European Journal of Accounting, Finance and Investment
Vol. 5, No. 11; November-2019;
ISSN (3466 – 7037);
p –ISSN 4242 – 405X
Impact factor: 4.17

EFFECT OF TAX REVENUE ON NIGERIAN ECONOMY (2005-2018)

[1]Onwe, Kingsley, [2]Udeh, Sergius Nwannebuike Ph.D, CNA. and [2]Ngwoke, Ogechukwu Maria

[1]Department of Accounting and Finance, School of Post Graduate Studies, Godfrey Okoye University, Enugu, Nigeria
[2]Department of Accounting and Finance, Godfrey Okoye University, Enugu, Nigeria

Abstract: *The study examined effect of tax revenue on Nigerian Economy. The objectives of the study were to examine the effect of petroleum profit and company income taxes on the gross domestic product of Nigeria. The study adopted ex – post facto design while the analytical technique used for the study was ordinary least square after a diagnostic test with unit root. The study found out that both petroleum profit tax and company income tax have significant effect on the gross domestic product of Nigeria. The study recommended that government should use necessary adjustments in the Petroleum Profit Tax to improve the gross domestic product of Nigeria which will impact on the living standard of the citizens. Government should give tax holidays to companies as a motivation in paying company income tax as it will promote gross domestic product of Nigeria which will invariably improve the standard of living of the citizens.*

Keywords: *Petroleum tax, company income tax, Nigerian economy, economic growth, taxation.*

1.0 Introduction

The whole essence of tax revenue, according to Akwe (2014) is to generate revenue to advance the welfare of the people of a nation with focus on promoting economic growth and development of a country through the provision of basic amenities for improved public services via proper administrative system and structures. Tax revenue plays a crucial role in promoting economic activity, growth and development. Adereti, Sanni and Adesina (2011) state that through tax revenue, government ensures that resources are channeled towards important projects in the society, while giving succor to the weak. The role of tax revenue in promoting economic activity and growth may not be felt if poorly administered. This calls for a need for proper examination of the relationship between revenue generated from taxes and the economy, to enable proper policy formulation and strategy towards its efficiency.

The incidence of taxation is that it reduces the fund available for re-investment and growth of a business. It also affects dividend distribution thereby discouraging the investing public (Gujarati & Porter, 2009). It therefore means that when businesses make profit and pay little taxes, they will have enough fund to re-invest and expand. By so doing more employment opportunities spring up and the economy of the country improves. The reverse becomes the case when tax rates are high and there are not adequate tax incentives to reduce the tax burden on firms. It is based on this premise that this study was set to examine the effect of tax revenue on Nigerian economy

Statement of the Problem

The impact of the Nigerian tax system on industries has been a matter of increasing interest and concern to many persons. Tax policies and the structure of taxation in Nigeria is resulting to multiple taxation on businesses, forcing most businesses to run into losses or collapse. Businesses make numerous decisions daily. Their inability to make the right decisions can result in their failure in business. Since taxation is a liability businesses have to incur, businesses are faced with the option of managing their tax liabilities in such a way that their tax burden is reduced.

Their inability to effectively manage taxation brings about negative effects on the Nigerian economy.

There is a general lack of agreement among scholars on the role of tax revenue to the economic growth of Nigeria. For instance, Ariyo (1997) in his study on productivity of the Nigerian tax system documented a satisfactory level of productivity of the tax system before the oil boom. On the other hand, Festus and Samuel (2007) established that the role of tax revenue in promoting economic activities and growth is not felt in Nigeria. The two studies showed that the oil boom did not improve the economic state of the country since before the boom, there was a level of satisfaction and thereafter, the growth of economic activities deteriorated.

The divergence of scholarly opinions on the impact of tax revenue on Nigerian economy has become a source of worry to young academics and even government. This underlines the necessity for more studies in this area to help resolve the lingering controversy. It is against this backdrop that we have structured this study.

1.2 Objectives of the Study

The broad objective of this study is to examine the effect of tax revenue on Nigerian economy. Specifically, the study is set to;

1. Examine the effect of petroleum profit tax on the gross domestic product of Nigeria.
2. Determine the extent to which company income tax affects gross domestic product of Nigeria.

1.3 Research Questions

The following questions are stated for the study:

1. What is the effect of petroleum profit tax on the gross domestic product of Nigeria?
2. To what extent does company income tax affect gross domestic product of Nigeria?

1.4 Statement of Hypotheses

The following hypotheses were formulated for the study:

1. Petroleum profit tax does not have significant effect on the gross domestic product of Nigeria.
2. Company income tax does not significantly affect gross domestic product of Nigeria.

1.5 Scope of the Study

This study covered effect of tax revenue on Nigerian economy from 2005 to 2017. The effect of petroleum profit tax and company income tax were examined for the period to determine their effect on gross domestic product in Nigeria.

2.0 Review of Related Literature

2.1 Concept of Taxation.

Taxation according to Emekekwue (2009), is the collection of a share of individual and organization income and wealth by the government under the authority of the law. Okpe (2008) sees taxation as the transfer of resources and income from the private sector to the public sector in order to achieve some of the nation's economic and social goals, maybe in the form of provision of additional government basic services particularly in education, public health, transportation, capital formation and in the provision of facilities.

In our own view, taxation is the imposition of a compulsory contribution on the profit and or wealth of individuals and profit organizations payable to government for provision of common goods and services in the society. If properly organized by eliminating obvious loopholes in its planning and execution, it could be a veritable source of income to the government of any country.

2.1.1 Gross Domestic Product

Anidiobu, Agu and Ezinwa, (2016) define Gross Domestic Product as an aggregate measure of production equal to the sum of the gross values added of all resident and institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs).

Anidiobu and Okolie (2016) are of the view that Gross Domestic Product (GDP) is a monetary measure of the market value of all final goods and services produced in a period (quarterly or yearly) of time. Nominal GDP estimates are commonly used to determine the economic performance of a whole country or region, and to make international comparisons. Nominal GDP per capita does not, however, reflect differences in the cost of living and the inflation rates of the countries; therefore using a basis of GDP per capita at purchasing power parity (PPP) is arguably more useful when comparing differences in living standards between nations (Anyafo, 2007).

European Journal of Accounting, Finance and Investment
Vol. 5, No. 11; November-2019;
ISSN (3466 – 7037);
p –ISSN 4242 – 405X
Impact factor: 4.17

2.1.2 Petroleum Profit Tax

Petroleum profit tax (PPT) is a tax applicable to upstream operations in the oil industry (Nwachukwu & Ebimobowei, 2012). It is particularly related to rents, royalties, margins and profit sharing elements associated with oil mining, prospecting and exploration leases. It is the most important tax in Nigeria in terms of its share of total revenue contributing 95 and 70 percent of foreign exchange earnings and government revenue, respectively. Petroleum operation as defined in the Petroleum Profit Tax Act (PPTA) essentially involves petroleum exploration, development, production and sale of crude oil (Nwete, 2004). The Petroleum Profit Tax is regulated by the Petroleum Profit Tax Act of 1959 as amended by the Petroleum Profit Tax Act of 2007. Although the initial law was passed in 1959 to capture the first oil export made in that year (Ogbonna, 2009).

2.1.3 Company Income Tax

The whole core of upright supremacy is to improve the welfare of the generality of the populace which is carried out with resources raised through taxation. Taxes build capacity, legitimacy and consent. Thus, the imposition of tax is statutory to enable government meet its obligations (Akwe, 2014)

The Constitution of the federal Republic of Nigeria 1999 (as amended) under Section 24(f) stipulates that, "it shall be the duty of every citizen to declare his income honestly to appropriate and lawful agencies and pay his tax promptly". Companies also fall within the categories of persons that are taxable in Nigeria. Companies are taxed under the companies income tax introduced in 1961 with modification in 2007. The administration of the companies' income tax in Nigeria is vested on the Federal Inland Revenue Services. The tax is payable by all companies at the rate defined by the Companies Income Tax Act (CITA).

All companies in Nigeria are liable to pay companies Income Tax on their global profits accruing in, brought into, derived from or received in Nigeria.

2.2 Theoretical Framework

2.2.1 Ability to Pay Theory

The ability to pay theory was propounded by MS Kendrick in 1939. Ability-to-pay taxation is a progressive taxation principle that maintains that taxes should be levied according to a taxpayer's ability to pay. This progressive taxation approach places an increased tax burden on individuals, partnerships, companies, corporations, trusts, and certain estates with higher incomes. The theory considers tax liability in its true form-compulsory payment to the state without quid pro quo. It does not assume any commercial or semi-commercial relationship between the state and the citizens. According to this theory, a citizen is to pay taxes just because he can and his relative share in the total tax burden is to be determined by his relative paying capacity. This doctrine has been in vogue for at least as long as the benefits theory. This study is anchored on the ability to pay theory because it tends to promote voluntary compliance on the part of payers.

2.3 Empirical Review

Okafor (2012) investigated the impact of income tax revenue on the economic growth of Nigeria as proxied by the gross domestic product (GDP). The study adopted the ordinary least square (OLS) regression analysis technique to explore the relationship between the GDP (the dependent variable) and a set of federal government income tax revenue heads over the period 1981-2007. The regression result indicated a very positive and significant relationship between the components of tax revenue and the growth of the Nigeria economy.

Akwe (2014) analysed the impact of oil Tax Revenue on Economic Growth fro

m 1993 to 2012 in Nigeria. To achieve this research objective, relevant secondary data were used from the 2012 Statistical Bulletin of the Central Bank of Nigeria (CBN). These data were analyzed using the Ordinary Least Squares Regression. The result from the test shows that there exists a positive impact of Non-oil Tax Revenue on economic Growth in Nigeria.

Otu and Theophilus (2013) studied the effects of tax revenue on economic growth in Nigeria. The study examined the effect of tax revenue on economic growth in Nigeria, utilizing time series data for the period spanning from 1970 to 2011. The study adopted the Ordinary Least Square (OLS) regression technique and established that tax revenue has positive effect on economic growth in Nigeria. The result showed that domestic investment, labour force and foreign direct investment have positive and significant effect on economic growth in Nigeria. It is recommended that efficient tax policy be implemented. Also, policy to improve labour productivity should be sustained, while policies to attract foreign investment should be implemented.

European Journal of Accounting, Finance and Investment
Vol. 5, No. 11; November-2019;
ISSN (3466 – 7037);
p –ISSN 4242 – 405X
Impact factor: 4.17

Yahaya and Bakare (2018) carried out a study on the effect of petroleum profit tax and companies income tax on economic growth in Nigeria from 1981 to 2014. Fully Modified Least Square (FMOLS) Regression Technique, Augmented Dickey Fuller Unit Root Test and Single Equation Co-integration Test were adopted as the analytical technique in this research. It was revealed petroleum profit tax (PPT) and company income tax (CIT) have positive significant impact on gross domestic product (GDP) in Nigeria with the Adjusted R^2 of 87.6% which directly enhanced growth in Nigeria.

3.0 Materials and Methodology

The study adopted *ex-post facto* research design. This study made use of secondary data from Central Bank of Nigeria Statistical Bulletin, covering a period of 13 years i.e. 2005 – 2017.

The following model was used to evaluate the study:

$GDP = \beta o + \beta_1 PPT + \beta_2 CIT + \mu$ …………………

Where:

GDP = Gross Domestic Product (used as a proxy for Nigerian economy)

PPT = Petroleum Profit Tax

CIT = Company Income Tax

Where

βo = Constant Term

β_1 = Coefficient of Petroleum Profit Tax

β_2 = Coefficient of Company Income Tax

μ = Error Term.

Data for the study were analyzed with ordinary least square after a diagnostic unit root test.

4.0 Results and Discussion

Table 1: Result of Regression Analysis for log of Petroleum Profit Tax

Dependent Variable: LGDP
Method: Least Squares
Date: 07/27/19 Time: 11:33
Sample: 2005 2017
Included observations: 13

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LPPT	0.208822	0.089706	2.327854	0.0400
C	13.67981	1.390029	9.841383	0.0000

R-squared	0.830041	Mean dependent var	16.90008
Adjusted R-squared	0.769135	S.D. dependent var	0.573529
S.E. of regression	0.490314	Akaike info criterion	1.553095
Sum squared resid	2.644482	Schwarz criterion	1.640011
Log likelihood	-8.095120	Hannan-Quinn criter.	1.535230
F-statistic	5.418905	Durbin-Watson stat	2.336544
Prob(F-statistic)	0.040020		

Source: Researchers' Computation from E-views 9.0, 2019.

Table 1 above shows that the R^2 is 0.830041 which is about 83%. The R^2 is used to explain the goodness of fit. Therefore, since it is about 83%, it implies that about 83% change in the dependent variable being gross domestic product is explained by the independent variables and the higher the R^2 the better fit the independent variables. Since the F – statistics is 5.418905 which is greater than 2.0 and the probability value is 0.040020 is <0.05, it shows that the model is significant and has a high goodness of fit. The Durbin – Watson stat is approximately equal to two (2) indicating the absence of autocorrelation.

Table 2: Result of Regression Analysis for log of Company Income Tax

Dependent Variable: LGDP
Method: Least Squares
Date: 07/27/19 Time: 11:46
Sample: 2005 2017
Included observations: 13

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LCIT	0.507412	0.135873	3.734461	0.0033
C	10.40706	1.742173	5.973608	0.0001

R-squared	0.559051	Mean dependent var	16.90008
Adjusted R-squared	0.518965	S.D. dependent var	0.573529

European Journal of Accounting, Finance and Investment
Vol. 5, No. 11; November-2019;
ISSN (3466 – 7037);
p –ISSN 4242 – 405X
Impact factor: 4.17

S.E. of regression	0.397781	Akaike info criterion	1.134807
Sum squared resid	1.740526	Schwarz criterion	1.221723
Log likelihood	-5.376248	Hannan-Quinn criter.	1.116942
F-statistic	13.94620	Durbin-Watson stat	1.918838
Prob(F-statistic)	0.003298		

Source: Researchers' Computation from E-views 9.0, 2019.

Table 2 shows that the R^2 is 0.559051 which is about 56%. The R^2 measures the goodness of fit. It therefore, implies that a unit change in the independent variables produces about 56% change in the dependent variable being log of gross domestic product. F – Statistics and the probability value measure the significant of the overall regression model. Since the F – statistics is 13.94620 and the probability value is 0.003298, it shows that the regression model is significant as the F – statistics is greater than 2.0 and the probability value is less than 0.05 respectively. The Durbin – Watson stat is approximately equal to two (2), indicating the absence of autocorrelation.

Test of Hypothesis

Table 3: Result of test of Hypothesis

Dependent Variable: LGDP
Method: Least Squares
Date: 07/27/19 Time: 12:07
Sample: 2005 2017
Included observations: 13

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LPPT	0.138023	0.049274	2.801155	0.0232
LCIT	0.466887	0.196111	2.380724	0.0445
C	12.13582	1.890498	6.419380	0.0002

R-squared	0.909422	Mean dependent var	16.90008
Adjusted R-squared	0.864133	S.D. dependent var	0.573529
S.E. of regression	0.211404	Akaike info criterion	0.013628
Sum squared resid	0.357532	Schwarz criterion	0.230916
Log likelihood	4.911420	Hannan-Quinn criter.	-0.031035
F-statistic	20.08043	Durbin-Watson stat	2.166758
Prob(F-statistic)	0.000312		

Source: Researchers' Computation from E-views 9.0, 2019.

Hypothesis One: Petroleum profit tax does not have significant effect on the gross domestic product of Nigeria.

Table 3 shows the t-statistics as 2.801155 while the probability is 0.0232<0.05. We reject the null hypothesis (H_O) and conclude that petroleum profit tax has significant effect on the gross domestic product of Nigeria.

Hypothesis Two: Company income tax does not significantly affect gross domestic product of Nigeria.

Furthermore, table 3 shows that the t-statistics which is 2.380724 is greater than 2.0 while the probability value of 0.0445 is less than 0.05. This implies that the null hypothesis (H_O) is rejected. In conclusion, company income tax significantly affects gross domestic product of Nigeria.

Discussion of Findings

It was discovered that petroleum profit tax has significant effect on the gross domestic product of Nigeria due to the fact that its t-statistics of 2.801155 was greater than 2.0 and its probability value of 0.0232 was less than 0.05.

This finding is in agreement with the views of Yahaya and Bakare (2018) that petroleum profit tax (PPT) and company income tax (CIT) have positive significant impact on gross domestic product (GDP) in Nigeria.

Furthermore, the findings corroborated the discovery made by Akwe (2014) that there exists a positive impact of oil tax revenue on economic growth in Nigeria.

It was also discovered that company income tax significantly affects gross domestic product of Nigeria as the t-statistics of 2.380724 was greater than 2.0 while its probability value of 0.0445 was less than 0.05.

Again, this finding is in conformity with that of Okafor (2012) that there is a positive and significant relationship between the components of tax revenue and the growth of the Nigeria economy.

Conclusion and Recommendations

This chapter is made up the summary of research findings, conclusion, recommendations and areas for further studies.

Summary of Findings

The following findings were made in this study:

1. Petroleum profit tax has significant effect on the gross domestic product of Nigeria.
2. Company income tax significantly affects gross domestic product of Nigeria.

Conclusion

The study concludes that petroleum profit tax and company income tax has significant effect on gross domestic product of Nigeria. This implies that a well designed and implemented regimen for petroleum and company income taxes could be used to improve the gross domestic product of the country.

Recommendations

The following recommendations were made for this study:

1. Government should use necessary adjustments in the Petroleum Profit Tax to improve the gross domestic product of Nigeria which will impact on the living standard of the citizens.
2. Government should give tax holidays to companies as a motivation in paying company income tax as it will promote gross domestic product in Nigeria.

REFERENCES

Adereti, S. A., Adesina, J.A. & Sanni, M. R. (2011).Value – added tax and economic growth in Nigeria. *European Journal of Humanities and Social Sciences* 10(1), 23 – 43

Ariyo,.A. (1997).Consortium diversification of Nigeria economy through agriculture.*African Economic Research Journal 17(3),10-34.*

Akwe, H. (2014). Impact of oil tax revenue on economic growth of Nigeria. *International Journal of Arts and Commerce* 2(2), 27-32.

Anidiobu, G.A., Agu, B.O. & Ezinwa, C.E. (2016). Responsiveness of economic growth to external debt in Nigeria. *Journal of Policy and Development Studies* 10(3), 1-19.

Anidiobu, G. A. & Okolie, P. I. P. (2016). Responsiveness of foreign exchange to foreign debt: Evidence from Nigeria. *International Journal of Arts, Humanities and Social Sciences* 1(3), 11-20.

Anyanwu, J.C. (2014). *Nigerian public finance.* Onitsha: Joanne educational publishers.

Anyafor, A. (2017) Expenditure and economic growth in Nigeria. Retrieved on 8 http//www.researchgate.not publication 270504421.

Chartered Institute of Taxation (2002). Memorandum to the Association of Professional Bodies of Nigeria (APBN) on Legislative Issues affecting Professionals in Nigeria

Desai, M.A., & Dharmapala, D. (2009). Corporate tax avoidance and firm value. *The Review of Economics and Statistics* 9 (1), 537-546.

Desai, M. A., & Hines, J. R. Jr. (2002). Expectations and expatriations: Tracing the causes and Consequences of corporate inversions. *National Tax Journal* 55 (32), 409–441.

Engen, E. & Skinner, J. (2011). *Taxation and economic growth.* New Jersey: Prentice hall International.

Festus, F.A& Samuel, O.F. (2007) .An empirical analysis of tax revenue and economic growth in Nigeria. *Global journal of human sciences and political sciences* 8(2)460-587.

Gujarati, D.N. (2009) Basic Econometrics. Textbook 5th Edition Mc Graw Hill ISBN7

ICAN (2016). ICAN Year 2016 Annual Report and Financial Statement

Mahfoudh, H. M., & Ku Nor Izah, K. I. (2015). Corporate tax planning activities: overview of Concepts, theories, restrictions, motivations and approaches. *Mediterranean Journal of Social Sciences* 6(6), 350 – 358.

Mbanefoh, A. (2012). Principles of taxation. *International Journal of Academic Research in Business and Social Sciences* 5 (6), 34 – 43

Nwachukwu O. & Ebimobowei, A. (2012). Impact of petroleum revenue and the economics of Nigeria. *Journal of Business and Social Sciences* 7 (3), 405 – 411

Ogbonna, G. N. (2009). Burning issues and challenges of the Nigerian tax systems with analytical emphasis on petroleum profits tax. *International Journal of Accounting, Finance, & Economics Perspectives* 1(1), 17 -34. 50.

Ogbonna, A. L. & Ebimobowei, G. (2012). Impact of petroleum profit tax on the economic growth of Nigeria. *International Journal of Multidisciplinary Education and Research* 1(5), 5-10.

Ogbonna, G. A. & Ebimobowei, A. (2011). Impact of tax reforms on economic growth of Nigeria: A time series analysis. *Current Research Journal of Social Sciences* 4(1), 62-68.

Okafor, R. G. (2012). Tax revenue generation and Nigerian economic development. *European Journal of Business and Management* 4(19), 49-56

Okafor, M. (2012). Impact of income tax revenue on the economic growth of Nigeria. *Journal of Abnormal Psychology* 67, 422-436

Okwo, I. (2011). *Challenges of tax authorities in the management of tax reform processes.*Enugu: Africana Fep Publishers Ltd.

Otu, H. B., &Theophilus, O. A. (2013). The effects of tax revenue on economic growth in Nigeria (1970 – 2011). *International Journal of Humanities and Social Science Invention* 2 (6), 16 – 26.

Rohaya, M.N., Nur Syazwani, M. F., & Nor'Azam, M. (2010). Corporate tax planning: A study on corporate effective tax rates of Malaysian listed companies. *International Journal of Trade, Economics and Finance* 1(2), 189 – 193.

Yahaya, H.& Bakare ,A. (2018) Effect of petroleum profit tax and companies income tax on economic growth in Nigeria.Retrieved march 2018,at http//www.tandofline.com cited article.

APPENDIX 1: **Values for PPT, CIT and GDP**

YR	PPT	CIT	GDP
2005	38049518	144856	22007151
2006	28396777	978351	15107980
2007	683500	114800	6061700
2008	1183600	113000	11411067
2009	1904900	140300	15610882
2010,.	2038300	244900	18564595
2011	1500600	275300	23280715
2012	2812300	420600	25424948
2013	1256500	593700	25236056
2014	1944700	658400	34494583
2015	30700000	663020	38016970
2016	32010000	847500	40115340
2017	33763281	1096465	49637091

Source: CBN Statistical Bulletins of various years.

APPENDIX 2: Logs of PPT, CIT and GDP

YR	LPPT	LCIT	LGDP
2005	17.45440	11.88350	16.90688
2006	17.16179	13.79362	16.53073
2007	13.43498	11.65095	15.61750
2008	13.98407	11.63514	16.25009
2009	14.45994	11.85154	16.56348
2010	14.52763	12.40861	16.73677
2011	14.22138	12.02562	16.96314
2012	14.84951	12.94944	17.05124
2013	14.04384	13.29413	17.04378
2014	14.48062	13.39757	17.35631
2015	17.23977	13.40456	17.45354
2016	17.28156	13.65005	17.50727
2017	17.33488	13.90760	17.72025

Source: Researchers' Computation from E-views 9.0, 2019