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TAX REFORMS IN ACHIEVING ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

The objective of the study was to determine the effect of tax reform on economic growth in Nigeria. Tax reform was proxy with Company Income Tax (CIT), Value Added Tax (VAT), and Petroleum Profit Tax (PPT) while Real Gross Domestic Product was the proxy for Economic Growth. Time series data was collected from the website of Federal Inland Revenue Services and Central Bank of Nigeria for a period of 10 years covering 2011-2020. The data was analyzed using descriptive statistics (mean, standard deviation, skewness, and kurtosis) and Regression analysis was used to test the hypothesis. The results showed that Company Income Tax has a positive significant effect on Economic Growth (t = 5.321, 0.002). VAT and PPT does not significantly affect Economic Growth; Value Added Tax has a positive insignificant effect on GDP (t = 0.527, 0.617), and Petroleum Profit Tax has a negative insignificant effect on GDP (t = -1.911, 0.105). The study concluded that tax reform affects economic growth (F= 31.275, 0.000). Based on the findings and conclusion, the study recommends that the VAT Act and PITA be further reformed. Also, tax authority should ensure strict compliance of citizens and organizations to the laws. It is also recommended that tax revenue should be efficiently used to bring about economic growth.

Keywords: Tax Reforms, Company Income Tax, Value Added Tax, Petroleum Profit Tax, GDP, Tax

INTRODUCTION

Every country around the world is expected to achieve economic growth and development, this expectation drives the government of a country to embark on activities that are expedient to meet up with expectations. A nation is said to have achieved economic growth when the volume of economic goods and services produced per head increases over a certain period. The pre-independence era in Nigeria was characterized by agricultural activities, this enabled citizens to have enough farm produce (goods) for both personal and commercial use to the point of exporting the goods. Agriculture proved to be efficient at this time as it contributed more than 50% to the GDP of Nigeria from import duties collected on the exportation of agricultural produce (Adedokun, 2019). Jide, (2017) as cited in Owan, Ndibe & Anyanwu, (2020) reported that revenue gotten from the exportation of agricultural products was used to import goods and that was the beginning of international trade in Nigeria. This further accelerated the economic growth of Nigeria.

After the civil war, oil was discovered in very large quantities and became the major source of revenue pushing back agriculture. According to Adedokun (2019), the average annual growth of oil revenue increased exponentially between 1971-1975 reaching a peak of 114.04%. As a result of these significant foreign earnings, the Nigerian government was able to provide citizens with adequate infrastructure and social amenities (Owan *et al.*, 2020). However, reliance on petroleum revenue made the nation susceptible to fluctuations in the international oil market prices (Bakare *et al*., 2021). Further damage was done when the major oil-consuming countries like the USA among others began to reduce their oil demand. It then became a necessity for Nigeria to find alternative means of generating adequate revenue needed to attain economic growth (Oriakhi & Ahuru, 2014). At this point, it became necessary to depend on tax revenue as the revenue generation source of the country.

In many countries, tax revenue is a major source of funding for the government's activities necessary to meet the need of all citizens. According to Ihendinihu et al., (2014), tax is used as; a fiscal instrument for regulating and resolving economic and social policies; a means for increasing economic growth; and a fiscal tool for minimizing

private consumption whilst transferring resources to the government for economic development. Tax has been defined severally by various authors (Dibia & Onwuchekwa, 2019; Jelilov et al., 2016; Ogbonna & Appah, 2012). From the various definitions, tax can be summarized to mean a mandatory payment by citizens to its government. Nigeria needs a huge amount of tax revenue to provide infrastructure for economic growth and revenue generated from tax was not matching up. This was because of several challenges facing the Nigerian tax system which according to NTP (2017) includes "non-regular review of tax legislation, which has led to obsolete laws, that do not reflect current economic realities; lack of strict adherence to tax policy direction and procedural guidelines for the operation of the various tax authorities; and lack of robust framework for the taxation" among others. To get the budgeted tax revenue needed to enhance economic growth, there was the need for tax reform.

According to Oriakhi & Ahuru (2014), tax reform is defined as the various policies or actions implemented/taken by a government to promote the tax system. Tax reform is aimed at solving the challenges of a nation's tax system, however, Jones, Ebieri, & Ekwueme, (2016) noted that it is possible that tax reform will not achieve its purpose and further worsen the economic situation if it is not well implemented. The tax reforms of 1991 and 2004 were made to ensure efficient tax administration (Odusola, 2015). Tax reforms at the Federal level led to administrative and financial autonomy, Integrated Tax Administration System (ITAS), Taxpayer Identification Number (TIN), electronic tax filing, etc. Specifically, the recommendation of the study group set up in 2002 as part of the tax reform process made amendments to the existing tax laws: Federal Inland Revenue Service (Establishment) Act 2007; Companies Income Tax Act (CITA) 2004; Petroleum Profit Tax Act (PPTA) 2004; Personal Income Tax Act (PITA) 2004; Value Added Tax Act 2004; Tertiary Education Tax Act 2004; Customs, Excise Tariffs, etc. (Jelilov et al., 2016). Azubuike (2009) explains that tax reform is a continuous process because tax systems must always reflect changes to the economic, social, and political aspects of the economy. Recent tax reform in Nigeria includes the 2017 amendment to the National Tax Policy and the Finance Act 2019 and 2020 which made changes to Company Income Tax Act among other issues.

In comparison to the economy of other developing countries in Africa, Nigeria's tax revenue to GDP ratio is low (Odhiambo & Olushola, 2018). This problem makes it important to determine if tax reform is the way forward to achieving economic growth in Nigeria. The specific objectives are to:

i. assess the effect of CIT on the GDP of Nigeria.
ii. evaluate how VAT affects the GDP of Nigeria.
iii. examine the effect of PPT on the GDP of Nigeria.

Hypotheses of the Study

H_{01}: CIT does not significantly affect GDP

H_{02}: There is no significant effect of VAT on the GDP of Nigeria

$H_{03:}$ There is no significant effect of PPT on the GDP of Nigeria

THEORETICAL FRAMEWORK

Benefit Received Theory

The benefit received theory was propounded by Knut-Wicksell in 1896 (Bernd, 2000, cited in Aminu et al., 2020), the theory was modified by Erik-Lindahl in 1919 (Weinzierl, 2014; Bernd, 2000, cited in Aminu et al., 2020)). The theory posits that there is a mutualistic relationship between the taxpayer and the government where the government provides the taxpayers with goods and services and infrastructural facilities which the taxpayers pay the commensurate cost by the tax. According to Aminu et al. (2020), the failure of either party in discharging their duties will lead to the failure of the other party in meeting their obligations. This is to say that without tax revenue, the government will be unable to carry on activities necessary for the economic growth of the nation.
The study is anchored on this theory as it explains the relationship between tax and economic growth.

EMPIRICAL REVIEW

Onoja, Eneche & Stephen (2020) researched Tax Revenue and Nigeria Economic Growth using PPT, VAT, and CIT as a proxy for tax revenue and GDP for Economic Growth. They reported that CIT and VAT were the only tax significantly related to GDP while PPT was positively insignificant to GDP. Nweze et al. (2020) examined the relationship existing between PPT and CIT and economic growth in Nigeria for the period of 1980 - 2018. They concluded that PPT and CIT are positively associated with Economic Growth. Dibia & Onwuchekwa, (2019) in another study assessed the relationship between taxation and the economic growth of Nigeria using CIT and PPT as a proxy for taxation and Real GDP to proxy economic growth. The study period covered the years 1981 to 2016. The findings showed that PPT and CIT have a positive and significant effect on the Real GDP.

In analyzing the effect of PPT on the Economic Growth of Nigeria, Aminu et al. (2020) used Co-integration and fully modified Ordinary Least Square (OLS) to analyze data collected from 1985 to 2019. They concluded that PPT impacts positively on Economic Growth, on the other hand, non-oil revenue negatively impacts Economic Growth. An evaluation of the impact of VAT on the Economic growth of Nigeria was conducted by Gatawa et al. (2016). The data for the study were collected for the period 1994 Q4 to 2014 Q4 and analyzed using the co-integration test. The study reported a significant positive impact of VAT on economic growth. Jones, Ebieri, & Ekwueme, (2016) did an extensive study on the impact of tax reforms on the economic growth of Nigeria (1985-2011). OLS was used in analyzing the data. Among the proxies for Tax reform, customs, and excise duties, VAT, PIT, and ET have no statistically significant impact on economic growth at a 5% level of significance while PPT and CIT positively and significantly impact economic growth.

METHODOLOGY

The study made use of the ex-post facto research design to determine the effect of tax reform on the economic growth of Nigeria for a period of 10 years covering 2011 to 2020. The NTP which contains strategic policies aimed at reforming the Nigerian Tax System was adopted in 2010 (Odhiambo & Olushola, 2018; Richards, 2019). The base year was chosen as full implementation of the NTP must have taken place by then. The study made use of time series data which was collected from CBN for the period under study. CIT, VAT, and PPT were used to proxy tax reforms because they realize the highest tax revenue and are collected by the Federal Government through the FIRS. Data were analyzed using descriptive statistics (mean, standard deviation, and skewness) and Inferential Statistics (OLS regression) with the help of the Statistical Package for Social Sciences (SPSS).

Model Specification

The variables in the study are dependent and independent. The dependent variable is Economic Growth while Tax Reform is the independent variable. Real GDP is used in measuring Economic Growth while CIT, VAT, and PPT are proxies for Tax Reform. The functional relationship between the variables is specified as:

GDP = f (CIT, VAT, PPT)

The regression model derived from the above function is:

$GDP = \beta_0 + \beta_1 CIT + \beta_2 VAT + \beta_3 PPT$

DATA ANALYSIS AND INTERPRETATION

Descriptive Statistics

Table 1: Summary of Descriptive Statistics

	GDP	CIT	VAT	PPT
Mean	18.0048	27.7695	27.5486	28.3363
Std. Deviation	.06812	.24418	.24586	.36789

Skewness	-1.325	-.816	1.111	-.304
Kurtosis	.418	.221	.434	-1.536

Source: SPSS Output (2021)

The natural logarithm of each variable was used in analyzing the data because of the large figures of the variables. The descriptive statistics of the data are presented in Table 1. From the table, the mean values are 18.0048, 27.7695, 27.5486, and 28.3363 for GDP, CIT, VAT, and PPT respectively. The standard deviation values of each variable are small (0.06812, 0.24418, 0.24586, 0.36789) meaning that their values are not very far from the mean. The skewness values of -1.325 and 1.111 for GDP and VAT respectively indicate that the data is highly negatively and positively skewed while the skewness value of -0.816 for CIT indicates that the data is moderately negatively skewed. PPT is approximately symmetric with the value of -0.304 which is close to 0. GDP, VAT, and CIT were transformed using inverse for the three variables.

Preliminary Data Analysis

Normality Test

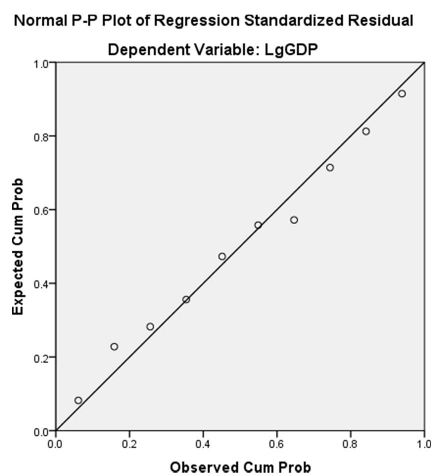

Figure 1: Normal P-P Plot

Source: SPSS (2021)

From figure 1, the dots lie close to the normality line, this suggests that the normality assumption is not violated.

Homoscedasticity Test

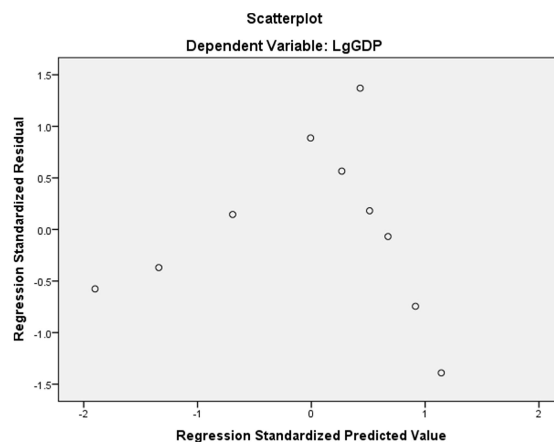

Figure 2: Scatter Plot

Source: SPSS Output (2021)

From figure 2 above, the dots are well scattered over the graph and are evenly spread below and above 0 value for Y as well as to the right and left of the 0 value for X. This shows that the assumption of homoscedasticity is not violated.

Multicollinearity Test

Table 2: VIF Test for Multicollinearity

	Collinearity Statistics	
Model	Tolerance	VIF
CIT	.468	2.135
VAT	.640	1.562
PPT	.671	1.490

According to Shrestha (2020), "if the value of VIF is 1< VIF < 5, it specifies that the variables are moderately correlated to each other". From Table 2, the values of VIF are less than 5 therefore, the predictor variables are not correlated with one another and can be used for further analysis.

Multiple Regression Analysis

Table 3: Multiple Regression Summary

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	12.698	1.429		8.885	.000
CIT	.217	.041	.778	5.321	.002
VAT	.018	.035	.066	.527	.617
PPT	-.043	.023	-.233	-1.911	.105

Source: SPSS Output (2021)

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.969[a]	.940	.910	.02045

Source: SPSS Output (2021)

Table 5: ANOVA Results

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	.039	3	.013	31.275	.000
Residual	.003	6	.000		
Total	.042	9			

Source: SPSS Output (2021)

The multiple regression analysis was carried out after all the necessary preliminary analyses has been conducted. In Table 4, the R^2 value of 0.94 means that 94% of the variation in the dependent variable can be explained by the independent variables. This shows that the model is adequate to determine the effect of Tax Reform on Economic Growth. The coefficient value of 0.778 for CIT means that for every naira change in CIT, GDP will increase by 77.8% and the coefficient value of 0.066 for VAT means that for every naira change in VAT, GDP will increase by 6.6%. In the case of PPT, the coefficient value of -0.233 means that if PPT increases by a naira, GDP will decrease by 2.33%. The ANOVA result is presented in Table 5. With an F ratio of 31.275, 0.000 at the degree of freedom 3,6 at 5% level of significance, Tax Reform significantly affects Economic Growth in Nigeria.

HYPOTHESIS TESTING

H_{01}: CIT does not significantly affect GDP

From Table 3, the significant value of t = 5.321, 0.002 signifies the CIT is positively statistically significant at 0.05 level of significance. The null hypothesis is rejected on this premise and the study concludes that CIT affects the GDP of Nigeria. This result is in line with the results of Nweze et al., 2020; and Onoja, Eneche & Stephen, 2020.

H_{02}: There is no significant effect of VAT on the GDP of Nigeria

From Table 3, the significant value of t = 0.527, 0.617 signifies the VAT is positively statistically insignificant at 0.05 level of significance. The study, therefore, rejects the null hypothesis and concludes that VAT does not affect the GDP of Nigeria. This result is in line with the results of (Jones, Ebieri, & Ekwueme, 2016) and deviates from the result presented by Gatawa et al., (2016) and Onoja, Eneche & Stephen (2020).

H_{03}: There is no significant effect of PPT on the GDP of Nigeria

PPT is negatively insignificant (t = -1.911, 0.105) at 0.05 level of significance. Based on these figures, the null hypothesis is rejected, and the study concludes that PPT does not have a significant effect on the GDP of Nigeria. This finding is surprising as Nigeria's highest tax revenue source is the oil sector (Odhiambo & Olushola, 2018) and would have been expected to have a positive significant effect on the economic growth of the nation.

This result is however similar to the results of Onoja, Eneche & Stephen (2020) as they also reported that PPT has an insignificant but positive effect on Economic Growth and deviates from the result presented by Nweze et al. (2020) and Dibia & Onwuchekwa, (2019)

CONCLUSION AND RECOMMENDATIONS

Tax reform has been a continuous exercise by the Federal Government with it birthing new policies and amendments to the existing ones. The study aimed to assess the effect of tax reform on Nigeria's economic growth. Time-series data were gathered for the year 2011-2020 from the FIRS website and the CBN website which were analyzed using Regression.

The study concludes that Tax reform significantly affects Economic Growth in Nigeria. Specifically, CIT is the only tax in the study that positively and significantly affects Economic Growth while VAT has a positive insignificant effect and PPT has a negative insignificant effect on GDP.

In line with the findings derived from the study, it was recommended that the government should further amend Petroleum Profit Tax Act in a bid to ensure efficient collection of the taxes. VAT Act has been greatly amended by the Finance Act of 2019 and 2020 and it is expected that any study done on VAT in another five to ten years will produce a different result. The study, therefore, recommends that further study be done on the impact of VAT on Economic Growth in Nigeria. Also, proper planning should be made on how to use tax revenue judiciously in activities that will bring about economic growth to the Nation.

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