**TAXATION AND THE GROWTH OF NIGERIAN ECONOMY (1981-2014)**

**BOLAJI ADETOLA PG/SMS/014/14422**

**A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING, FACULTY OF SOCIAL AND MANAGEMENT SCIENCES, BOWEN UNIVERSITY, IWO, OSUN STATE, NIGERIA IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE**

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**CERTIFICATION**

This research work has been carefully read and certified as meeting the requirement for the award of Master of Science (M.Sc.) Degree in Accounting from Bowen University, Iwo, Osun State.

DR. S. F. OLASUPO Date

Supervisor

DR. O. O. ADENIKINJU Date

Head of Department

EXTERNAL EXAMINER Date

**DECLARATION**

I, BOLAJI, Adetola, hereby declare that this thesis, titled Effect of Taxation on the Growth of Nigeria’s Economy has been written by me, as the result of my own research work and it has never been presented before in previous application for a degree.

All the materials consulted in the course of this research work are duly acknowledged in the Bibliography.

BOLAJI, Adetola Date

**AUTHORISATION**

This is to authorise Timothy Olagbemiro Library to permit all its users to utilise this work for research purposes.

BOLAJI, Adetola Date

**DEDICATION**

This research work is dedicated to GOD Almighty who granted me strength and sound health throughout my study period.

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**ABSTRACT**

Taxation is a powerful tool for achieving economic growth and social policy objectives and undoubtedly a veritable instrument for national development. The study therefore, examined the effect of Taxation on the growth of Nigeria’s economy. The specific objectives however was to determine the effect of five different taxes on the gross domestic product of the Nigerian economy which include: petroleum profit tax, company income tax, value added tax, excise duties and total tax revenue.

Furthermore, the study employed secondary data sourced from the Central Bank of Nigeria (CBN) and Nigerian Bureau of Statistics (NBS) covering the period between (1981-2014). Unit root test, Johansens’s Multivariate Cointegration test and Error Correction Model (ECM) were used to assess the short run dynamics between economic growth, the dependent variable and the explanatory variables.

The result revealed that petroleum profit tax has positive and significant impact with (β

=0.062, t-value= 1.872 and p-value =0.043) on the growth of Nigeria economy. Also, company income tax has a positive and significant effect with (β= 0.012, t-value = 1.566 and P-value = 0.011). Likewise, Value Added Tax has a positive significant effect with (β = 0.027, t = 1.068 and P-value = 0.010) on Nigeria growth. Excise duties also has a positive significant effect with (β = 0.045, t = 1.419 and P- value = 0.009) on Nigeria economic growth. Similarly, oil revenue and total tax revenue has positive significant effect with (β = 0.514, t = 3.551 and P -value = 0.006) and (β = 0.093, t = 1.742 and P- value of 0.050) respectively on Nigeria economic growth. However, foreign direct investment has a positive but not significant effect with (β = 0.155, t = 0.699 and P- value of 0.502) on Nigeria economic growth.

The study concluded that Value added tax, Petroleum profit tax, Excise duties, Company income tax and Total tax revenue jointly and independently have significant impact on growth of the Nigerian economy.

# CHAPTER ONE INTRODUCTION

* 1. **Background to the Study**

Every nation requires a lot of revenue to be able to provide and maintain essential services for its citizen. One ready means of revenue for the government is through the imposition of tax. The imposition of tax by the government is not a new phenomenon. There is hardly any government today that does not rely on taxation. In fact, it has also become the avenue for the redistribution of wealth and re-adjustment of the economy (Ojo, 2008).

Tax is a charge imposed by government authority upon property, individuals, or transactions to raise money for public purposes. The study of the teachings of Christianity, Islamic and other prominent religions in the world shows that tax is a religious duty based on social and civil responsibilities (Agbetunde, 2010). Thus, most of the studies support and encourage tax imposition either to redistribute wealth or to finance government project.

The earliest form of direct taxation in Nigeria even before the British administration could be traced back to the Northern Nigeria (Ayanwale 2001). The North had an organized central administration under the Emirs. Muslims religion adhered to taxation as being consistent with the demand of Islam through Zakka, Gada, and Kindin which were typical forms of taxes on agricultural products and livestock.

The British model of tax administration assumes tax payers are incompetent as to tax process and tax authorities do not rely on information supplied by tax payers. In view of this, returns of the tax payer are carefully verified through the application of the American model in reference to the rigid British model. The Nigerian tax administration is in line with the British model of tax administration since 1960 and operated up to 1990 when the self-assessment

scheme came into play which seems similar to the American model of tax administration system (Adesola, 2004).

The American model, despite the advantages that can be derived from its application, has not found a good place in Nigeria because all the phenomenon that made it a success in America such as voluntary compliance system, competence of tax payer, efficient data processing system which aids detection of fraud are still not present in the Nigerian context (Enahoro and Jayeola, 2012).

One of the recurrent problems of the three-tier structure of the government in Nigeria is dwindling revenue generation as characterized by yearly budget deficits and insufficient funds for economic growth and development (Onaolapo, Aworemi and Ajala 2013). Consequently, the Nigerian tax system has not been able to perform the expected role of revenue generation and regulation of income redistribution. This stems from the structural and administrative defects of the tax system. The machinery and procedures for implementing tax systems are inadequate resulting into tax evasion and avoidance (Salman, 2014).

The federal tax system in Nigeria refers to the range of taxes over which the federal government has exclusive or shared jurisdiction. The system also covers the machinery put in place by government for the administration and collection of such taxes. The federally collectable taxes in Nigeria include the petroleum profit tax (PPT), the company‟s income tax (CIT), customs and exercise duty and the value added tax (VAT). The tax which has direct and immediate impact on the average individual is of course, the personal income tax (PIT) (Okafor, 2012).

The Central Bank of Nigeria (2008), on its parts states that GDP as a concept is calculated without the deduction of the value of depreciation, and define GDP as the monetary value of goods and services produced in the country in a period of time regardless of nationality of the

producers. VAT revenue is generated for distribution to the state and local government in Nigeria, unlike other forms of revenue especially the oil revenues whose market government has no control over. This helps to reduce overdependence on oil revenue; this assures a sustainable economic growth and development (Denis, 2010).

In the face of resource deficiency in financing long term development, Nigeria has resorted to foreign capital, such loans and aid as the primary means to achieve rapid economic growth. Thereby accumulating huge external debt in relation to gross domestic product and serious debt servicing problems in terms of foreign exchange flow and, as such majority of the populace live in abject poverty. Government has expressed concern over these and has vowed to expand the tax revenue in order to meeting its mandate (Worlu and Nkoro, 2012)

# Statement of the Problem

The Nigerian economy is in the recession period and there are inconsistencies in the tax laws which have made it difficult for the tax body to administer and even for the tax payers to follow and comply (Chigbu and Njoku, 2015). Over the years the federal government‟s intention was to maintain a uniform tax system but, the Nigerian constitution, as well as the economy condition of States in Nigeria has made the application difficult (Abata, 2014). According to Ojo (2008), taxation is supposed to be an instrument of social change. However, the impact of tax payment in Nigeria has not been felt by payees who do not understand some tax laws which indeed has put them in doubt and confusion and has definitely made others to want to avoid and evade tax payment.

Furthermore, even though, the Nigerian economy has been described as one of the most developed economies in Africa (Adedipe, 2004), with the petroleum industry accounting for 95% of foreign exchange earnings and about 80% of budget revenues, yet, the country‟s economic growth and overall economic performance has been disappointing in the last few

decades (Otubala, 2011). This was the reason why Elbadewi and Mwega (2000), Ekpo (2001) described the Nigerian growth performance as slow, below expectation „Tragic” and of crisis proportion. Consequently, about 70% of Nigerian population lives below the poverty line as the country continuously witness high unemployment rate and collapse of basic economic infrastructures (Yakub 2006). Furthermore, the studies within the scope of the researcher revealed that previous studies such as Abata (2014), Jones, Onwuchekwa and Aruwa (2014), Ifurueze and Ekezie, (2014) paid more attention on a single tax revenue and also applied few variables as a proxy for total tax revenue. Therefore, the study applied a combination of all these variables in other to have a holistic view of the effect of tax revenue on economic growth in Nigeria.

# Research Questions

In the light of the above problems, the study raised the following research questions:

* + 1. What effect does the Petroleum profit tax have on the growth of Nigerian economy?
    2. What is the impact of Excise duties‟ on the growth of Nigerian economy?
    3. How does Company income tax affect the growth of Nigerian economy?
    4. What effect does Value added tax (VAT) have on growth of Nigerian economy?
    5. What effect does Total tax revenue have on the growth of Nigerian economy? vi.

# Objectives of the study

The broad objective of this study is to investigate the effect of taxation on the growth of Nigeria‟s economy from 1981-2014. While the specific objectives are to:

* + 1. investigate the effect of Petroleum profit tax on growth of the Nigerian economy;
    2. assess the impact of Excise duties‟on the growth of Nigerian economy;
    3. determine the influence of Company tax on growth of Nigerian economy;
    4. assess the effect of Value added tax on growth of Nigerian economy; and
    5. examine the consequence of Total tax revenue on Nigerian economy.

# Research Hypotheses

Based on the research questions, the following null research hypotheses were formulated:

**Ho1**: Petroleum profit tax has no significant effect on the growth of Nigerian economy.

**Ho2**: Excise duties‟ does not significantly affect the growth of Nigerian economy.

**Ho3**: Company tax has not contributed significantly to economic growth in Nigeria.

**Ho4**: Value added tax (VAT) has not impacted significantly on the growth of Nigerian economy.

**Ho5:** There is no statistically significant relationship between Total tax revenue (TTR) and economic growth in Nigeria.

# Scope of the Study

The study appraised the revenue generation for the period of thirty-four years (1981-2014). The period was chosen due to data availability. The study also captured the core economic growth and development for the period stated.

# Significance of the Study

Extensive studies have been done on various aspects of Taxation in Nigeria but not much appear to have been done in the study of the overall contribution of Tax revenue to economic growth in Nigeria. Studies within the scope of the researcher revealed that most of the previous studies paid more attention on a single tax revenue such as the work of Garba (2015), Ayuba (2014), Onwuchekwa and Aruwa (2014), Ihenyen and Mieseigha (2014). Even though the empirical studies reported the effects of some tax revenue on economic growth in Nigeria, findings show that they only applied fewer variables as a proxy for total tax revenue. Therefore, the study applied a combination of all these variables in other to have

a holistic view of the effect of tax revenue on economic growth in Nigeria. The variables adopted are value added tax, company income tax, excise duties, petroleum profit tax and total tax revenue as well as the introduction of two control variables which are foreign direct investment (FDI) and oil revenue as they are the major determinants of economic growth in Nigeria.

This study is noteworthy because it will increase the awareness of government on the various contributions of tax revenue to economic growth in Nigeria. It also provided information on taxes that is contributing significantly to economic growth and the need to maintain their performance. Also other taxes with low contribution to economic growth can be improved upon so as to ensure that more revenue is accrued to government from Taxes for economic growth in Nigeria.

The research work also provided enlightenment to the general public on various contributions of Taxation to economic growth which can be considered as part of taxpayer educational processes and it would also bridge taxpayer‟s knowledge or expectation gap on tax revenue. The study also provided knowledge that would be essential for tax policy makers, tax administrators and authorities in their on- policy formulation process.

Finally, students and accounting practitioners in Nigeria are expected to find the topic useful as it will contribute to the existing body of knowledge in research. It is therefore hoped that subsequent related studies will use the findings of this work.

# Plan of the Study

This research work begins with chapter one which is the general introduction that contains the historical background of the study followed by the problem of the study, the objectives as well as hypotheses, scope of the study and ended with the justification of the study. Chapter

two reviewed the related literature on the impact of taxation on growth of Nigeria economy and also analyzed previous work conducted on similar topics. Chapter three would present the methodology adopted in carrying out the work, data analysis techniques employed in analyzing the data for hypotheses testing. The result of chapter three will be discussed in chapter four and chapter five will be dedicated to summary, conclusion and recommendation of the study.

# Operational Definition of Terms

The various terms used in the study are defined as follows:

# Taxation

Taxation is the act of imposing tax. While tax is an imposed levy by the government against the income, profits, property, wealth and consumption of individuals and corporate organizations to enable government obtain the required revenue to provide basic amenities, security and well-being of the citizens.

# Economic Growth

Economic Growth can be defined as the increase in the inflation adjusted market value of the goods and services produced by an economy over time.it is also referred to as the geometric annual rate of growth of GDP between the first and the last year over a period of time.

# Tax Evasion

Tax evasion is the illegal reduction in one‟s tax liabilities, thereby paying less than the appropriate amount and not paying at all, thereby limiting revenue generated and undermining government effort towards economic growth.

# Tax Avoidance

Tax avoidance is the act of streamlining one‟s financial affair within the law so as to minimize the tax liabilities, mostly by corporate organizations which have effect on revenue and rate of economic growth**.**

# Gross Domestic product

Gross domestic product is the monetary value of all the finished goods and services produced within a country's borders in a specific time period based on the amount of revenue generated through taxation.

# Value Added Tax

Value added tax consumption tax payable on the goods and service consumed by any person, whether government agencies, business organizations or individuals.

# Excise Duty

Excise Duty is a percentage levied on manufacturing, sales, or use of locally produced goods.

# Company Tax

A tax on profits and capital gains made by companies*,* calculated before dividends are paid.

# Petroleum Tax

Petroleum Income Tax (PT) is a direct tax, levied annually (for each accounting period of 12 months duration) on net profit of a “petroleum taxpayer”, who is carrying out the business of petroleum exploration and production.

# Foreign Direct Investment

Foreign Direct Investment is the ownership or control of some portion of companies or firms by foreigners in a domestic economy.

# Oil Revenue

Oil revenue is the total amount of income derived from the sale of crude oil in an economy. Nations where oil revenue is generated, it is expected to contribute to the growth of other

sectors and the entire economy. In Nigeria, oil revenue is the major source of government revenue and it accounts for over 85percent of foreign exchange earnings in Nigeria.

# Total Tax Revenue

Total tax revenue is the income a government generates through the taxation of the people. It includes taxes on production and imports, current tax on income and wealth, capital gains tax, and social contribution.

# CHAPTER TWO LITERATURE REVIEW

This chapter is concerned with the systematic and explicit collection of documented views, ideas and empirical evidences of previous authors on the areas relating to the subject of this research. The purpose is to review and evaluate various documents with a view to providing orientation, focused ideas and current account of literature pertinent to this research.

This chapter focuses on the review of relevant literature on the impact of taxation on economic growth and other aspects of the topic under study. The chapter thus presents the conceptual review, theoretical review, empirical review and conceptual framework of the study.

# Conceptual Review 2.1.1Taxation

Tax is a powerful tool for achieving economic and social policy objectives and undoubtedly a veritable instrument for national development. It is a means of transferring resources from the private to the public sector (Dike, 2014). According to Adams (2001) taxation is the most important source of revenue for modern governments, typically accounting for 90% or more of their income. Aguolu (2004), defined tax as a compulsory levy by the government through its agencies on the income, consumption and capital of its subjects.

Whereas, Ojo (2008) stressed that taxation is a concept and the science of imposing tax on citizens. According to him, tax is itself a compulsory levy which required to be paid by every citizen. Farayola (1987) stated that taxation is one of the sources of income for government, such income as used to finance or run public utilities and perform other social responsibilities.

Ochiogu (1994) defined tax a levy imposed by the government against income, profit or wealth of individuals and corporate organizations. Anyafo (1996) viewed taxation as a compulsory payment made by individuals and organisation to relevant Inland Revenue authorities at Federal, State or Local government levels. Apere (2003) noted that taxation is a microeconomic and fiscal policy instrument which involves the transfer of resources from private to the public sector for the accomplishment of economic and social goals.

Tax is an instrument the government uses to measure, access and control the informal sector that dominate developing economies of the world (Wambai and Hang, 2013).For Thomas Cooley in ICAN study (2006:3), taxes are “enforced proportional contributions from persons and property, levied by the state, by virtue of its sovereignty, for the support of government and for all public needs”.

# Brief history of taxation

The earliest trace of any form of direct taxation in Nigeria even before the British administration is Northern Nigeria. The North had an organized central administration under the Emirs.

Furthermore, Muslims religion adhered to by the people of the North approved taxation as being consistent with the demand of Islam. Thus taxes such as Zakka, Gada, and Kindin were typical forms of taxes on agricultural products and livestock.

With the coming of the British and consequent colonization of Nigeria, they took advantage of tax system in Northern part of the country to introduce direct taxation as the only alternative available to raise funds to administer the region.

In 1904, income tax was first introduced by late Lord Lugard. It was later changed into the native ordinance of 1917. In 1918 a provision for the extension of ordinance was passed. The

first ordinance applied to Abeokuta in Ogun State and Benin City in formal Bendel State (now Edo state) and in 1923 extended to Eastern Nigeria.

In 1914 when Northern and Southern Nigeria were amalgamated, the system of direct tax was extended to the Southern province of the Southern Nigeria which was grudgingly accepted.

In 1920, direct taxation had almost been introduced in most parts of the west including Asaba and Warri provinces.

In 1927, the native ordinance was introduced to the Eastern and Delta area of the South, which resulted in resistance to this form of taxation and led to riots notable in Calabar, Owerri and Famous Aba women riot of 1929 which was so severe.

Besides the native ordinance, there were also native tax ordinance for colony and non-native income tax for initiated discrimination in direct taxation between natives and non-native. They were modified and incorporated in direct taxation ordinance No.29 of 1943 respectively.

The direct taxation ordinance of 1940 empowered native authorities to tax African in the area of jurisdiction. While income tax ordinance of 1943 was for taxation of Non –Africans and companies. These two ordinances were the foundation of our modern taxation.

# Types of taxes Value Added Tax

(Seyi, 1993) defined value added tax as a consumption tax on economic operations which includes goods and services. Also (Oloye, 2009) stated that value added tax is a tax on the supply of goods and services which is eventually born by the final consumer but all collected at each stage of production and distribution chain. According to Onwuchekwa and Aruwa (2014), Value added tax is a consumption tax, levied at each stage of consumption chain and borne by the final consumer of the product or service. Furthermore, (Abubakar, 2007) noted that value added tax is a multi-stage consumption tax collected on sales at all stages of sales and distribution. (Naiyeju, 1996) defined value added tax as a tax levied on the value added at various stages of sales. According to Adeleke (1995) value added tax is a tax spending because it is borne by the final consumer of goods and services as it is included in the final price. For Balyewu (2000), regarded value added tax as a policy thrust to raise higher revenue from non-oil tax sources particularly from consumption taxes (VAT and duties) without jeopardizing the literal tax policies. Lastly, Ogundele (1996) defined value added tax as multi-stage tax imposed on the value added to goods and services as they are processed through various stages of production and distribution and to the services as they rendered.

# Petroleum Profit Tax

Nwezeaku (2005) stated that petroleum profit tax involves the charging of tax on incomes accruing from petroleum operations. He noted that the importance of petroleum to the Nigerian economy gave rise to the enactment of different laws regulating the taxation of income from petroleum operations. According to Odusola (2006), petroleum profit tax (PPT) is a tax applicable to upstream operations in the oil industry. Also Salami, Apelogun, Omidiya and Ojoye (2015), stated that petroleum profit tax is imposed on the profits of all corporate entities registered in Nigeria or who derive income from oil and gas operations in

Nigeria. Saramaduo (2007) viewed petroleum profit tax as it applied to upstream operations in the oil sector, particularly related to rents, royalties, margins and profit-sharing element associated with oil mining, prospecting and exploration leases. Lastly, Dike (2014) defined petroleum profit tax as tax imposed on the profits of all corporate entities registered in Nigeria or who derive income from oil and gas operations in Nigeria between 50% and 85% respectively.

# Excise Duties

Salami, Apelogun, Omidiya and Ojoye (2015), defined excise duty as tax imposed on manufactured goods within the government territory collected by the Nigeria Custom Service. Also, Adedokun, Ajayi and Oyesiji (2015) defined excise duty as tax paid when purchases are made on specific goods such as gasoline, which is usually based on the quantity of the product purchased. Fasoranti (2013) viewed excise duty as commodity tax levied on goods manufactured within the country. This indirect tax does not only serve the purpose of raising revenue for the country but discourages the consumption of certain goods.

# Company Income Tax

Salami, Apelogun, Omidiya and Ojoye (2015) defined Company tax as tax imposed on the profits of all corporate entities who are registered in Nigeria and derive income from Nigeria other than those engaged in petroleum operation. Dike (2014) viewed company tax as 30% tax imposed on the profits of all corporate entities that are registered in Nigeria or derive income from Nigeria. Jideofor (2012) stated that company tax is not levied on the profit of the company but the gross profit of companies including any or all of the following; rent and royalties, receipts, room services and capital gains and losses. Chigbu and Njoku (2015) viewed company tax as company profit tax or corporation tax and further stated that company tax is a tax on the profit made by companies.

# Oil Revenue

Otubala (2011) defined oil revenue as the most important source of revenue to the federation account. It is made up of; a) Crude oil and Gas sale. b) Oil taxes. This includes, royalties, petroleum profit taxes, rent and others. Ogbonna and Appah (2012) stated that oil revenue is supposed to be a source of finance for economic development but has turned out to be a bone of contention between interest groups, precisely the government and oil and gas companies. Budina and Van Wijnbergen (2008) also stated that oil is the dominant source of government revenue, accounting for about 90% of the total exports, and this approximates to 80% of total government revenues.

Lastly, OPEC (2015) noted that oil and gas sector in Nigeria accounts for about 35% of the gross domestic product (GDP) and petroleum export revenue accounts for about 90% of total export revenue.

# Total Tax Revenue

OECD (2014) defined total tax revenue as a percentage of GDP which indicates the share of a 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.

# Foreign Direct Investment

Uzoka (2012) defined foreign direct investment as the inflow of foreign income into a particular economy through investment which involves Multi-national Corporation. Ngowi (2001) also defined foreign direct investment as an engine of economic growth in a host economy such investment can sustain and improve economic development in a country or region. (Mwillima 2003) defined foreign direct investment as an investment made to acquire a lasting management interest (normally 10% of voting stock) in a business enterprise operating in a country other than that of the investor defined according to residency. Lastly,

Borensztein, De Gregoria and Lee (1998) viewed foreign direct investment as an important vehicle for the transfer of technology, contributing to growth in larger measure than domestic investment.

# Economic Growth

Economic growth can be defined as sustained increase in per capita national output on net national product over a long period of time (Salami, Apelogun,Omidiya and Oloye,2015) . According to (Dewett, 2005) economic growth is generally referred to as quantitative change in economic variables, normally persisting over successive periods.

Todaro and Smith (2006) defined economic growth as a steady process by which the productive capacity of the economy is increased over time to bring about rising levels of national output and income. (Worlu and Nkoro 2012) maintained that economic growth is an increase in the amount of goods and services produced over a specific period of time in a country.

Lastly, Jhingan (2006) viewed economic growth as an increase in output. He explained further that it is related to quantitative sustained increase in the country‟s per capita income or output accompanied by the expansion in its labour force, consumption, capital and volume of trade.

# Theoretical Review

This aspect of the study focuses on the collection of interrelated ideas based on theories. The economists have put forward many theories of taxation at different times to guide the state as to how justice or equity in taxation can be achieved. There are many theories on taxation which many scholars have applied in their study. Some of the theories discussed in this study are Benefit received theory, Expectancy theory, Socio-political theory and Ability-to-pay theory.

# Benefit received theory

For the purpose of this study the benefits-received theory would be adopted which assume an exchange or contractual relationship between the state and the tax-payers, certain goods and services are provided by the state and the cost of such goods and services are contributed in the proportion of the received benefits, thus, the benefits received presents the basis for distributing the tax burden in a specific manner. This theory overlooks the possible use of the tax policy for bringing about economic growth or stabilization (Chigbu, Akujuobi and Njoku,2012).The cost of service theory as very similar to the benefits-received theory, the theory emphasize semi commercial relationship between the state and the citizens to a greater extent. The implication according to (Chigbu, Akujuobi and Njoku, 2012) means that the citizens are not entitled to any benefits from the state and if they do receive any, they must pay the cost thereof. In this theory, costs of services are scrupulously recovered unlike the benefits-received theory where a balanced budget is implied.

# Expectancy theory

Bhartia (2009) asserts that the expectancy theory of taxation is such that every tax proposal passes the test of practicability and must be the sole consideration before the tax authorities in a bid for tax proposal. It strongly emphasizes that the economic and social objective of the state is considered irrelevant since it is meaningless to have a tax that cannot be levied and effectively collected.

# Socio political theory

The theory of taxation could be based on the activities between tax liability and the state, the primary purpose of taxation is to generate revenue for the government to settle its expenditures and for the provision of social amenities and welfare for the populace. According to Ogbonna and Appah (2012), this reasoning justifies the imposition of taxes for

financing state activities and for the provision of a basis for apportioning the tax burden between members of the society. They see the socio political theory of taxation as a theory that advocates for a tax system which is not designed to serve individuals but one that cures the ills of the society as a whole. The society is made up of individuals but is more than the sum total of its individual members; consequently, the tax system should be directed towards the health of the society as a whole, since individuals are integral part of the broader society (Chigbu, Akujuobi and Appah, 2012).

# Ability-to-pay theory

Another theory of interest is the ability to pay theory, the principle in this taxation holds that taxes imposed on tax-payers should be based on the progressive tax approach which maintains that taxes should be levied according to a tax-payer‟s ability to pay. This system of taxation requires that higher earning persons pay taxes higher than those with lower income. The basic tenet of this theory is that the burden of taxation should be shared by the members of the society on the principle of equity and justice and that this principle necessitates that tax burden is apportioned according to their relative ability to pay.

Adam Smith (2001) is the brain behind the principle of equity and justice, he advocates that the amount of tax payable should be equal, this by implication means that tax payable is in proportion to earned income. Equity and justice is assumed only when the tax system is based on the ability of the tax payer to pay the amount levied as tax liability.

Economic growth and development are backed by some theoretical frameworks, one of which is the Harrod-Domar model which was developed independently by Sir. Roy Harrod in

-1939 and Evsey in 1946, it is a model that makes obvious the rate of economic growth in an economy, however, emergence of economic growth and development theories can be traced backed to Adams Smith‟s Wealth of Nations. Adams Smith opines that the wealth of a nation

depends on division of labour and is limited by the limits of division of labour. However, a later postulation by Richardo, Milthus and Mill took definite shapes in correcting Adam Smith‟s exposition with further analyses which took a decade eventually surpassed the Smithian view.

# Empirical Review

This section analyzed the empirical work brought by different researchers from Nigeria and other countries to provide vital information relevant to the impact of taxation on economic growth in Nigeria.

Edame and Okoi (2014) in their study “Impact of Taxation on Investment and Economic Development” examines the impact of taxation on investment and economic growth in Nigeria from 1980 – 2010. The ordinary least square method was used and secondary data were sourced from the Central Bank of Nigeria (CBN) statistical bulletin and NBS. Their results showed that taxation is negatively related the level of investment and the output of goods and services (GDP) and is positively related to government expenditure in Nigeria. Furthermore, it was noted that taxation statistically is significant factor influencing investment, GDP, government revenue in Nigeria.

Similarly, Abata (2014) in his paper “The Impact of Tax Revenue on Nigeria Economy” applied descriptive survey and simple random sampling technique and uses chi-square to test research hypotheses based on primary data from 75 copies of questionnaires administered to worker of the Federal Inland Revenue (FBIR). The study finds that tax revenue significantly affected government revenue in Nigeria, tax administration system significantly affected the revenue generated in Nigeria and lack of training on the part of tax officers significantly affected government revenue in Nigeria.

Okafor (2012) in her paper “Tax Revenue Generation and Nigerian Economic Development” examines the impact of income tax revenue on economic growth of Nigeria as proxies by the gross domestic product (GDP). The ordinary least square (OLS) regression analysis was adopted to explore the relationship between the GDP and a set of Federal government income revenue heads over the period of 1981-2007. This result showed a positive and significant relationship between federally collected tax revenue and the gross domestic product in Nigeria.

According to Otubala (2011), in her paper “Effect of Public Revenue on Economic Growth in Nigeria” the descriptive and econometric methods of analysis were applied and she stated that real Gross Domestic Product (RGDP) respond to own shock and shock of other variables positively and statistically significant. Furthermore, Real Gross Domestic Product (RGDP) respond to shock in Oil Revenue (OIR) is positively and statistically significant and above the zero line. While the responds of Real Gross Domestic (RGDP) to shock in Non-Oil Revenue (NOR) and Federal Government Internal Revenue are negatively significant.

Furthermore, Ifurueze and Ekezie (2014) in their study “The Nigeria Tax System and Economic Growth” examined the Nigerian tax system using time series data. Regression analysis was used to ascertain the relationship between the Variables. The results showed a statistically significant relationship between GDP and Direct Tax and also GDP and Indirect Tax respectively. In addition, there is no significant relation between GDP and CIT and VAT. But there is a significant relation between GDP and PPT and CED.

In addition, Ayuba (2014) in his study “Impact of Non-Oil Tax Revenue on Economic Growth: The Nigerian Perspective” analyzed the impact of non-oil tax revenue on economic growth from 1993-2012 in Nigeria. Ordinary Least Square regression was used to analyze the data. The result showed that the impact of non-oil tax revenue on economic growth in Nigeria remained positive at the same lag but statistically insignificant.

Chigbu and Njoku (2015) in their study “Taxation and the Nigerian economy” examined the impact of taxation on the Nigerian economy for the period 1994-2012. The result showed that custom and excise duties, and value added tax met a prior expectation of the model. They have significant positive effect on Gross Domestic Product of Nigeria, while Company income tax, personal income tax and petroleum profit tax did not meet a prior expectation of the model; this negatively has impact on GDP. Co-integration test, Unit root test and Johansen test were applied to test the variables.

While Jones, Ihendinihu and Nwaiwu (2015) in their study “Total Revenue and Economic Growth in Nigeria” examined the long-run and short-run equilibrium relationships between total revenue and economic growth in Nigeria. The Ordinary Least Square of Univariate Regression Method and Error Correction were used to analyze the data. The result showed that total government revenue has significant effect on the economic growth of Nigeria. In the short-run there was an equilibrium relationship between real GDP and government total revenue. An error correction test confirmed the equilibrium between variables.

Takumah (2014) in his study “Tax Revenue and Economic Growth in Ghana” examined the effect of tax revenue on economic growth in Ghana using quarterly for the period 1986-2010. The result further indicated a unidirectional causality between tax revenue and economic growth. Finally tax revenue exerts a positive and statistically significant effect on economic growth both in the long-run and short-run implying that tax revenue enhances growth in Ghana. This study applied the following methodology; Descriptive and Quantitative Analysis, Johansen‟s Multivariate approach to Co-integration and Granger Causality Test.

Similarly, Ihenyen and Mieseigha (2014) in their study “Taxation as an Instrument of Economic Growth: (The Nigeria Perspective)” examined taxation as an instrument of economic growth in Nigeria, using time series data and Ordinary Least Square (OLS)

technique. The result showed that corporate income tax and value added tax have significant relationship with economic growth in Nigeria. This implies that taxation is an instrument of economic growth in Nigeria.

Samuel and Tyokoso (2014) in their study “Taxation and Revenue Generation: an Empirical investigation of selected states in Nigeria” aimed at the assessment of taxation on revenue generation. The testing of hypotheses was done using regression analysis. The study discovered that taxation significantly contribute to revenue generation in Nigeria.

In addition, Adereti, Adesina and Sanni (2011) in their study “Value Added Tax and Economic Growth of Nigeria” the study applied both simple regression analysis and descriptive statistical method. The result showed that the ratio of VAT revenue to GDP averaged 1.3% and a positive and significant correlation exists between VAT and GDP.

Salami, Apelogun, Omidiya and Ojoye (2015) in their paper “Taxation and Nigeria Economic Growth Process” examined the impact of taxation on the growth of the economy. The study employed the use of both simple and multiple regression analysis of Ordinary Least Square method. The result showed that the exogenous variables; PPT, CIT, CED and VAT were tested individually on the economic growth; they showed a significant impact individually on economic growth. The F-statistic showed that the overall model is statistically significant.

Also, Okoli, Njoku and Kaka (2014) in their study “Taxation and Economic Growth in Nigeria” examined taxation and economic growth covering period 1994-2014. The granger causality approach was applied and the result revealed that a significant positive relationship exists between taxation and economic growth in Nigeria.

Bakare (2013) in his study “Value Added Tax and Output Growth in Nigeria” examined the enormity of the impact of value added tax on output growth in Nigeria. The ordinary least

square regression analytical technique was employed. The result showed a positive and significant relationship exists between value added tax and output growth in Nigeria.

Similarly, Nwadialor and Ekezie (2016) in their study “Effect of Tax Policy on Economic Growth in Nigeria” examined the effect of tax policy on economic growth in Nigeria. The OLS regression analysis was used to investigate the relationship between the dependent and independent variables. The result showed that tax has a significant effect on the economic growth in Nigeria.

Onwuchekwa and Aruwa (2014) in their study “Value Added Tax and Economic Growth” examined the impact of value added tax on the economic growth of Nigeria. The ordinary least square technique was employed and the result showed that value added tax significantly contributed to total tax revenue of government and by extension economic growth of Nigeria.

While, Ujunwa (2013) in her study “The Impact of Oil Revenue on the Economic Growth in Nigeria” examined the impact of the oil industry on economic growth performance of Nigeria. The ordinary least square (OLS) regression technique was employed. The result however showed a positive and significant relationship between oil revenue and the gross domestic product (GDP).

Ogbonna and Appah (2012) in their study “Impact of Petroleum Revenue and the Economy of Nigeria” examined the impact of petroleum revenue and the economy of Nigeria for the period (1970-2009). Data were analyzed using Pearson product correlation coefficient, Ordinary least square regression and descriptive statistics. The result showed a positive and significant relationship between oil revenue and gross domestic product (GDP).

In addition, Adeleke, Olowe and Fasesin (2014) in their study “Impact of Foreign Direct Investment on Nigeria‟s Economic Growth” examined the impact of foreign direct

investment on Nigeria economic growth. The regression analysis of the ordinary least square (OLS) was applied to determine the relationship between and impact of foreign direct investment on economic growth of Nigeria. The result showed that economic growth is directly related to inflow of foreign direct investment and also statistically significant.

Sabin, Oleka and Nwaorgu (2015) in their study “The Effect of Taxation on Microeconomic Growth in Nigeria” examined the effects of taxation on microeconomic performance in Nigeria from (2002-2011). The ordinary least square regression method was applied. The result revealed that taxation has a positive and significant effect on consumer spending and manufacturing output in Nigeria.

While, Ogbonna and Appah (2012) in their study “Impact of Petroleum Revenue and the Economy of Nigeria” examined the impact of petroleum revenue and the economy of Nigeria for the period (1970-2009). Data were analyzed using Pearson product correlation coefficient, ordinary least regression and descriptive statistics. The result showed a positive and significant relationship between oil revenue and gross domestic product (GDP).

Onwuchekwa and Aruwa (2014) in their study “Value Added Tax and Economic Growth” examined the impact of value added tax on the economic growth of Nigeria. The ordinary least square technique was employed and the result showed that value added tax significantly contributes to total tax revenue of government and by extension economic growth of Nigeria.

Also, Afuberoh and Okoye (2014) in their study “Impact of Taxation on Revenue Generation in Nigeria” examined the impact of taxation on revenue generation in Nigeria with reference to FCT and some selected states in the country. The data were analyzed using regression analysis and the result showed that taxation has a significant contribution on gross domestic product (GDP).

Bukie and Adejumo (2013) in their study “Effects of Tax Revenue on Economic Growth of Nigeria” (1970-2011) examined the effect of tax revenue on economic growth. The study adopted the ordinary least square (OLS) regression technique and established that tax revenue has a positive effect on economic growth in Nigeria. Further result showed that domestic labour force and foreign direct investment have positive and significant effect on economic growth in Nigeria.

Furthermore, Macek (2014) in his study “The Impact of Taxation on Economic Growth: Case of OECD Countries” evaluated the impact of individual types of taxes on the economic growth by utilizing regression analysis on OECD countries for the period (2000-2011). Analysis of this study was based on the extended neoclassical growth model of Mankiw, Romer and Weli (1992). The panel regression method was used and the result showed that corporate taxation followed by personal income taxes and social contributions are most harmful to economic growth, Furthermore, the negative relation between these two variables were confirmed and the impact of property tax was statistically insignificant.

Jalata (2014) in her study “The Role of Value Added Tax on Economic Growth of Ethiopia” analyzed the role of Value added tax on economic growth of Ethiopia from (2003-2012) based on theoretical and empirical evidences. The time series macro-economic data on gross domestic product, value added tax, total tax revenue excluding value added tax, non-tax revenue and foreign revenue were used. Descriptive statistics and multiple regressions were employed to analyze the data. The findings revealed that value added tax, total tax revenue and non-tax revenue except foreign revenue were significant at 5% level of significance but all the variables positively contributed to economic growth during the period under review.

Similarly, Gyimah (2015) in his study “Tax Revenue Generation and the Economic Development of Ghana” explored the impact of tax revenue on the economic development of Ghana and the gross domestic product which measures economic development was used as a proxy. The study also examined tax reforms and the collections of taxes. The least squared multiple regression was used to determine the relationship between GDP (the dependent variable) and the tax revenue (independent variables) for (1994-2014). A simple hypothesis was formulated in the null from which states that there is no significant relationship between taxation and Ghana‟s GDP. The result showed that tax revenue and economic development have a positive and significant relationship.

Taha, Loganathan, Nanthakumar and Colombage (2011) in their study “The effect of Economic Growth on Taxation Revenue: Case of a Newly Industrialized Country” examined the effects of economic growth on government tax revenue were investigated for Malaysia during the period of (1970-2009). The employed the use of Unit root test, Johanesen‟s co- integration test and Vector error correction model (VECM) to determine the role economic growth in fostering government tax revenue in Malaysia and causal behaviour of movement of income tax and economic growth both in the long run and short run. The results showed that a change in taxation does not have any impact on economic and also further findings revealed that there is unidirectional relationship between government tax revenue and economic growth with 21% speed of adjustment in the short run to reach equilibrium level in the long run.

While, Worlu and Nkoro (2012) in their study “Tax Revenue and Economic Development in Nigeria” examined the impact of tax revenue on the economic growth of Nigeria, judging from its impact on infrastructural development from (1980-2007).

The study adopted the ex post facto research design and ordinary least square (OLS) regression technique. The result showed that tax revenue has a positive and significant effect on gross domestic product in Nigeria.

Lastly, Garba (2014) in her study “Taxation and Economic Growth in Nigeria” explored the relationship between taxation in Nigeria and her economic growth. Time series data and multiple regressions were used to analyze the data employing the use of vector error correction model. The result showed that petroleum profit tax, company income tax and value added tax have positive and significant impact on Nigeria‟s economic growth, while custom and excise duties impacted negatively and not significant. But overall, a significant relationship between tax revenue and the Nigerian economic growth exist.

# Summary of empirical studies

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Topic | Author/Year | Country | Findings | Methodology |
| The Impact of Oil Revenue on the  Economic Growth in Nigeria. | Ujunwa, (2013) | Nigeria | Oil revenue has a positive and significant impact on economic growth (GDP) of Nigeria. | Ordinary Least  Square Regression Technique. |
| Impact of Petroleum Revenue  and the Economy of Nigeria. | Ogbonna and Appah, (2012) | Nigeria | A positive and significant relationship exists between Oil revenue and economic growth (GDP) in Nigeria. | Ordinary Least Square Regression. |
| Impact of Foreign Direct Investment on Nigeria  Economic Growth. | Adeleke, Olowe and Fasesin, (2014) | Nigeria | A positive and significant relationship exists between inflow of foreign direct investment and economic growth (GDP) in  Nigeria. | Ordinary Least Square Technique. |
| The Effect of Taxation on Microeconomic  Growth in Nigeria. | Sabin, Oleka and Nwaorgu (2015 | Nigeria | Taxation has a positive and significant effect on consumers spending and manufacturing output in Nigeria. | Ordinary Least Square Method |
| Value Added Tax and Output Growth in Nigeria | Bakare(2013) | Nigeria | A positive and significant relationship exists between value added tax and output growth in Nigeria | Ordinary least square regression analytical  technique (OLS). |
| Effect of Tax Policy on Economic Growth in Nigeria (1994-  2003) | Nwadialor and Ekezie (2016) | Nigeria | Tax policies have significant effect on economic growth in Nigeria. Indirect tax has a strong positive relationship with the level of economic growth in Nigeria. | Ex-post facto research design and Buoyancy test |
| Total Revenue and Economic Growth in Nigeria: Empirical Evidence | Jones, Ihendinihu and Nwaiwu, (2015) | Nigeria | Real gross domestic and government total revenue in have a 5% level of significance in the long-run and also an existence of equilibrium relationship between RGDP and GTR. An error correction test  confirmed this relationship. | Ordinary Least Square of Univariate Regression Method and Error Correction Method |
| Value Added Tax and Economic  Growth | Onwuchekwa and Aruwa  (2014) | Nigeria | Value Added tax significantly contributes to the total tax revenue of government and by  extension the economic growth. | Ordinary Least Square Technique |
| Tax Revenue and Economic Growth in Ghana: A Co- integration  Approach | Takumah(2014) | Nigeria | Tax revenue exerted a positive and statistically significant impact on economic growth both in the long-run and short run implying that tax revenue enhances  economic growth. | Descriptive and Quantitative analysis Johansen‟s Multi- variate approach to  co-integration |
| The Impact of Taxation on Revenue  Generation in Nigeria | Afruberoh and Okoye, (2014) | Nigeria | Taxation has a significant contribution to revenue generation and taxation has a significant contribution on gross domestic product (GDP). | Regression Analysis |
| The impact of Tax Revenue on Nigeria Economy. | Abata (2014) | Nigeria | Tax revenue significantly impact on the Federal government budget implementation in Nigeria. Tax administration, Tax evasion and lack of staff training significantly impact on the generation of revenue in  Nigeria. | Descriptive Survey and Simple random sampling technique and Chi-square statistical tool. |
| The Effects of Tax Revenue on Economic Growth in Nigeria | Bukie and Adejumo (2013) | Nigeria | The result showed that tax revenue has positive effect on economic growth and also domestic labour and foreign direct  investment have positive and significant effect on economic growth in Nigeria. | Ordinary least square (OLS) regression technique |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Taxation and Nigeria  Economic Process | Salami,Apelogun, Omidiya and Ojoye (2015) | Nigeria | The result showed that the exogenous variables; PPT, CIT, CED and VAT were tested individually on the economic growth;  they showed a significant impact individually on economic growth. | Simple and Multiple regression analysis of ordinary least square. |
| Tax Revenue and Economic Development in Nigeria | Worlu and Nkoro (2012) | Nigeria | The resulted showed that tax revenue has a positive and significant effect on GDP. | Ex post facto research design and Ordinary least square (OLS) regression technique**.** |
| Impact of Non-Oil tax Revenue on  economic growth | Ayuba (2014) | Nigeria | Positive and Significant impact of non-oil tax revenue on economic growth in Nigeria. | Ordinary Least Square Method |
| Taxation and the Nigerian Economy | Chigbu  and Njoku (2015) | Nigeria | Custom and Excise duties, and Value added tax met a prior expectation of the model; they have significant positive effect on GDP. While company tax, personal income tax and Petroleum profit tax did not meet the expectation of the model, negatively  impact on Gross Domestic Product (GDP). | Co-integration test, Johanssen test and Unit root test. |
| Taxation and Nigeria  Economic Process | Salami,Apelogun, Omidiya and Ojoye (2015) | Nigeria | The result showed that the exogenous variables; PPT, CIT, CED and VAT were tested individually on the economic growth;  they showed a significant impact individually on economic growth. | Simple and Multiple regression analysis of ordinary least square. |
| Tax Revenue and Economic Development in  Nigeria | Worlu and Nkoro (2012) | Nigeria | The resulted showed that tax revenue has a positive and significant effect on GDP. | Ex post facto research design and Ordinary least square (OLS)  regression technique**.** |
| Impact of Non-Oil  tax Revenue on economic growth | Ayuba (2014) | Nigeria | Positive and Significant impact of non-oil tax revenue on economic growth in Nigeria. | Ordinary Least Square Method |
| Taxation and the Nigerian Economy | Chigbu  and Njoku (2015) | Nigeria | Custom and Excise duties, and Value added tax met a prior expectation of the model; they have significant positive effect on GDP. While company tax, personal income tax and Petroleum profit tax did not meet the expectation of the model, negatively  impact on Gross Domestic Product (GDP). | Co-integration test, Johanssen test and Unit root test. |
| Tax Revenue and Nigerian Economic  Development | Okafor(2012) | Nigeria | The result showed a positive and significant relationship between federally collected tax  revenue and GDP in Nigeria. | Ordinary least square (OLS) regression  analysis. |
| Taxation and Economic Growth Process. | Samuel and Tyokoso (2014) | Nigeria | Taxation significantly contributes to revenue generation in Nigeria. | Regression analysis |
| Taxation and Economic Growth in Nigeria. | Garba(2014) | Nigeria | The result showed that petroleum tax, company tax and value tax have positive and significant impact on Nigerian‟s economic growth, while custom and excise duties impacted negatively and not  significant. | Multiple regression and Vector error correction model. |
| Value Added Tax and Economic growth in Nigeria | Adereti, Adesina and  Sanni, (2011) | Nigeria | A positive and significant correlation between values added tax and gross domestic product (GDP).  Both economic variables fluctuated greatly over the period though value added tax was stable. No causality exists between gross  domestic product and value added tax. | Descriptive statistical method and Simple regression analysis. |
| The Nigeria Tax system and Economic growth | Ifurueze and  Ekezie, (2014) | Nigeria | Statistically significant relationship between GDP and Direct tax furthermore, there is no significant relationship between GDP and CIT and VAT. Also there is a significant relationship between GDP And PPT and CED. Lastly, there is significant  relationship between GDP and Indirect tax. | Regression Analysis |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Impact of Taxation on investment and Economic development | Edame and Okoi (2014) | Nigeria | Taxation is negatively significant to the level of investment and output of goods and services. Taxation is positively significant to government expenditure. | Ordinary least Square method of multiple regression |
| Taxation as an Instrument of Economic Growth | Ihenyen and  Mieseigha (2014) | Nigeria | Corporate tax and Value added tax have significant relationship with economic growth of Nigeria. Therefore taxation is a significant instrument for economic  growth | Ordinary Least Square Technique |
| Effect of Public Revenues on Economic growth in Nigeria (1980-  2008) | Otubala (2011) | Nigeria | Real Gross Domestic Product responds to own shock and shock of other variables positively and statistically significant.  Real Gross Domestic Product respond to shock of oil revenue is positively and statistically significant and above the zero line. | Descriptive Method and Econometric Method |
| The impact of Taxation on Economic Growth: Case Study of OECD Countries | Macek (2014) | Czech Republic | The result showed that Corporate taxation followed by Personal income tax and Social contributions are most harmful for economic growth and negative relation between these two variables was statistically insignificant. | Panel regression method |
| The Role of Value Added Tax on Economic Growth of Ethiopia | Jalata (2014) | Ethiopia | Value added tax, Total tax revenue and Non- tax revenue except Foreign revenue were significant at 5% level of Significance but all of them positively contributed to economic growth during the period under review. | Descriptive statistics and Multiple regression |
| Tax Revenue Generation and the Economic Development of Ghana | Gyimah (2015) | Ghana | The result showed that Tax revenue and Economic development have a positive and significant relationship. | Multiple Regression |
| The Effect of Economic Growth on Taxation Revenue: The case of a Newly Industrialized Country | Taha, Loganathan, Nanthakumar and Colombage, (2011) | Malaysia | Findings revealed that there is unidirectional relationship between government tax revenue and economic growth with 21% speed of adjustment in the short run to reach equilibrium level in the longrun. | Unit root test, Johansen‟s co- integration test and Vector error correction model (VECM) |

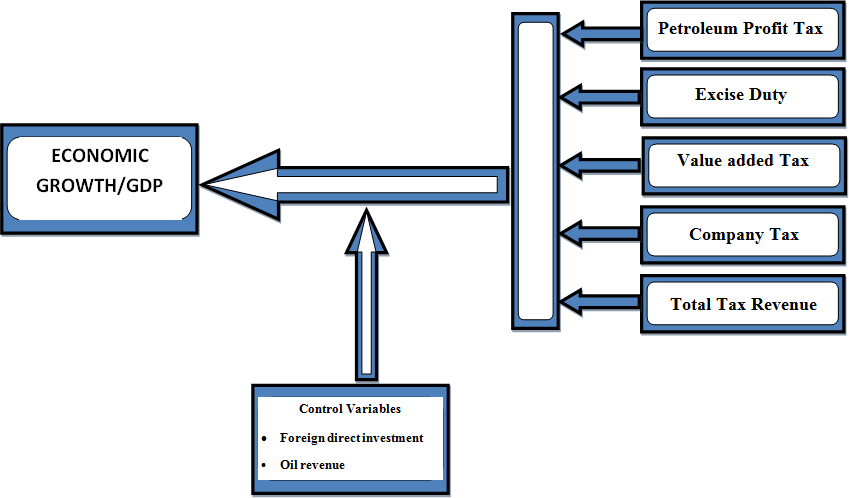
**Source: Authors Compilations, (2016)**

# Gap identified in literature

It was observed from literatures that many research works have been conducted on the impact of taxation on economic growth in Nigeria such as Abata (2014), Jones, Ihendinihu and Nwaiwu, (2015), Salami, Apelogun, Omidiya and Ojoye, (2015), and so on. However, empirical studies within the scope of the researcher revealed that previous studies such as Ayuba (2014), Onwuchekwa and Aruwa (2014), Ihenyen and Mieseigha (2014) paid more attention on the effects of individual tax revenue on economic growth in Nigeria. Thus, these results could not be generalized for the effect of all the tax revenue on economic growth in Nigeria.

The empirical study also revealed that some research works such as Garba (2014), Ifurueze and Ekezie, (2014) among others reported the effects of tax revenue on economic growth in Nigeria. However, they only applied fewer variables as proxy for total tax revenue. Therefore, this study filled this gap by applying a holistic approach through consideration of more variables which includes value added tax, company income tax, excise duties, petroleum profit tax and total tax revenue, while foreign direct investment and oil revenue were also included as control variables to provide reliable information on the contribution of taxation on the growth of Nigerian economy. In addition, the findings of this study provided an appropriate stand as well as the basis for cogent recommendations.

# Conceptual Framework

**Figure 2.4.1: Shows the Impact of the Selected Taxes on Economic Growth and the Control Variables stabilizing the Model**

# Source: Researcher View, 2016.

In the illustration above, Economic Growth which is proxy by Gross Domestic Product (GDP) would represent the Dependent Variable, while the listed types of Taxes represents the Independent Variables. The study intends to establish the individual relationship between the taxes i.e. petroleum tax, company tax, excise duty, value added tax as well as their collective impact (total tax revenue) on economic growth in Nigeria. Furthermore, the study introduced two determinants of economic growth as control variables namely; foreign direct investment (FDI) and oil revenue to stabilize the model.

# Summary of the Chapter

This review of related literatures presented a discussion on the issue of Taxation on the economic growth of Nigeria. The chapter also discussed the various types of taxation used in the study, the concept of tax avoidance and tax evasion, brief history on taxation and so on. The chapter also included the empirical review of the work of previous researchers as well as the theoretical theories underpinning the study. The chapter concluded by identifying gaps and hence the need for this study and finally reviewed various theories related to the study.

# CHAPTER THREE METHODOLOGY

This chapter deals with the method through which data was collected, analyzed and interpreted. The contents of this chapter include: the research instruments, validity and reliability of the instruments, methods of data analysis, variables of the study, their measurements, as well as the techniques that were adopted in testing hypotheses formulated. It is the background against which the readers of this work may evaluate the findings and conclusion of this research work.

# Research Design

Research design provided the framework for finding solution to any research problem under study. Kothari (2008) is of the opinion that the choice of research design is determined by the focused objectives of the study. Therefore, this research adopted the use of time series design in line with the objectives of the study, hypotheses and the data used. These methods were considered appropriate because it was used to establish whether, and to what degree is the relationship between the dependent and each of the independents variables (Gay, 2000). Finally, the result from the test of hypotheses was used to generalize the findings of the study.

# Sources of Data

The data used in this study were annual time series data on the variables covering thirty-four

(34) years period from 1981 – 2014. The data were sourced from the Central Bank of Nigeria (CBN) 2014 statistical bulletin: financial statistics, Nigeria Bureau of Statistics (NBS) Publications, Seminar Papers, Federal Inland Revenue publications. Access to the data was not problem as these are published annually in the print and electronic media for public use.

# Reliability and Validity of Secondary Data

The validity of secondary data used for this study was extracted from published Central Bank of Nigeria (CBN), Federal Inland Revenue Service (FIRS) and Nigeria Bureau of Statistics (NBS) publications which are reliable and valid sources of information both domestically and internationally.

# Model Specification

In this study one econometric model was formulated to achieve the research. The model examines the influence of various forms of taxes on the economic growth in Nigeria, using Gross Domestic Product (GDP) to proxy economic growth.

# Empirical Model for the influence of various taxes on Gross Domestic Product (GDP)

To examine the influence of taxes on Gross Domestic Product (GDP) in Nigeria, the study adopted and modified the model below from Okafor (2012). The original model is stated as:

GDP = f (PPT, CIT, CED, VAT) (1)

Where

GDP = Gross Domestic Product PPT = Petroleum Profit Tax CIT = Company Income Tax

CED = Custom and Excise Duties VAT = Value Added Tax

f= Functional Relationship

From the original model above, the variable custom and excise duty (CED) was dropped while excise duties, total tax revenue were adopted. Also, foreign direct investment and oil revenue were equally adopted to serve as the control variables for the model so as to obtain the desired result. The modified version of the model thus, becomes:

GDP = f (PPT, CIT, VAT, EDT, FDI, OLR, TTR (1)

Where

GDP=Gross Domestic Product PPT= Petroleum Profit Tax CIT= Company Income Tax EDT= Excise Duties VAT=Value Added Tax FDI=Foreign Direct Investment OLR=Oil Revenue

TTR = Total Tax Revenue f= Functional Relationship

The econometric form of equation 1 is represented as

GDP=B0 + B1PPT + B2CIT + B3EDT + B4VAT + B5FDI + B6OLR + B7TTR + e (2)

Where

Bo=intercept of relationship in the model/constant

B1-B6 = coefficients of each independent or control variable e=error term.

Β ( 1 to 6) : coefficients to be estimated and their apriori expectations are as follows: β1, β2, β3, β4, β5 and β6>0 implies that the variables have a positive relationship with the dependent variable (GDP).

By loglinearization, The model becomes

LogGDP=B0+B1logPPT+B2logCIT+B3logEDT+B4logVAT+B5logFDI+B6logOLR+B6logTT R+e……………………………………………………………………………………………

… (3)

By stating the error correction model (ECM) from equation (4), the model becomes: ΔlogGDP=B0 +B1∑logPPTt-1 + B2∑logCITt-1 + B3∑logEDTt-1 + B4∑logVATt-1 + B5∑logFDIt- 1 + B6∑logOLRt-1 + B7∑logTTRt-1 +∑ECM + ∑t …. (4)

∑ECM=error correction term

t-1=variable logged by one period

∑t=white noise residual

Note that the variables were logged due to the fact that they were not normally distributed in their normal form. They however became normally distributed after the introduction of log. Also **t**he log of GDP, PPT, CIT, EDT, VAT, TTR, FDI and OLR, were taken to avoid serial auto correlation given that the data covered a long period of thirty-four years and are presented in billions.

# Data Analysis Technique

The estimation techniques employed for this study were; descriptive statistics, unit root test, Johansen co-integration test and Error Correction Model (ECM) estimation technique. The analysis was conducted through E-Views 8.0 software application package. The regression analysis is briefly described below.

# Regression Analysis

A regression describes and evaluates the relationships between a given dependent variable and one or more independent variables. Previous researches focusing on similar subject matter have found significant results applying regression analysis e.g. Garba, (2014); Ifurueze and Ezekie (2014). One can therefore, assume that regression is an appropriate statistical method in order to confirm or disconfirm the chosen hypotheses.

During the regression analysis, essential assumptions for a valid regression model were considered and tested in order to ascertain that the final regression models were not flawed. In this research context, it was decided that the most important test would be used to assess the appropriate number of predictors, test the normality and multicollinearity of the variables included in the model. Consequently, the model R-squared value and F-statistics value was checked; commonly high R-squared value with maximum number of significant relations and

F-statistics value with p-value less than 5% are considered best. Also, residual correlation is checked by using Durbin-Watson statistics, commonly when its value is 2 or around 2 then there is no correlation.

For the purpose of the secondary data analysis, time series unit root test was first conducted to check for the stationarity of the variable series. Given the fact that the variables are co- integrated, the next step is the estimation of the short-run dynamics using the error correction model. ECM incorporates the full short run dynamic model;

Yt = α + βyt + ξt (1)

Therefore

Δyt = Ut-1 + ΣβΔxt-1 + ΣαiΔyt-1+ε (2)

Here, Ut-1 is the one period lagged value of the error term from co-integrating regression, while Δ denotes the first differences operator.

# 3.7 Summary

This chapter presents the procedures and models that were applied to infer conclusion of the study. Also secondary data used, in the study. Finally, the techniques that were used in data analysis were also discussed.

# CHAPTER FOUR

**PRESENTATION, ANALYSIS AND INTEPRETATION OF DATA**

This chapter presents the test of data used for this study as well as the method of model estimation. In addition, it presents the results of descriptive statistics, co-integration test, regression analysis and interpretations of the result thereon. Preliminary test of the time series data was carried out using Augmented Dickey Fuller unit root test to determine the level of stationarity of the data employed in the study. Also, to justify the nature and type of parametric or non-parametric analysis to be conducted the study employed descriptive statistics.

# Descriptive Statistics of Variables Employed

The study analyzed the effect of taxation on the growth of Nigeria economy from 1981-2014. From the model, the dependent variable economic growth was represented by Gross Domestic Product (GDP) while the independent variables included Value Added Tax (VAT), Petroleum Profit Tax (PPT), Excise Duties (EDT), Company Income Tax (CIT) and Total Tax Revenue (TTR). Also, Foreign Direct Investment (FDI) and Oil Revenue (OLR) were introduced as control variables. Therefore, for us to justify the nature and type of parametric or non-parametric analysis to be conducted, the study carried out a preliminary descriptive analysis of the variables used in model under stated. The descriptive statistics result is shown in table 4.1.

# Table 4.1 Descriptive statistics

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | LGDP | LOLR | LPPT | LTTR | LVAT | LEDT | LFDI | LCIT |
| Mean | 14.21373 | 11.30511 | 11.86808 | 12.64999 | 11.11895 | 10.81379 | 10.69872 | 10.31757 |
| Median | 15.22894 | 14.02322 | 11.19145 | 11.97351 | 11.37882 | 11.00695 | 11.52525 | 10.28958 |
| Maximum | 18.30464 | 15.99920 | 15.60025 | 15.42649 | 12.87269 | 15.56285 | 14.12322 | 16.28361 |
| Minimum | 4.546746 | 2.671386 | 8.228711 | 8.227322 | 8.522380 | 7.387709 | 5.577085 | 5.998937 |
| Std. Dev. | 3.663531 | 5.385922 | 2.477702 | 1.819738 | 1.395577 | 2.340820 | 2.815598 | 2.917407 |
| Skewness | -1.461661 | -0.880022 | 0.019681 | -0.181807 | -0.373063 | 0.234914 | -0.507129 | 0.339988 |
| Kurtosis | 2.697554 | 1.932235 | 1.569525 | 2.547891 | 1.929438 | 2.323343 | 1.917394 | 2.296593 |
| Jarque-Bera | 16.18895 | 5.120766 | 2.901062 | 0.490900 | 1.489956 | 0.961355 | 3.117735 | 1.355959 |
| Probability | 0.234305 | 0.077275 | 0.234446 | 0.782352 | 0.474745 | 0.618364 | 0.210374 | 0.507642 |
| Sum | 483.2667 | 327.8481 | 403.5147 | 442.7496 | 233.4980 | 367.6687 | 363.7564 | 350.7973 |
| Sum q.Dev. | 442.9081 | 812.2284 | 202.5872 | 112.5891 | 38.95272 | 180.8215 | 261.6106 | 280.8717 |
| Observations | 34 | 34 | 34 | 34 | 21 | 34 | 34 | 34 |

**Source**: Authors computation, 2016.

Table 4.1 shows that GDP has an average of 14.21373 and varies from a minimum of 4.546746 to a maximum of 18.30464. Oil revenue (OLR) has a mean of 11.30511 with a minimum of 2.671386 and a maximum of 15.99920. The variable petroleum profit tax has a mean of 11.86898 with minimum value of 8.228711 and a maximum value of 15.60025. Likewise, total tax revenue has a mean of 12.64999 and its minimum values ranges from 8.227322 to a maximum of 15.42649. Value Added Tax (VAT) averaged 11.11895 and has a minimum of 8.522380 and a maximum of 12.87269. Also, excise duty averaged 10.81379 and has a minimum of 7.387709 to a maximum of 15.56285. Foreign direct investment has a mean of 10.69872 and ranges from a minimum of 5.577085 to a maximum of 14.12322. Finally, company income tax (CIT) mean equals 10.31757 and its minimum value ranges from 5.998937 to a maximum of 16.28361.

As shown in table 4.1, the skewness and kurtosis indicated that the data relating to each of the research variables are normally distributed as these values were within the cut of point of -3 and 3 (Asika, 2006). In the light of this, the researcher found parametric statistical analysis very appropriate in the study. The Jarque-bera statistics is not significant at 5 per cent therefore the variables are normally distributed. The observation: LOLR, LTTR and LVAT were not up to 34 years as the data for previous years where not available.

# Augmented Dickey Fuller Unit Root Test

Unit root test is carried out to determine if the variables are stationary or not and to determine their order of integration (i.e. number of times they are to be differenced to achieve stationarity). A stationary test was carried out; this is due to the fact that most time series data are non-stationary. The Augmented Dickey Fuller test (ADF) for unit roots was employed in this study. The augmented dickey fuller test is shown in table 4.1

# Table 4.2: Results of Unit Root Stationary Test ADF table

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| ADF Test Result | | | | | |
| Variables | ADF  Statistics Value Calculated at  level | Mackinnon At Test Critical Value | ADF Statistics Value Calculated at 1st diff | Mackinnon Test At Critical Value | Conclusion (Order of Integration) |
| CIT=LCIT | 0.895764 | -3.646342 | -6.472138 | -3.653730 | 1(1) |
| EDT=LEDT\* | 0.595974 | -3.646342 | -5.528199 | -3.653730 | 1(1) |
| FDI=LFDI\* | -2.115990 | -2.617434 | -9.038923 | -3.653730 | 1(1) |
| GDP=LGDP\* | -2.914544 | -3.646342 | -5.920554 | -3.653730 | 1(1) |
| OLR=LOLR\* | -1.443324 | -2.689194 | -5.026134 | -3.699871 | 1(1) |
| PPT=LPPT\* | -0.246350 | -3.646342 | -6.686608 | -3.653730 | 1(1) |
| VAT=LVAT\* | -2.788100 | -3.808546 | -4.036802 | -3.831511 | 1(1) |
| TTR=LTTR\* | -2.293671 | -3.699871 | -3.078977 | -3.653730 | 1(1) |

**Source:** Authors Computation, 2016. \* Significant at 5%

Table 4.2 shows ADF-unit root test of the relevant data. The results indicated that all the series are stationary at first difference 1(1). The findings from the first differencing indicate that all the variables are stationary, given that the McKinnon values are lesser in all cases than the ADF-test statistic. With the findings the study proceeded to conduct a co-integration test.

# Johansens’s Multivariate Co-Integration Test Result

Since the unit root test shows that the variables are stationary at first order difference I(1), we therefore test for co-integration among these variables. Co-integration may occur when a linear combination of variables that are I(1) produces a stationary series, and then the variables may need to be co-integrated (Engle and Granger, 1987). This means that a long- run relationship exist between them, which connotes that they might from one another in the short-run but in the long-run will move together. In view of this, we needed to establish whether there is a long-run relationship among the variables or not hence, we applied the Co- integration test using Johansen‟s multivariate method in Table 4.3

# Table 4.3: Johansen’s Co-Integration Test Result

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Unrestricted Cointegration Rank Test (Trace) | | | | |
| Hypothesized |  | Trace | 0.05 |  |
| No. of CE(s) | Eigenvalue | Statistic | Critical Value | Prob.\*\* |
| None \* | 0.783652 | 97.02229 | 69.81889 | 0.0001 |
| At most 1 \* | 0.621819 | 48.03460 | 47.85613 | 0.0481 |
| At most 2 | 0.369317 | 16.91836 | 29.79707 | 0.6461 |
| At most 3 | 0.060638 | 2.167876 | 15.49471 | 0.9924 |
| At most 4 | 0.005179 | 0.166154 | 3.841466 | 0.6835 |
| At most 5 | 0.376863 | 24.68264 | 29.79707 | 0.1731 |
| At most 6 | 0.252288 | 9.546997 | 15.49471 | 0.3172 |
| At most 7 | 0.004577 | 0.246388 | 3.831466 | 0.5118 |
| Unrestricted Cointegration Rank Test (Maximum Eigenvalue) | | | | |
| Hypothesized |  | Max-Eigen | 0.05 |  |
| No. of CE(s) | Eigenvalue | Statistic | Critical Value | Prob.\*\* |
| None \* | 0.783652 | 48.98769 | 33.87687 | 0.0004 |
| At most 1 \* | 0.621819 | 31.11624 | 27.58434 | 0.0168 |
| At most 2 | 0.369317 | 14.75048 | 21.13162 | 0.3067 |
| At most 3 | 0.060638 | 2.001723 | 14.26460 | 0.9907 |
| At most 4 | 0.005179 | 0.166154 | 3.841466 | 0.6835 |
| At most 5 | 0.376863 | 15.13564 | 21.13162 | 0.2795 |
| At most 6 | 0.252288 | 9.303610 | 14.26460 | 0.2618 |
| At most 7 | 0.004577 | 0.243388 | 3.841466 | 0.5118 |

**Source:** Author‟s Computation, 2016.

Trace test indicates 2 integrating eqn(s) at the 0.05 level

* + - denotes rejection of the hypothesis at the 0.05 level.
    - denotes Mackinnon-Haug-Michelis (1999) p values.

The results reported for the trace and maximum eigenvalue statistics (Table 4.3) show that the null-hypothesis of no-cointegrating vector linking real GDP growth rate and its dependent variables is rejected at the 5 percent level of significance. Both trace test statistics and maximum eigenvalue statistics revealed that there are, at most, two co-integrating equations which suggest that there is a long run relationships between the dependent variable GDP and the independent variables applied in the study. In view of this, the study proceeded to estimate the error correction model.

# Error Correction Model (ECM) Model Estimation Result

After having found cointegration the researcher built an Error Correction Model. Table 4.4, examines the joint impact of the independent variables (Value Added Tax, Petroleum Profit Tax, Excise Duties, Company Income Tax, Foreign Direct Investment, Oil Revenue and Total Tax Revenue on the dependent variable (Gross Domestic Product) which is used as a proxy for economic growth in Nigeria.

# Table 4.4 ECM Regression Result

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Dependent variable (LGDP) | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| D(LPPT) | 0.062560 | 0.030254 | 1.872960 | 0.0439 |
| D(LCIT) | 0.012832 | 0.005373 | 1.566755 | 0.0116 |
| D(LVAT) | 0.027708 | 0.012560 | 1.068032 | 0.0103 |
| D(LEDT) | 0.045901 | 0.021072 | 1.419725 | 0.0094 |
| D(LFDI) | 0.155616 | 0.136719 | 0.699361 | 0.5020 |
| D(LOLR) | 0.514881 | 0.249139 | 3.551945 | 0.0062 |
| D(LTTR) | 0.104543 | 0.047454 | 1.532130 | 0.0442 |
| C | 0.220856 | 0.083512 | 2.644599 | 0.0267 |
| U(-1) | -0.104904 | 0.051114 | -0.694209 | 0.0051 |
| R-squared | 0.707833 |  | | |
| Adjusted R-squared | 0.629240 |
| F-statistic | 2.598109 |
| Prob(F-statistic) | 0.028343 |
| Durbin-Watson stat | 1.946031 |

**Source:** Authors Computation, 2016. \*Significant at 1% \*\*Significant at 2%

The result from table 4.4 showed that all the variables were significant at either 1% or 5% level of significance. Petroleum Profit Tax has a positive coefficient of 0.062560 which implies that when Petroleum Profit Tax increase by 1%, Gross Domestic Product will increase by 6% which is in-line with the work of Ifurueze and Ezekie (2014) which found a positive relation between Petroleum Profit Tax and Gross Domestic Product. The variable Company Income Tax (CIT) with coefficient of 0.012832 implies that for a unit rise in Company Income Tax, Gross Domestic Product (GDP) will increase by 1%. Also, Value Added Tax has a coefficient of 0.027708 which implies that for a unit increase in Value Added Tax, Gross Domestic Product will increase by 2%. Garba (2015) also found a positive significant relationship between Gross Domestic Product and Value Added Tax.

Likewise, the variable Excise Duty with co-efficient 0.155901 implies that for a unit increase in excise duty, Gross Domestic Product will increase by 15% which is in-line with the work of Chigbu and Njoku (2015) which showed that Excise Duty has a positive relationship with Gross Domestic Product (GDP) of the economy. Similarly, Oil Revenue (OLR) has a coefficient of 0.514881 implies that when Oil Revenue increase by 1%, Gross Domestic product will increase by 51%. Finally, the variable Total Tax Revenue has a coefficient of 0.104543 which reveals that for every 1% increase in Total Tax Revenue, Gross Domestic Product is expected to increase by 10%.

As can be seen in Table 4.4, the model came out good with an error correction model (ECM) term U(-1) that is negative and significant at five percent which confirms the result of the co- integration test which indicates the presence of co-integration among the variables used. The coefficient (-0.104904) of the ECM confirms that 10% of the deviation in the last period will be adjusted to equilibrium so that, the variables do not diverge in the long run.

The R-squared revealed that about (70%) of the explanatory variables are captured by the model while about 30% is not represented in the model but capture by the error term signifying that the explanatory variables taken together jointly have an effect on Gross Domestic Product (GDP) in Nigeria. The calculated *F*-statistic of 2.598109 is statistically significant at 5 percent level of significance, which means the model is of good fit. The Durbin Watson statistics was 1.946031 which is close to 2 which means the absence of autocorrelation among the modeled variables.

# Table 4.5 Test of Residuals

|  |  |  |  |
| --- | --- | --- | --- |
| Normality test | | Serial correlation test | |
| Jarque bera | Probability | Obs\*R-squared | Probability |
| 2.057059 | 0.357532 | 0.2843 | 0.6061 |

Source: Author‟s Computation, 2016.

The Jarque bera result (normality test) with probability value greater than 5% shows that the variables in the model are normally distributed in line with the descriptive statistics initially carried out on table 4.1, while the Breusch-Godfrey Serial Correlation result also has a probability value greater than 5% which shows that the variables in the model are not serially correlated (see table 4.5).

# Summary of Findings

Table 4.6 provides a summary of findings of hypotheses Ho(1,2,3,4,5) which states that there is no functional relationship between the dependent variables (GDP) and the specified independent variables: (Petroleum Profit tax, Excise duties, Company Income Tax, Value added Tax and Total Tax Revenue)

**Table 4.6: Findings on Hypothesis** Ho1 to Ho5

|  |  |  |  |
| --- | --- | --- | --- |
| 1Hypotheses | Variables | Findings | Decision |
| **Ho (1)** | Petroleum Profit Tax has no significant effect on  the growth of Nigerian economy. | **Significance** | **Reject** |
| **Ho (2)** | Excise Duties‟ does not significantly affect the growth of Nigerian economy. | **Significance** | **Reject** |
| **Ho (3 )** | Company Tax has not contributed significantly to economic growth in Nigeria. | **Significance** | **Reject** |
| **Ho (4)** | Value Added Tax (VAT) has not impacted significantly on the growth of Nigerian economy. | **Significance** | **Reject** |
| **Ho (5)** | There is no statistically significant relationship between Total Tax Revenue (TTR) and economic  growth in Nigeria. | **Significance** | **Reject** |

# Source: Researcher’s Design, 2016.

From Table 4.12 the findings show that the Null hypotheses Ho (1,2,3,4,5): are all rejected and there alternative hypothesis were accepted. This implies that Tax revenue has significant effect on economic growth in Nigeria as the result indicated that every form of taxes as well as the overall total tax has significant effect on the economic growth of Nigeria.

# Discussion of Findings

From the regression results discussed above, some findings and implications can be highlighted.

Firstly, the unit root test showed that variables were stationary at first difference. Therefore the study further conducted a co-integration test to determine whether there is any long-run relationship between the dependent variable and independent variables. The co- integration test thereafter revealed five co- integrations which is an indication that long run relationship exists between the dependent variable and independent variables applied in the study.

As a result of the long run existence in the study, the error correction model was conducted to examine the joint impact of the independent variables (petroleum profit tax, foreign direct investment, oil revenue, company income tax and total tax revenue on the dependent variable

(gross domestic product) which was used as a proxy for economic growth of Nigeria. The result showed that all the independent variables were in line with the aprior expectation.

Considering each of the explanatory variables adopted in the study, oil revenue contributed significantly to the growth of Nigerian economy with a positive co-efficient of 51% which shows that oil revenue has a significant impact on economic growth (GDP) of Nigeria. This finding is in line with the works of Ujunwa (2013) and Ogbonna and Appah (2012) whose studies showed that oil revenue has a positive and significant impact on gross domestic product (GDP).

Similarly, the study revealed that value added tax has a positive co-efficient of 2% which implies that value added tax contributes significantly to the gross domestic product of Nigeria. This finding is however consistent with the works of Garba (2014) and Bakare (2013), but this was against the findings of Ifurueze and Ekezie (2014) which revealed that there was no relationship between GDP and VAT.

The study further revealed that petroleum profit tax in Nigeria is instrumental to the growth of the Nigeria with a positive co-efficient of 6% which implied that petroleum profit immensely contributes to GDP of the Nigerian economy. This finding also corroborates the work of Ifurueze and Ekezie (2014). However, Chigbu and Njoku (2015) had a different view on petroleum profit tax which revealed that PPT was insignificant on gross domestic product (GDP) in Nigeria.

Furthermore, the study revealed that company income tax realized from companies contributes positively with a co-efficient of 1% which implies that company income tax is statistically significant to the economic growth of Nigeria. This is evident in work of Ihenyen and Miezeigha (2011). However, Ifurueze and Ekezie (2014) which revealed there is no significant relationship between company income tax and gross domestic product (GDP).

In addition, the study revealed that Excise Duties has a positive co-efficient of 4% which signifies that excise duties contribute greatly to the gross domestic product of Nigeria. This finding is consistent with the works of Chigbu and Njoku (2015) and Ifurueze and Ekezie (2014) where each study showed that excise duties has a positive and significant effect on gross domestic product (GDP).

The study subsequently considered the effects of the Total Tax Revenue on GDP and the result revealed a positive co-efficient of 10% which signifies that total tax revenue impacts significantly on the gross domestic product of Nigeria.

This finding is in line with the works of Worlu and Emeka (2012) and Bukie and Adejumo (2013) where each study showed that total tax revenue has a positive and significant effect on gross domestic product (GDP) in Nigeria.

It is however evident from the various findings that; Oil Revenue, Company Income Tax, Petroleum Profit Tax and Total Tax Revenue contributes immensely to continuous growth of the Nigerian economy.

Therefore, this study is in line with the benefit received theory which shows the various forms of taxes charged by government on its citizens and business establishment within its territory. The benefit received theory seems to agree or support a contractual relationship between the state and tax-payers, where certain goods and services are provided by the state and cost of such goods and services are contributed in proportion of the received benefits. This benefit received serves as the basis for distributing the tax burden in specific manner. This implies that tax revenue generated is used by the state to produce goods and services needed by the citizenry and therefore suggests that the more tax revenue collected by the government determines the level of economic growth in the country.

# CHAPTER FIVE

**SUMMARY, CONCLUSION AND RECOMMENDATIONS**

This chapter focuses on the summary of the findings of this research study and recommendations based on this research work for further research studies.

# Summary

The general objective of this study was to examine the effect of taxation on the growth of Nigeria‟s economy from (1981-2014). Specifically, it was aimed at determining the effect of five different taxes on the gross domestic product of the Nigerian economy which include: Petroleum profit tax, Company income tax, Value added tax, Excise duties and Total tax revenue.

The study used secondary data collected from the Central Bank of Nigeria (CBN) and Nigeria Bureau of Statistics (NBS). In addition, data collected were analyzed using unit root test, co- integration and error correction estimation model. Major findings of the study revealed that petroleum profit tax has positive and significant impact with (β =0.062, t-value= 1.872 and p- value =0.043) on the growth of Nigeria economy. Also, company income tax has a positive and significant effect with (β= 0.012, t-value = 1.566 and P-value = 0.011). Likewise, Value Added Tax has a positive significant effect with (β = 0.027, t = 1.068 and P-value = 0.010) on Nigeria growth. Excise duties also has a positive significant effect with (β = 0.045, t = 1.419 and P- value = 0.009) on Nigeria economic growth. Similarly, oil revenue and total tax revenue has positive significant effect with (β = 0.514, t = 3.551 and P -value = 0.006) and (β

= 0.093, t = 1.742 and P- value of 0.050) respectively on Nigeria economic growth. However, foreign direct investment has a positive but not significant effect with (β = 0.155, t = 0.699 and P- value of 0.502) on Nigeria economic growth.

Having analyzed the data collected, for this work, the results of the study shows that Value added tax contributed significantly to gross domestic product of Nigeria at 2%. Similarly, the study discovered that Petroleum profit tax significantly influenced the growth of the Nigerian economy at 6%. In addition, the study revealed that Excise duties contribute greatly to gross domestic product of Nigeria at 4%. Furthermore, the study showed that company tax impacted significantly on the growth of the Nigerian economy at 1%. Also, the study revealed that Total tax revenue significantly contributed to growth of the Nigerian economy at 10%. Further findings showed that oil revenue contributed immensely to growth of the Nigerian economy at 51%. The R squared value of 70% revealed that the explanatory variables jointly and significantly have an effect on the Gross Domestic Product of Nigeria.

# Conclusion

Based on the data collected, analyzed and hypotheses tested; Value added tax, Petroleum profit tax, Excise duties, Company income tax and Total tax revenue jointly and independently have significant impact on growth of the Nigerian economy. From the findings of this study, we can conclude that taxation is a powerful tool for achieving economic growth and social policy objectives and undoubtedly a veritable instrument for national development in line with the findings of (Dike, 2014).

# Recommendations

Based on the findings generated from this study, the following recommendations were made:

1. The Nigerian economy should be diversified in line with taxation since there is a positive relationship between taxation and economic growth in Nigeria.
2. The Government through the customer service should reduce excise duties on imported goods by discouraging smuggling for the general purpose of generating revenue and also limiting the consumption of unhealthy products alongside protecting the environment.
3. It is recommended that value added tax should be increased in order to balance the government budgets and to reduce budget deficits.
4. Government should ensure that revenue generated from Petroleum profit tax is judiciously utilized in the provision of infrastructures, basic social amenities and investment in other sectors of the economy.
5. Government should channel her efforts towards generating more Total tax revenue by adopting tax reforms and policies that would ensure transparency, accountability, stability and above all economic growth of the Nigerian economy.
6. The study showed that the contribution of the total tax revenue to economic growth is low.

Therefore, the Government should pay more attention by considering strategies to enhance more tax revenue generation in Nigerian so as to improve its contribution to economic growth.

1. The study therefore, recommend among others that the Government should introduce new tax revenue generating strategies across all taxes that can enhance tax revenue generation in Nigerian so as to improve its contribution to economic growth.

# Contribution to Knowledge

The study provided credible and reliable information on the contribution of tax to the growth of the Nigerian economy by considering more variables which includes value added tax, company income tax, excise duties, petroleum profit tax and total tax revenue. While oil revenue and foreign direct investment were adopted as control variables as against previous studies that paid more attention on a single tax revenue or applied fewer variables as a proxy for total tax revenue.

# Limitation of the Study

Like any study, this research had some limitations. The study adopted gross domestic product (GDP) as the only measure of economic growth whereas there are other determinants of economic growth such as foreign direct investment (FDI), government expenditure, oil revenue that could be proxy alongside GDP to provide a better and comprehensive result.

# Suggestion for Further Studies

The study could be extended to focus on the factors affecting tax collection in Nigeria. This is because there are many factors that affects tax collection in Nigeria which can impact either positively or negatively on gross domestic product of the Nigerian economy. Also, effects of macroeconomic factors on tax revenue could also be considered as a research interest.

In addition, further research could apply even more relevant variables not considered by this research work as a proxy for total tax revenue. Finally, researchers can conduct the research study based on particular states in Nigeria so as to get an in-depth result as to the contribution of taxation to the growth domestic product (GDP) in the respective state they choose.

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# APPENDICES

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Dependent Variable: D(LGDP) | | | | |
| Method: Least Squares |  |  |  |  |
| Date: 07/22/16 Time: 19:38 | | | | |
| Sample (adjusted): 1997 2014 | | | | |
| Included observations: 18 after adjustments | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| D(LPPT) | 0.062560 | 0.030254 | 1.872960 | 0.0439 |
| D(LCIT) | 0.012832 | 0.005373 | 1.566755 | 0.0116 |
| D(LVAT) | 0.027708 | 0.012560 | 1.068032 | 0.0103 |
| D(LEDT) | 0.045901 | 0.021072 | 1.419725 | 0.0094 |
| D(LFDI) | 0.155616 | 0.136719 | 0.699361 | 0.5020 |
| D(LOLR) | 0.514881 | 0.249139 | 3.551945 | 0.0062 |
| D(LTTR) | 0.093119 | 0.040179 | 1.742450 | 0.0504 |
| C | 0.220856 | 0.083512 | 2.644599 | 0.0267 |
| U(-1) | -0.104904 | 0.051114 | -0.694209 | 0.0051 |
| R-squared | 0.697833 | Mean dependent var | | 0.171933 |
| Adjusted R-squared | 0.629240 | S.D. dependent var | | 0.181756 |
| S.E. of regression | 0.137314 | Akaike info criterion | | -0.826237 |
| Sum squared resid | 0.169697 | Schwarz criterion | | -0.381051 |
| Log likelihood | 16.43613 | Hannan-Quinn criter. | | -0.764852 |
| F-statistic | 2.598109 | Durbin-Watson stat | | 1.946031 |
| Prob(F-statistic) | 0.028343 |  | |  |

6

Series: Residuals Sample 1997 2014

Observations 18

Mean Median Maximum Minimum Std. Dev. Skewness Kurtosis

3.24e-17

-0.001296

0.258275

-0.137017

0.099911

0.747688

3.711754

Jarque-Bera 2.057059

Probability 0.357532

5

4

3

2

1

0

-0.15 -0.10 -0.05 0.00 0.05 0.10 0.15 0.20 0.25 0.30

|  |  |  |  |
| --- | --- | --- | --- |
| Breusch-Godfrey Serial Correlation LM Test: | | | |
| F-statistic | 1.513295 | Prob. F(2,7) | 0.2843 |
| Obs\*R-squared | 5.433414 | Prob. Chi-Square(2) | 0.6061 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **YEAR** | **FDI** | **GDP** | **PPT** | **CIT** | **VAT** | **EDT** | **OLR** |
| 1981 | 334.7 | 94.32502189 | 6326 | 403 | 0 | 2326 | 0 |
| 1982 | 290 | 101.0112258 | 4847 | 550 | 0 | 2336 | 0 |
| 1983 | 264.3 | 110.0640325 | 3747 | 562 | 0 | 1984 | 0 |
| 1984 | 721.8 | 56824.2 | 4762 | 787 | 0 | 1616 | 0 |
| 1985 | 726.6 | 63593.08 | 6711 | 1004 | 0 | 2184 | 0 |
| 1986 | 735.8 | 134603.32 | 4811 | 1101 | 0 | 1728 | 14.46 |
| 1987 | 2456.2 | 193126.2 | 12504 | 1235 | 0 | 3541 | 18.39 |
| 1988 | 1718.2 | 263294.46 | 6815 | 1551 | 0 | 5672 | 15 |
| 1989 | 13877.4 | 382261.49 | 10598 | 1914 | 0 | 5816 | 18.3 |
| 1990 | 4686 | 472648.75 | 26909 | 2997 | 0 | 8641 | 23.85 |
| 1991 | 6916 | 545672.41 | 38616 | 3828 | 0 | 11457 | 20.11 |
| 1992 | 14463.1 | 875342.52 | 51477 | 5417 | 0 | 16055 | 19.61 |
| 1993 | 29660.3 | 1089679.72 | 59208 | 9554 | 0 | 15485 | 17.41 |
| 1994 | 22,229.20 | 1,399,703.22 | 42803 | 12275 | 5026 | 18295 | 160192.4 |
| 1995 | 75,940.60 | 2,907,358.18 | 42858 | 21878 | 6256.9 | 37364 | 324547.6 |
| 1996 | 111,297.80 | 4,032,300.00 | 76667 | 22000 | 11286 | 55000 | 408783 |
| 1997 | 110,456.20 | 4,189,249.00 | 68574 | 26000 | 13905.3 | 63000 | 416811.1 |
| 1998 | 80,750.40 | 3,989,450.28 | 68000 | 33300 | 16206.8 | 57700 | 324311.2 |
| 1999 | 92,792.50 | 4,679,212.05 | 164300 | 46200 | 23750.5 | 87900 | 724422.5 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 2000 | 115,952.20 | 6,713,574.84 | 525100 | 51100 | 30643.8 | 101500 | 1591675.8 |
| 2001 | 132,433.70 | 6,895,198.33 | 639200 | 68700 | 44912.9 | 170600 | 1707562.8 |
| 2002 | 225,972.00 | 7,795,758.35 | 392200 | 89100 | 52632 | 181400 | 1230851.2 |
| 2003 | 258,388.60 | 9,913,518.19 | 688500 | 114800 | 65887.6 | 195500 | 2074280.6 |
| 2004 | 248,225.60 | 11,411,066.91 | 1183500 | 113000 | 96195.6 | 217200 | 3354800 |
| 2005 | 654,193.20 | 14,610,881.45 | 1904900 | 140300 | 87449.8 | 232800 | 4762400 |
| 2006 | 624,520.70 | 18,564,594.73 | 2938300 | 244900 | 110566.8 | 177700 | 5287566.9 |
| 2007 | 759,380.40 | 20,657,317.67 | 1500600 | 275300 | 144372.7833 | 241400 | 4462910 |
| 2008 | 971,543.80 | 24,296,329.29 | 2812300 | 416800 | 198065.3427 | 281300 | 6530600 |
| 2009 | 1,273,815.80 | 24,794,238.66 | 1256500 | 568100 | 229323.191 | 297500 | 3191937.976 |
| 2010 | 905,730.80 | 54,612,260.00 | 1944700 | 657300 | 275574.6278 | 309200 | 5396091.049 |
| 2011 | 1,360,300.00 | 62,980,400.00 | 3976300 | 700500 | 318000 | 438300 | 8878969.88 |
| 2012 | 1,113,500.00 | 71,713,940.00 | 4365390 | 8485700 | 347688.1991 | 4749200 | 8025970.59 |
| 2013 | 875,100.00 | 80,092,560.00 | 5034000 | 9569000 | 389526.3286 | 5078000 | 6809230.514 |
| 2014 | 738,200.00 | 89,043,620.00 | 5958000 | 11800000 | 388850 | 5739287 | 6793724.454 |