fourthly, taxes can lead to a flow of resources to other sectors that may have lower productivity. Finally, Engen and Skinner (1996) suggest that a number of recent theoretical studies have used endogenous growth models to stimulate the effects of a fundamental tax reform on economic growth. All these studies conclude that reducing the distorting effects of the current tax structure would permanently increase growth.

Statement of the Problem

The development of infrastructure demands a lot of resources and funding. In most of the development economies, tax revenues represents about 30-40 percent of their GDP (Golit, 2008). Nigeria's budget has been on the increase from #4.2tn in 2011, #4.75tn in 2012, #4.98tn in 2013, #6.9tn in 2015, with the exception of 2014 which was #4.69 (NBS, 2016). Tax revenues had been one of the ways of funding the budgets. However, in Nigeria the contribution of tax revenue has not been so encouraging, thereby making the expectations of government not been met, over the years, it has been observed that the Nigerian tax system has inherent problems in its structure. Odusola (2006) opined that the

Nigerian tax system is concentrated on Petroleum Profit Tax (PPT) and Company Income Tax (CIT) while broad-based indirect taxes such as the Value Added Tax (VAT) and Customs and Excise Duty (CED) are relegated to the background. In addition, corruption, evasion, avoidance, connivance of tax officials with tax payers and tax haven indicators are adduced strongly as reasons for low tax revenue in Nigeria (Attila, Chambas& Combes, 2008). Consequently, the more citizens lack knowledge or education about taxation in the country, the greater the desire and the opportunities for tax evasion, avoidance and non-compliance with the relevant tax laws. The serious decline in price of oil in recent years has led to a decrease in the funds available for distribution to the Federal, State and Local Governments. However, the need for state and local governments to generate adequate revenue from internal sources has therefore become a matter of extreme urgency and importance. This need underscores the eagerness on the part of state and local governments and even the Federal government to look for new sources of revenue or to become aggressive and innovative in the mode of collecting revenue from existing sources. Infrastructural development is keyed to economic development of any nation and the impact of tax revenue in the attainment of economic growth and development of most developing economies cannot be over-emphasized. Over the years, revenue from taxes has been very low and physical development has not been encouraging, hence the impact on the poor is not being felt. Inadequate tax personnel, fraudulent activities of tax collectors, poor data base of taxpayers, non – availability of modern facilities for tax collection, lack of understanding of the importance to pay tax and varying degree of tax evasion and avoidance are some of the reasons attributable to dwindling tax revenue of most developing economies (Appah&Oyandononghan, 2011). There is no doubt that Nigeria is richly blessed with oil and gas among other mineral resources, but the main challenge of the country is over-dependence on oil revenue for the economic development of the country and this has left much to be desired, (Abiola&Asiweh, 2012). Changing or fine-tuning tax rates has been used to influence or achieve macro-economic stability. A very good examples of developed countries that have influenced their economic development through revenue from tax includes: United Kingdom (UK), United States of America (USA), Netherland and Canada. Most of them derive substantial revenue from Value Added Tax (VAT), Customs and Excise Duty and have used same to create prosperity. (Oluba, 2008). It was the view of Popoola (2009) that Nigerian tax administration and practice be structured towards economic goal achievement since government budget for the year 2009 centers majorly on oil revenue. While decrying the low productivity of the Nigerian tax system, deficiencies in the tax administration and collection system, complex legislations and apathy on the part of those outside the tax net were identified as some of the root causes by Ijewere (1991) and Ndekwu (1991) as cited in (Ariyo 1997). Those working in the informal sector of Nigerian economy do not see the need to pay tax, whereas they dominate the economy. To them, only civil servants should pay tax on their earnings and this amount to over- flogging the willing horse. Revenue collection officials seem to be lenient or even connive with those in the informal sector during enforcement of tax policies. All of the above lead to heavy revenue loss. There is no doubt that taxation must have affected the economic development of Nigeria. In this study, efforts were made to see how taxation has affected the economic development of Nigeria in the areas of electricity, road construction, education, health among others which is measured by GDP. Researchers in different fields of study have conducted studies into tax revenue and economic development. Some of the reasons identified as factors responsible for low tax revenue of most developing economies were classified into: Poor tax administration, corruption and inefficiencies of tax officials, inadequate data base of taxpayers, bad governance, lack of understanding of the importance of payment of tax by the taxpayers, tax evasion and avoidance, poor record keeping, and cash transactions, among others. (Worlu&Emeka, 2012). In addition, the various leakages in our tax laws through tax reforms has given opportunities to taxpayers to exploit thereby reducing the taxpayers' liability, consequently, reducing revenue on taxation. While most of these reforms focused on tax structure rather than on tax administration geared towards generating more revenue from the existing tax sources. (Osoro,1991). Hence, the study seeks to find out the contribution of tax revenue to the total revenue generation of government and its effect on the economic development in Nigeria. This study also looked into the various taxes being collected by the Federal government of Nigeria and compared such taxes with the level of development in the country.

Objective of the Study

The main objective of this study is to examine empirically the effect of tax revenues on the economic development of Nigeria, judging its impact on relationship between tax revenue and economic growth.

Significance of the study

This study is expected to assist government to know various reasons for low level of economic growth and development which could be as a result of dwindling tax revenues. Findings from and recommendations of this study are expected to assist government at all levels on measures to be taken to boost their tax revenues and play down the over-dependence on oil revenues by bringing into the tax net the informal sector of the economy who pay little or no tax into government covers.

Findings from this study will assist the tax authorities on the need to further strengthen their efforts to ensure that some of the loopholes in the tax laws which encourages tax evasion and avoidance are review with the aim of increasing the budgeted tax revenues of the various tiers of government especially with the newly introduced Voluntary Assets and Income Declaration Scheme (AIDS) by the federal government which is the time-limited opportunity for taxpayers to regularize their tax status relating to previous tax periods and pay any taxes due.

It is expected that this study would provide an empirical model which aims at measuring the contributions of tax revenues to the economic development of Nigeria and reference point for members of the academia who are likely to embark on such exercise in the nearest future.

Scope of the Study

This study covers taxes collectible by the Federal Government of Nigeria specifically Companies income tax, Petroleum profit tax, Value added tax and Customs and excise duty for a period of ten years between 2006 and 2015. The period was considered because of the various tax reform policies that were introduced during the period and the belief of the researchers that adequate data were available for proper data analysis to measure and compare the level of economic development and the quantum of tax revenue accrued to government of Nigeria. The Central bank of Nigeria (CBN), Federal Inland Revenue Service and National Bureau of Statistics were the agencies from which the secondary data used for the study were collected.

Review of Literature

Tax revenue

United Nations (2000) stated that tax revenue contributes substantially to development and therefore, there is the need to streamline a nation's tax system to ensure the realization of optimal tax revenue through equitable and fair distribution of the tax burden.Tax revenue is defined as the revenues collected from taxes on income and profits, social security contributions, taxes levied on goods and services, payroll taxes, taxes on ownership and transfer of properties and other taxes, (Ebeke&Ehrhart, 2010). Total tax revenue as a percentage of GDP indicates the share of country's output that is collected by the government through taxes. It can be regarded as one measure of the degree to which the government controls the economy's resources. The tax burden is measured by taking the total revenue received as a percentage of GDP. This indicator relates to government as a whole (Federal, State and Local) and is measured as Naira per capital, percentage of GDP and annual growth rate. (Ghura, 2006). Tax revenue is the income that is gained by government through taxation. Just as there are different types of taxes, the form in which tax revenue is collected also differs; furthermore, the agency that collects the tax may not be part of the federal government, but they may be a third party licensed tax collector which they themselves will use. For instance in UK, the Driver and Vehicle Licensing Agency (DVLA) collects vehicle excise duty, which is then passed to HM Treasury. (Tejvan, 2014). Tax revenues on purchases can take two forms, 'tax' itself as a percentage of the price added to the purchase (such as sales tax in US or VAT in the UK), while duties are fixed amount added to the purchase price (for instance, for cigarettes). In order to calculate the total tax revenue generated from these sales, we must work out the effective tax rate and multiply by the quantity of the goods supplied. Tax revenues are the most fundamental component of home-grown revenues, and they grow in importance as a country develops.

Thus, strengthening domestic resource mobilization is not just a question of raising revenue; it is also about designing a tax system that promotes inclusiveness, encourages good governance, respond to society's concerns over income and wealth inequalities, and promote social justice (James & Moses, 2012). More fundamentally, the centrality of taxation in the exercise of state power means that more efficient, transparent and fairer tax systems and less corrupt tax administrators can spearhead improvement on wider governance issue.

According to Guilia, Mick &Rhianon, (2014) taxes are good ways for financing the costs of public goods, a special group of goods whose consumption by one person does not decrease the consumption by others and, at the same time, for which it is costly or impossible to prevent consumption (e.g. street lightening). A normal pricing for these goods would arrive to a zero-level price; thus, it would provide no incentives to supply. Similarly, it is common to finance by taxes the costs of goods and services having large positive externalities if they are not supplied enough by the private sector. Taxes are mandatory payments, ruled by laws. Tax revenue is collected from the whole society with differentiated intensity, inspired by considerations of justice, efficiency and effectiveness. In particular, the tax system can have the broad goal of reducing income inequality. Taxes can be considered as ex-ante payments for services obtained later on (allowing for de-coupling of the payment structure from consumption structure but not necessarily). The can also be seen as premium payments for insurance schemes. Many fiscal systems, however, are highly irrational, exceedingly complex and the taxpayer therefore requires the services of tax a professional for computing the tax liability and for figuring out ways of decreasing the tax burden. They can pay for wasteful expenditure, especially of the political and economic effect.In their own view, Appah&Oyandonghan, (2011), taxes contribute to the repayment of accumulated public debt (principal) and the related interest paid on it. However they quickly become unacceptable by the electorate if the share devoted to such goals becomes too large, compressing public expenditure amount, coverage and quality, since most voters will feel to receive less than they pay in taxes.

Economic Development

According to Dwievi (2004) as cited in Akintoye& Dada (2013), economic growth is a sustained increase in per capital national output or net national product over a long period of time. It implies that the rate of increase in total output must be greater than the rate of population growth. Also, it should be stressed that national output should be composed of such goods and services which satisfy the maximum want of the maximum number of people. Economic growth can be measured by four important determinants namely, human resources, national resources, capital formation and technological development.

Economic development could generally refer to the sustained, concerted actions of policy makers and communities that promote the standard of leaving and economic health of a specific area (Akintoye& Dada 2013). Economic development could also be referred to as quantitative and qualitative changes in the economy. The actions can involve development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety and other initiatives. There is a difference between economic growth and economic development. Whereas economic development entails policy intervention aims at economic and social well-being of the people, economic growth is a phenomenon of market productivity and increase in GDP. The scope of economic development includes the process and policies by which a nation improves the economic, political, and social well-being of its people. In economic terms, development is the capacity of a nation to generate and sustain an annual increase in its GNP of 5% or more (The World Bank, 2010). Traditional economic measures: GDP: is the market value of all final goods and services produced within a country in a given period of time. Gross National Product: is the market value of all final goods and services produced by permanent residents of a country in a given period of time.Common alternative index is the rate of growth of income per capital or per capital GNP

Per capital GNP: is the per-head value of final goods and services produced by permanent residents of a country in a given period of time.(World Bank, 2010).

World Bank in its 1991 World Development Report asserted that the “challenge of development is to improve the quality of life.

According to World Bank Report (2010), the improved Quality of Lives (QOL) involves higher incomes, better education, higher standards of health and nutrition, less poverty, a cleaner environment, more equal of opportunities, greater individual freedom, and a richer cultural life.

Theoretical Framework

Theories of economic development

There have been several major phases of development theory since 1945. From the 1940s to the 1960s the state played a large role in promoting industrialization in developing countries, following the idea of modernization theory. This period was followed by a brief period of basic needs development focusing on human capital development and redistribution in the 1970s. Neo-liberalism emerged in the 1980s pushing an agenda of free trade and removal of Import Substitution Industrialization policies (Marsden, 1983).

In economics, the study of economic development was borne out of an extension to traditional economics that focused entirely on national product, or the aggregate output of goods and services. Economic development was concerned in the expansion of people's entitlements and their corresponding capabilities, morbidity, nourishment, literacy,education, and other socio-economic indicators. Borne out of the backdrop of Keynesian, advocating government intervention, and neoclassical economics, stressing reduced intervention, with rise of high-growth countries (Singapore, South Korea, Hong Kong) and planned governments (Argentina, Chile, Sudan, Uganda), economic development, more generally development economics, emerged amidst these mid-20th century theoretical interpretations of how economies prosper. According to an economist, Hirschman (1981), a major contributor to development economics, asserted that economic development grew to concentrate on the poor regions of the world, primarily in Africa, Asia and Latin America yet on the outpouring of fundamental ideas and models.

For the purpose of this study, benefit received theory was adopted. This was due to the fact that for government to realize revenue from taxation, such a government should be able to provide necessary facilities such as good roads, regular supply of electricity, functional health facilities, qualitative education, adequate security among others to her citizens, who in turn should be able to exercise their civic responsibilities of prompt payment of their taxies.

The provision of the aforementioned facilities will reduce drastically to the barest minimum the incidence of tax evasion and tax avoidance, thereby making government to realize more revenue from taxation.

Theories of taxation

Several theories of taxation exist in public economics. Governments at all levels (national, state and local) need to raise revenue from a variety of sources to finance public-sector expenditures. The details of taxation are guided by two major principles: who will benefit, and who can pay. In public-finance literature, there are two theories: the benefit theory as developed by Montessquieu in 1748, provides a link between the enjoyment of wealth and the security provided by the government. The theory maintains that the revenues of the state are a portion in which every citizen gives of his good in order to have the security or the comfortable enjoyment of the rest (Dodge, 2005). Benefit theory which is otherwise known as voluntary exchange theory is based on tax to pay for public goods expenditure on a politically willingness to pay for benefits received (Lindahl, 1919).

Basically, there are two school of taught to the benefit received theory, which include: the old school of taught and the new school of taught. Under the old principle according to Dodge (2005) originated from the enlightenment period of intellectual history, it believes that people's contribution to the funding of government should correspond to the benefits they receive from it. However, this principle was highly criticized in that it would be practically impossible to measure benefits received by individual taxpayers from government as well as incoherency of maintaining this principle in a welfare state. In order to overcome this challenge, a new principle of benefit received theory was developed. The theory holds that the appropriate index and basis for measuring the benefits received by an individual from government will be taxpayer's economic well-being (Dodge, 2005). This implies that the well-being of taxpayers is a function of provision of social amenities such as good roads, health facilities, education, security and public infrastructures among others, which will eventually translate to the economy of the market. The benefit theory has a modern version, known as the "voluntary exchange" theory.

Empirical Review

Adegbie&Fakile (2011) carried out a study and focused their attention on Companies Income Tax and Nigeria's economic development. They concluded that there is a significant relationship between company income tax and Nigeria's economic development. And that tax evasion and avoidance are major hindrances to revenue generation

Based on their study: Tax Revenue and Economic Development in Nigeria: A microeconomic Approach, judging from its impact on infrastructural 1980-2007. Worlu&Emeka (2012), and using the three stage least square estimation technique. The result shows that tax revenue has no independent effect on growth through infrastructural development and foreign direct investment, but just allowing the infrastructural development and foreign direct investment to positively respond to increase in output.According to their own study, Owolabi&Okwu, (2012) carried out a study on the contribution of Value Added Tax (VAT) to the development of Lagos State Economy using simple regression models as abstractions of the respective sectors considered in the study. A vector of development indicators were used as dependent variables which were regressed on VAT revenues proceeds to Lagos State for the period under study. Areas of development considered include: infrastructural development, environmental management, development in educational sector, health and agricultural development, transportation sector among others. The outcome of the study showed that VAT revenue contributed positively to the development of the respective sectors. Owolabi&Okwu (2011) examined the contribution of VAT to the development of Lagos State Economy, using simple regression models as abstractions of the respective sectors considered In the study. The study considered a vector of development indicators as dependent variables and regressed each on VAT revenue proceeds to Lagos state for the study period. Various aspects considered included, infrastructural development, environmental management, education sector, youth and social development, transportation and health sector. The result shows that VAT revenue contributed positively to the development of the respective sector. However, the positive contribution was statistically significant only in the agricultural sector. On the aggregate, the analysis showed that VAT revenue made a considerable contribution to the development of Lagos State Economy for the period considered.(Owolabi&Okwu, 2011). However, the positive contribution was statistically significant only in the development of agricultural sector. On the aggregate, the analysis showed that VAT revenue had a considerable contribution to the development of the economy of Lagos State during the period of study.Lee & Gordon, (2004) in their paper, Tax structure and economic growth, explore how tax policy affects a country's growth rate using cross-country data during the period 1970-1997. Their findings revealed that statutory corporate tax rate are significantly negatively correlated with cross sectional differences in average economic growth rates, controlling for various other determinants of economic growth, and other standard tax variables and also, that in fixed-effect regressions increases in corporate tax rates lead to lower future growth rates within countries.In another study carried out by Unegbu&Irefin (2011), the impact of value added tax (VAT) on economic and human development of emerging nations from 2001-2009, using regression, discriminatory analysis and ANOVA, they found out that VAT allocations have a very significant impact on the expenditure pattern of the Adamawa state during the period covered by the study.Also, it was observed that, the perceptions by the citizenry across the administrative areas of the state suggests that VAT has minimum impact level on the economic and human developments in the state from 2001-2009.

Methodology

Research Design

Survey design which is empirical in nature would be employed in this study. Ex-post facto design will be adopted since the study intends to examine the relationship between Tax revenue and economics growth using existing (past) data in order to determine the current effect as well as to predict future occurrences.

Population

Thus, for the purpose of this study, the population in order to test the implications of the model would be collected from an aggregate data on variables of interest in Nigeria. The entire data set of Nigeria for which all relevant variables are reported over an thirty-five year period (2006–2019).

Sources of Data

As regards this research work, secondary data will be used. Data would be sourced from CBN statistical bulletin and the World Bank data. A multiple regression analysis would be used for the analysis of the data which would consist of a fusion between the dimensions of time (time series). Quantitative research approach would be used to analyze the regression results.

Method of Data Analysis

Multiple regression analysis was employed for the analysis of secondary data gathered for the study. Regression analysis is a statistical process for estimating the relationship among variables. It includes many techniques for modeling and analyzing several variables, especially when the focus is of the relationship between a dependent variable and one or more independent variables.

In this study, annual time series method of analysis was employed to develop a small macro-econometrics model that captured the relationship among economic growth and development given tax revenue available to government.

The secondary data collected include; Value Added Tax (VAT), Gross Domestic Product (GDP), Petroleum Profit Tax (PPT), Customs and Excise Duties (CED), Companies Income Tax (CIT). The justification for this is that the number of both dependent and independent variables being considered are more than two while our population will be the total collectible taxes by the Federal government of Nigeria.

The essence of the analysis is to enable the researcher to obtain a stronger empirical evidence to support the study.

Pre Estimation Tests

Normality tests and Descriptive Statistics

Firstly, to estimate the normality of the distribution of the variables to be used in the study, normality tests will be carried out variables to ensure that the variables are standardized normal variables and do not violate the properties of a standardized normal distribution.. For this purpose, the mean, standard deviation and skewness of the variables to be used in the study would be provided in a descriptive manner. Also, kurtosis which measures the peakness of the distribution of the variables would be shown in a descriptive form as well as the JarqueBera and its probability value which would be used to indicate the statistical significance of the variables.

Stationarity tests (ADF & PP)

Although time series data are used in many econometric studies, they present some special problems for econometricians. Most of the empirical work based on time series data assumes that the underlying time series are stationary and thus exposed to the problem of random walk which poses serious challenges to the reliability of the result obtained from the analysis. Any time series can be thought of as being generated by a stochastic or random process. A stochastic process is said to be stationary if its mean and variance are constant over time and the value of covariance between two time periods depends only on the distance or lag between two time periods and not on the actual time at which the covariance is computed. Some of the most efficient ways of testing for the presence of Stationarity in relation to time series model is the application of the Augmented Dickey Fuller (ADF) and Phillip-Perron (PP) test.

The ADF and PP will be used to avoid spurious regression thereby subjecting each of the variables used to unit root test so as to determine their orders of integration since unit root problem is a common feature of most time series data. Augmented Dickey Fuller ADF) and Phillip Perron (PP) tests the null hypothesis to know if there is absence of random walk in the model. The decision rule is based on failure to reject the null hypothesis of no random walk when all variables are stationary of the order Level, otherwise, we fail to reject the null hypothesis, which thus leads to the test for co integration.

Post Estimation Tests

Autocorrelation Test

One of the major violations of the basic Least Square rule is when the error terms of successive periods are correlated with each other. The violation of this rule results in lower than acceptable range for the standard errors of the coefficient variables which thus renders them inefficient in the estimation process. It is paramount to carry out this test to determine the level of reliability of the model.

Heteroskedasticity Test

The test for Heteroskedasticity will be carried out to determine if the error terms are constant over time, and to be sure that the error terms are not somewhat related or correlated with the explanatory variables. The presence of Heteroskedasticity violates the basic Least Square assumptions and renders the standard error of the variables too low and consequently can lead to Type 1 error.

Multicollinearity Test

It has often been argued that multicollinearity is a must have in time series variables which is the situation presented in this work, and thus the focus is not the elimination of the presence of multicollinearity in the model, but rather to minimize the effect of multicollinearity so as to ensure the consistency of the model estimation.

Ethical Consideration

In conducting a research work, respect for expertise and diligence is not only required, but also the honesty and integrity of the researcher. This is done so as to recognize researchers and works which have previously carried out studies in relevant and related areas. Materials and journals used for the research work are appropriately referenced and cited correctly. Also, the data which would be used in interpreting the results will not be in anyway falsified and appropriate effort would be made to ensure that the presentation and interpretation of data is done in a way that it would be free from any form of bias.

Analysis

Table 4.1: Regression analysis

	Coefficient	**Std-Error**	**t-Stat.**	**Prob.**
C	40.43340	152.3167	0.265456	0.8038
CET	0.117593	3.680734	0.031948	0.9760
CIT	0.539657	0.243539	2.2215895	0.0910
PPT	0.103431	0.043633	2.370469	0.0768
VAT	-0.452577	0.541029	-0.836510	0.4499
Correlation (R)	0.951			
R-Squared (R^2)	0.890848			
Adj. R^2	0.781697			
	Statistics		**Probability**	
Test for Autocorrelation	0.319975		0.3359	
Heteroskedasticity test	0.433771		0.9402	
Residual Normality Test	3.071693		0.215273	
ANOVAs F-calculated	12.53622		0.00062	

Dependent Variable: Gross Domestic Product ***significance at 5%**

According to the results in Table 4.1, the R value for the overall relationship of custom and excise duties, companies' income tax, petroleum profit tax, and value added tax and gross domestic's product was .951 meaning that there is a strong positive relationship between tax revenue and economic development in Nigeria. Furthermore, the value of coefficient of determination (R^2) was 0.8908, implies that 89% variation of the gross domestic product was due to the variations in tax revenue (custom and excise duties, companies income tax, petroleum profit tax, value added tax) while the remaining 11% is caused by other extraneous variable to our model. Also, the value of F-statistic was 12.53622 with $p < 0.05$. This shows that the overall model was statistically significant. The result implies that custom and excise duties, companies income tax, petroleum profit tax, value added tax have significant combined effect on tax revenue in Nigeria. Based on these findings, the null hypothesis (H_{01}) which states that there is no combine effect of proxies has any significant effect on the GDP of Nigeria is hereby rejected. Therefore, it can be concluded that custom and excise duties, companies income tax, petroleum profit tax, value added tax have significant combine effect on gross domestics product in Nigeria. Consequently, in Table 4.1, the beta coefficients indicated that how and to what extent tax revenue that is, custom and excise duties, companies' income tax, petroleum profit tax, and value added tax revenue affect gross domestic's product in Nigeria. The results show that custom and excise duties (B = . 0.117, t=0.031948, p>0.05) and companies income tax (B = 0.539657, t = 2.2215895, p>0.05), petroleum profit tax (B = 0.103431, t = 2.370469, p>0.05), positive effect on GDP and have insignificant effect on gross domestics product, whereas value added tax (B=-0.452577, t=-0.836510, p>0.05) negative effect on gross domestics product but have insignificant effect on gross domestics product in Nigeria.

The test for autocorrelation (t_{cal}=0.3199, p>0.05) since the p-value is greater than 5 percent (p>0.05), we cannot reject null hypothesis meaning that residuals (u) is not serially correlated which is desirable. Meaning that there is no serial correlation in the residual.The Heteroskedasticity test revealed that p-value (i.e 0.9402) is greater than 0.05, shows that we cannot reject null. So residuals do have constant variance which is desirable meaning that residuals are Homoscedastic. This implies that the residual have equal variance. The normality test also revealed that Jarque Berra statistics is 3.0715 and the corresponding p value is 0.2152.

Since p vaue is more than 5 percent we accept null hypothesis meaning that sample residual (u) is normally distributed which fulfills the assumption of a good regression line.

Discussion of Findings

Based on the researchers computation as shown on Fig. 4.1 and tested hypotheses. It can be observed that CIT, PPT and CED are positively related to GDP on the other hand VAT is negatively related to economic growth which is measured by natural logarithm of GDP. This relationship is indicated by respective signs of the co-efficient.

From table 4.4, which tested the relationship between Company income tax and Gross domestic product, it is empirically clear that CIT is positively related to economic growth proxied by GDP. This is indicated by the positive sign of the co-efficient. The co-efficient of 0.3679 indicates that for every 1% change in CIT will lead to 36.79% change in GDP implying that if GDP increases by #1, GDP will automatically rise by 36 kobo. The relationship when evaluated by t-statistics suggests the observed relationship is statistically significant at 10%.

Also, the R-square of 0.7527 implies 75.27% of the changes in the value of GDP is induced by changes in CIT, while the remaining 24.73% is caused by other factors/variables.

On the basis of the above statistics, we are expected to reject our null hypothesis 1 which states that CIT does not have significant influence on GDP and accept the alternative hypothesis 1. Hence Research question 1answered and research objective 1 achieved. This gives support to existing body of knowledge as stated by Afuberoh and Okoye (2014) and Adegbie and Fakile (2014) they concluded that taxation has positive and significant contribution to both total revenue and GDP.

From table 4.7 above, it can also be observed that CIT, PPT and CED are [positively related to GDP while VAT is negatively related to economic growth measured by the natural logarithm GDP. This relationship is indicated by the respective signs of the co-efficient. While PPT and CIT are statistically significant at 5% and 10% respectively, the contribution of CED and VAT are statistically insignificant on GDP with P-value of t-statistics of 0.0464, 0.0505, 0.9093, 0.4073 for PPT, CIT, CED and VAT respectively.

The positive co-efficient of 0.1022 for PPT indicates that 1% change in the value of PPT will lead to 10.22% increase in GDP and vice versa. The 0.5220 co-efficient for CIT inferred that the influence of CIT on GDP is stronger than that of PPT, this implies that 1% increase in the value of CIT will induce 52.22% increase in the value of GDP.

The adjusted $R^{2,}$ which is the model explanatory power of 0.9045 or 90.45% indicates that 90.45% of the changes in the value of GDP is attributable to the four independent variables (CIT, PPT, CED and VAT), while the remaining 9.555 is caused by other extraneous variables to our model.

Also the P-value of the F-statistics of 0.009 indicates the combined influence of all the explanatory variables on GDP is statistically significant at 1%. The Durbin –Watson stat of 2.2789 suggests that there is no serious evidence of negative correlation.

The above analysis has also been corroborated by the submission Owolabi and Okwu (2011) when the contribution of Value Added Tax to the development of Lagos State Economy was examined, using simple regression models as abstractions of the respective sectors considered in the study. The study considered a vector of development indicators as dependent variables and regressed each on VAT revenue proceeds of Lagos State .the result showed that VAT revenue contributed positively to the development of the respective sectors of Lagos State.

Also, Unegbu and Irefin (2001) in their paper, the impact of VAT on economic and human developments of emerging Nations, using regression, descriptive analysis and ANOVA, found out that VAT allocation have a very significant impact on the expenditure pattern of the state during the period. Ogbonna and Ebimobowei (2012) did a compressive assessment on the impact of tax revenue on the economic growth and development of Nigeria was carried out and concluded that it has a significantly positive correlation on the GDP.

The negative correlation between VAT and GDP could be attributed to so many factors which include economic recession, tax evasion and avoidance and corrupt practices by the tax officials.

Whenever a country is experiencing a recession, government will attempt to recover from the recession either through monetary or fiscal policy, such at increase in tax rate for goods and services so as to reduce consumption thereby reducing tax revenue from VAT.

In addition government could also introduce a policy so as to reduce level of importation thereby making revenue on customs and excise duties relatively low thereby reducing revenue on CED.

Conclusion

The research work which was based on tax revenue and economic development in Nigeria. The study revealed clearly that there exists a positive relationship between tax revenue and economic development. The findings highlighted the channels through which tax revenue influences economic development as measured by GDP. Attentions were focused mainly on four major taxes collectible by Federal government, which include: Company income tax, Petroleum profit tax, Customs and excise duties and Value added tax. A pragmatic way to boost the tax revenue ration to GDP is through improvement in the fiscal system. It has been observed that Nigeria's tax collection system is unnecessarily too cumbersome and notoriously unfriendly to so many taxpayers, clearly a lot still required to be done to make tax compliance less onerous for an average taxpayer. Tax collection is particularly difficult in developing countries with large informal sector, low levels of literacy and public morality, poor salary structure for public servants, poor communications, malfunctioning judicial systems and entrenched interests against radical reform.

Recommendation

Based on the findings and conclusions drawn from the study, we hereby make the following recommendations:In order to increase the tax revenue of government and for the realization of its full potentials on the economy, frequent review of tax laws and new legislations should be carried out including strengthening the existing ones in line with macro-economic objectives, which will eventually checkmate tax offenders and minimize corruption, tax evasion and avoidance and improve the tax administration machinery thereby increasing tax revenue of government.

In order to encourage voluntary compliance, tax policy formulation should be after due consultation with all the stakeholders. Currently, the gap between government and citizens is so wide that policies are made and forced down on the taxpayers without due consultation the major stakeholders.

Just like in every other profit oriented organizations, the structure of tax administration should be "customer oriented". Measures to assessing customer's satisfaction, employees' satisfaction and business oriented result should be put in place (Rainey and Thomson 2006). Satisfactory services by government to the taxpayers would encourage voluntary compliance. Efforts should be intensified to ensure that tax refunds are made easier to voluntary taxpayers.Government of developing countries should take significant steps to strengthen the framework for sound fiscal policies particularly on tax reforms which constitute the major policy instrument needed to accelerate growth and eliminate poverty and promoting a better tax system to mobilize more revenue.Once the critical institutional infrastructure has been upgraded, the tax managers actually can do their jobs efficiently and let alone suggest how to improve it within which it has been equipped. The only way to secure that taxpayers receive real value for their money is when the government established a long term goal through investment in infrastructural development. (Atuokwu, 2009).

Contribution to knowledge

It is the view of the researchers that this study will be of immense benefit to the policy makers, tax consultants, taxpayers and the entire populace, this is because the study bring out reasons for the envisaged decline in tax revenue of Government and efforts that should be made to seriously address the issue in view of the vastly dwindling revenue from hitherto oil proceed as a result of the crash in international oil price.

Limitation of the Study

The research work carried out has been limited in scope of a period of ten years (2006 – 2019) using secondary data only. This is largely due to the constrain of obtaining the actual revenue from the independent variables of Companies income tax, Petroleum profit tax, customs and excise duty and Value added tax by using primary data which are not readily available at source. In addition, it is the belief of the researcher that the inclusion of additional explanatory variables would have consumed our degree of freedom as a result of number of data points available.

Suggestion for Further Study.

The researchers decision to limit the number of the independent variables to four- companies income tax (CIT), petroleum profit tax (PPT), customs and excise duty CED) and value added tax (VAT) was borne out of our conviction that those taxes would eventually lead to arriving at our conclusion about the effect of tax revenue on the economic development of Nigeria. However, further studies could still be carried out to incorporate other taxes such as TETFUND, capital gain tax, stamp duty so as to determine their effect on the general economic development of Nigeria.

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