

TAXATION, ECONOMIC GROWTH AND GOVERNMENT REVENUE IN NIGERIA

(An Advocacy for Alternative Revenue Sources)

BY

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Abstract

Taxation from time immemorial has been a powerful fiscal policy instrument which stimulates economic growth and national development. In Nigeria, however, the benefits accruing from taxation have largely been untapped. It is against this backdrop that this paper seeks to examine taxation and national development in an emerging economy such as Nigeria. Expository and archival survey forms the methods for analyses in the study which is aimed at theoretically examining the lacuna that exists between tax compliance by taxpayers and inadequate reporting of tax remittances by various revenue agencies which adversely affects economic growth and development. The paper found out that the overreliance on oil as a source of revenue to the government has largely caused the relegation of taxation to the background in spite of its invaluable macroeconomic benefits. It is therefore suggested that intermediation measures be created to close the gap in revenue created by the problems of taxation to allow for improved revenue generation by government, which invariably would drive economic growth and development.

Keywords: *Taxation, National Development, Economic Growth*

1.1 TAXATION AND NATIONAL DEVELOPMENT

For most developed economies, tax represents a major significant source of revenue. Tax is a compulsory levy by the government under the fiscal structure of the Nigerian economy, remitted through an appropriate agency, on all income, good, services and properties of individuals, partnership partnerships, executors, trustee trustees and and corporate bodies. Government imposes taxes on its citizens to enable it to obtain the required revenue to finance its activities, such as payment for public services and other social responsibilities.

Apart from the reason of generating revenue, the government may levy taxes for any of the following objectives;

- (a) To control inflation through fiscal measures
- (b) To stimulate economic growth and development
- (c) To bridge the gap between the poor and the rich
- (d) To preserve foreign exchange reserve
- (e) To re-distribute income
- (f) To protect infant industries
- (g) To promote export trade
- (h) Provision of essential amenities (schools, good roads, water, electricity, health care facilities e.tc.),
- (i) Provision of A tool to restrain consumption of undesirable goods and services.

According to C.S., Ola, (1987), taxation is defined as, the demand made by the government of a country for compulsory payment of money by the citizens of the countrycountry's citizens. Also, Henry. T. and Udoete, (1979) posits posit that, it is a non-punitive but compulsory levy by the government of a country on properties and income of individuals and corporations for the good of the nation. The knowledge derivesd from above definitions simplifies taxation as a way of making persons, individuals, and companies contribute money through legalized levies, according to their level of income or some other criteria, to a common fund of government for the purpose of running the affairs of the state. It is on the other hand On the other hand, it is a mandatory levy made by the government of a nation on persons living or deemed to be living in that nation. To cap it all, it is a burden which that every citizen must bear to sustain government developmental drives and efforts.

A good tax system should be based on the following fundamentals principles:

- (j) Economic efficiency:
It simply implies that tax must not make the condition or situation of the payer worse economically. Similarly, it must strive to minimize the negative impact of taxes on economic efficiency by ensuring that the marginal tax rates do not distort marginal propensity to save and invest.
- (ii) Flexibility:
A good sound tax system must adhere to accommodate changing circumstances of the prevalent economic system. For instance, Nigerian income tax is reviewed annually in order toto alleviate the negative effects of unfavourable economic situationsituations.
- (iii) Simplicity:
A good sound tax system must maintain simplicity in its administration; , comprehension and interpretation,. Its form of language must be able to express its guiding fundamentals.
- (iv) Certainty:
The procedure must be objective, certain and scientific.
- (v) Acceptability:
The prevalent tax fundamentals must be generally accepted by the citizens, commonly called, the tax payers.

(vi) Convenience:

The tax must be convenient to pay. The taxpayer must not experience difficulty or or inconvenience in an attempt to settle tax liability.

(vii) Low compliance cost

To enable a high level of compliance, the economic costs of time required and the expenses which that a taxpayer may incur during the procedures for compliance, shall be kept to the absolute minimum at all times.

In spite of the numerous benefits that come from taxes and taxation, it has adverse effect effects on both the taxpayer and the economy at large, if not properly correctly administered. It can be a disincentive to savings, investment, hard-workhard work, even consumption. It can suffocate local industries through high excise duties; it can as well create inflationary pressure, especially the indirect type.

In terms of tax administration, it suffices it to say that improper revenue collection methods and shortage of manpower can hinder the efficiency of the taxation system. This deprives the government of substantial revenue tax due to a drastic reduction in income from taxes. On this backdrop, social amenities decline and decay, thereby lowering the level of economic activities resulting in setbacks to government developmental strides.

However, literature abound abounds on economic factors which that impact on the national development of Nigeria, they; they include unequal distribution of resources (revenue), poverty, inflationary pressure, high population growth, low human development, corruption, social injustice, political instability, ethno-religiousethnoreligious crises, unemployment. Lack of basic infrastructure, uncompetitive private sector and other developmental challenges are some major significant factors hindering taxation prospects and national development.

Controversies have continuously raged among financial analysts and policymakers as to regarding why fiscal policy instruments like taxation have not featuredyet to feature efficiently and effectively. They further ask questions on what other viable tax policies that could be implemented to ensure improved revenue which would drive the achievement of desired national goals of which economic development is one of them. As this unending argument goes on, certain specific issues and questions have been raised about the impact of taxation on national development in Nigeria.

It is against this backdrop thatAgainst this backdrop, the National Tax Policy has been formulated with its focus on improved revenue to the government. The following: problems have, however been very obvious in the administration of taxation in Nigeria:.

- (a) The increased demand to grow internally generated revenue, which has led to excessive taxation to the detriment of the taxpayers who suffer multiple taxation and bear a higher tax burden than necessary.
- (b) Low level of awareness on the part of the taxpayers which has created uncertainty and room for leakages in the tax system.
- (c) Multiple taxation by government at all levels negatively impacts Nigeria's investment climate, which impacts negatively on the investment climate in Nigeria.
- (d) Poor accountability with emphasis on tax revenue generated.
- (e) Lack of clarity on taxation powers of different tiers of government/issues bordering on fiscal federalism.
- (f) Use of aggressive and unorthodox methods for tax collection.
- (g) The non-refund of excess taxes to tax payers.
- (h) The non-review of tax legislation, which had led to obsolete laws that do not reflect Nigeria's current realities.
- (i) The lack ofneed for a specific policy direction for tax matters in Nigeria and the absence of laid down procedural guidelines for the efficient operation of the various tax authorities...

Another important critical factor is the mono-economic base of the country. The country largely depends on crude oil for her survival to the detriment of other resources. The economy is not needed to be diversified, and this is not suitable for a sustainable development (Mimiko, 1998). It is on this premise that, this paper is set to address pertinent issues which are centered on the theme of discussion, 'Taxation and National Development'. Following this, the main focus of this study therefore, therefore, is to examine the concept of taxation and national development in Nigeria. This will be specifically pursued by:

- examining the impact of taxation to national development
- Investigating the extent to which non-tax compliance affects national development
- Evaluating how far tax contributes to economic growth and national development.

A study of this nature will undoubtedly be beneficial to benefit the various stakeholders of the Nigerian corporate world, the taxpayers and the academia. Even the government in its base to diversify the revenue base would find this work quite significant.

2.0 A BRIEF REVIEW OF RELATED LITERATURE

According to the National Tax Policy document (2004), Taxation is basically the process of collecting taxes within a particular location. In this regard, tax has been defined as “a monetary charge imposed by the Government on persons, entities, transactions or properties to yield revenue”. It has also been defined as 'the 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’.

Taxes have also been viewed as a "pecuniary burden laid upon individuals or property to support government expenditure. A tax "is not a voluntary payment or donation, but an enforced/compulsory contribution, exacted pursuant to legislative authority" and is "any contribution imposed by government”, whether under the name of duty, custom excise, levy or other name. Taxes are therefore defined as a financial charge or levy imposed upon an individual or legal entity by a State or a component of the State. A tax is usually a monetary charge on a person's or entity's income, property or transaction and is usually collected by a defined authority at the Federal and State Level.(NTP, 2004).

Brauner (2010) examines the potential use of taxation to generate development funds in connection with the immigration of skilled immigrants from developing into developed countries, known as the "brain drain," if designed according to the principles of the new development agenda. He explained that a tax on the brain drain may be administratively and legally implementable within the framework of the current international tax regime. He further argued that designing such a tax according to the principles of the new development agenda, tying together the collection and use of the revenue functions, is essential for the tax to be justifiable and effective.

Odusola (2006) outlined some of the national problems of taxation in Nigeria to include low yield of revenue, disregard for the true principle of federalism, endemic institutional and management concerns at sub-national levels, weak tax assessment, corrupt processes, and the prevalence of multiplicity of taxes. Interestingly, he recorded that as an economic development tool, taxation provides the financial base for providing and maintaining, among others, infrastructure such as roads, electricity, telecommunications, and water that have direct impact on living conditions.

Weller and Rao (2011) tested the relationship between progressive taxation and economic stability, economic growth, inequality and fiscal policy, based on data from 1981 to 2002; they found that progressive taxation provides policymakers with the ability to conduct countercyclical fiscal policies, which in turn contributes significantly to economic stability. They also found no evidence that progressive taxation adversely affects economic stability by reducing growth (development).

Pirttila and Selin (2011) used the difference-in-differences method to examine tax policy and employment in Sweden; they reflect the possibilities of reforming the Swedish tax system in order to improve labour market impact. They made three vital recommendations; better targeting the earned income tax credit at families and low-income workers, lowering the top marginal tax rates, and maintaining the tax incentives for older workers.

According to Amable and Chatelain (2001), taxation finances financial infrastructures and decreases the private productivity of capital. They also stated the potentials potential of financial infrastructures in fostering economic development, thus,; it increases the efficiency of the banking sector,; it decreases the market power of the financial intermediaries,; it lowers the cost of capital,; it increases the number of depositors and the amount of intermediated savings, factors which in turn increase the growth rate and may help countries to take off from a poverty trap (Amable and Chatelain, 2001).

According to Bird (2007), “...one cannot sell good tax policy or administration to those who are unwilling to buy them”. Bird recommended that if the international community wants developing countries to do more to meet fiscal challenges, it should improve the capacity of the domestic policy communities in those countries domestic policy communities' capacity to cope with such challenges in their own way, not to tell them in detail how they should do it.

National, according to Longman dictionary Dictionary of contemporary Contemporary English (2010),, refers to a phenomenon that embraces a whole nation. National development, therefore, can be described as the overall development or a collective socio-economic, political as well as religious advancement of a country or nation. This is best achieved through development planning, which can be described as the country's collection of strategies mapped out by the government.

3.0 METHODOLOGY

In the attainment of the study objective of this paper, a mixture of archival and survey study studies was adopted. This prompted visits to institutions, use of internet material, and interactions to ascertain the level to which improper taxation and its utilization has undermined national development in the development of macroeconomic aggregates and how it has adversely affected economic growth and development.

4.0 DISCUSSIONS AND FINDINGS

There have been series of development plans in Nigeria. Nigeria is permanently hunted by the spectra of development. Its fifty-five years of independence actually rolled by daily in search of development. The myth of growth and development is so entrenched that the country's history passes for the history of development strategies and growth models from colonial times to date. No term has been in constant flux as development. This seems the only country where virtually all notions and models of development have been experimented (Aremu, 2003).

Two years after independence, the first National Development Plan policy was formulated between 1962 and 1968 with the objectives of creating development opportunities in health, education and employment and improving access to these opportunities, etc. This plan failed because fifty percent of resources needed to finance the plan was to come from external sources, and only fourteen percent of the external finance was received (Ogwumike, 1995).

Collapse of the first Republic and the commencement of civil war also disrupted the plan. After the civil war in 1970, the second national development plan 1970 to 1974 was launched., tThe plan had its priorities were in agriculture, industry, transport, manpower, defence, electricity, communication, and water supply and provision of social services (Ogwumike, 1995).

The third plan, covering the period of 1975 to 1980 was considered more determined than the second plan. Emphasis was placed on rural development and efforts to revamp agricultural sector.

The fourth plan, from 1981 to 1985, recognized the role of social services, health services and other allied services., etc. The plan was aimed at bringing about improvement in the living conditions of the people. The specific objectives included were: an increase in the real income of the average citizen, more even distribution of income among individuals and socio-economic groups, increased dependence on the country's material and human resources, a reduction in the level of unemployment and underemployment (Ogwumike, 1995).

During these periods, Nigeria's enormous oil wealth was not invested to build a viable industrial base for the country and for launching an agrarian revolution to liquidate mass poverty. For instance, the Green Revolution Programme that replaced Operation Feed the Nation failed to generate enough food for the masses. In the recent past, various strategies for development have also been tried with little or no result; among these were the Structural Adjustment Programme (SAP), Vision 2010, National Economic Empowerment and Development Strategy (NEEDS), creation of development centres, etc. Currently, seven point agenda of the Goodluck Ebele Jonathan's administration with vision 2020 without any clear methodological approach towards achieving them. It is obvious that the current results so far are not what development connotes.

In spite of series of development plans, put in place by consecutive governments, and sometimes with good intentions, all attempts to produce meaningful development proved unsuccessful. Based on this, one is now challenged with these mysteries: "Were those previous development plans or strategies bad in their background, or wrongly projected?" If nothing was wrong with the plans, then why is it still difficult to generate meaningful development in spite of the huge resources at our disposal? The solutions to these puzzles are not unbelievable. A lot of factors have combined together to shackle the nation's development.

In most cases, no executive capacity is responsible for formulating and implementing responsible for the formulation and implementation of the plan. We usually see officials entrusted to such a position What we usually see are officials entrusted to such a position but without any meaningful executive authority. Some of the previous development plans failed because; there was little or noneeded to be more consultation withof the general public. Planning is supposed to involve even the peasants in the villages. Even, the local government officials who are close to the people were not consulted. Planning is not an edifice where technocrats alone operate (Mimiko, 1998).

The role of taxation in this search for development has really been confined to the background since oil took the front seat in government revenue generation and profiling,

STYLIZED FACTS ON TAX, GOVERNMENT REVENUE AND ECONOMIC GROWTH: THE NIGERIAN EXPERIENCE

Table 1. **GOVERNMENT REVENUE, TAX AND ECONOMIC GROWTH 2000-2021**

YEAR	GDP	BTTR	ATTR	VARIANCE	TGR	TTGR(%)
2000	6713.57	380.5	455.3	74.8 (FAV)	1906.160	24
2001	6895.20	500.7	586.6	85.9(FAV)	2231.600	26
2002	7795.76	396.2	433.9	37.7(FAV)	1731.838	25
2003	9913.52	572.9	703.1	130.2(FAV)	2575.096	27
2004	11411.07	800.0	1194.8	394.8(FAV)	3920.500	30
2005	14610.88	1304.4	1741.8	437.4(FAV)	5547.500	31
2006	18564.59	3054.1	1866.2	1187.9(ADV)	5965.102	31
2007	20657.32	1753.3	1846.9	93.6(FAV)	5727.500	32
2008	24296.33	2274.4	2972.2	697.8(FAV)	7866.590	37
2009	24794.24	1909.0	2197.6	288.6(FAV)	4844.592	45
2010	54612.26	2557.3	2839.3	282(FAV)	7303.672	39
2011	62980.40	3639.1	4628.5	989.4(FAV)	11116.90	42
2012	71713.94	3635.5	5007.7	1372.2(FAV)	10654.75	47
2013	80092.56	4468.9	4805.6	336.7(FAV)	9759.794	49
2014	89043.62	4086.1	4714.6	628.5(FAV)	10068.85	47
2015	94144.96	4572.2	3 741.	831(ADV)	6912.502	54
2016	102,575.42	4200.2	3307.5	892.7(ADV)	5,616.4	59
2017	114,899.25	4889.7	4027.9	861.8(ADV)	7,444.8	54
2018	129,086.91	6747.0	5320.9	1426.1(ADV)	9,551.7	56
2019	145,639.14	8802.4	5261.9	3540.5(ADV)	10,262.3	51
2020	154,252.32	5076.9	4925.2	151.7(ADV)	9,276.1	53
2021	176,075.50	6400.3	6402.7	2.4(FAV)	10,755.4	60

Source: Federal Inland Revenue Service and Central Bank of Nigeria Sources

From the above table, ATTR is Actual Total Tax Revenue, BTTR is Budgeted Total Tax Revenue, and GDP is Gross Domestic Product while TGR is Total Government Revenue (Federally Collected Revenue from CBN Bulletin (2021)).

Table 2: **Correlation Matrix of Government Revenue, Tax and Economic Growth**

Correlation t-Statistic Probability	ATTR	BTTR	GDP	TGR
ATTR	1.000000 ----- -----			
BTTR	0.898718 8.933139 0.0000	1.000000 ----- -----		
GDP	0.897037 8.847268 0.0000	0.921262 10.32461 0.0000	1.000000 ----- -----	
TGR	0.955486 14.11639 0.0000	0.812300 6.070800 0.0000	0.753597 4.997216 0.0001	1.000000 ----- -----

Source: Authors' Computation(2023)

From the available statistics, the percentage of taxation to total government revenue hovers between 24% and 60% within the period under study. There is also a strong indication and evidential support that a positive and significant correlation (strong linear association) exists between Gross Domestic Product and both the budgeted and actual tax revenue between 2000 and 2015.

Notably, Figs 1 and 2 show a positive slope existing among the variables, which is indicative of the fact that all the indices of taxation and government revenue as presented varied directly with growth over the period. It can be said that they are significant and positive contributors to government revenue in the first place and economic growth and development by extension.

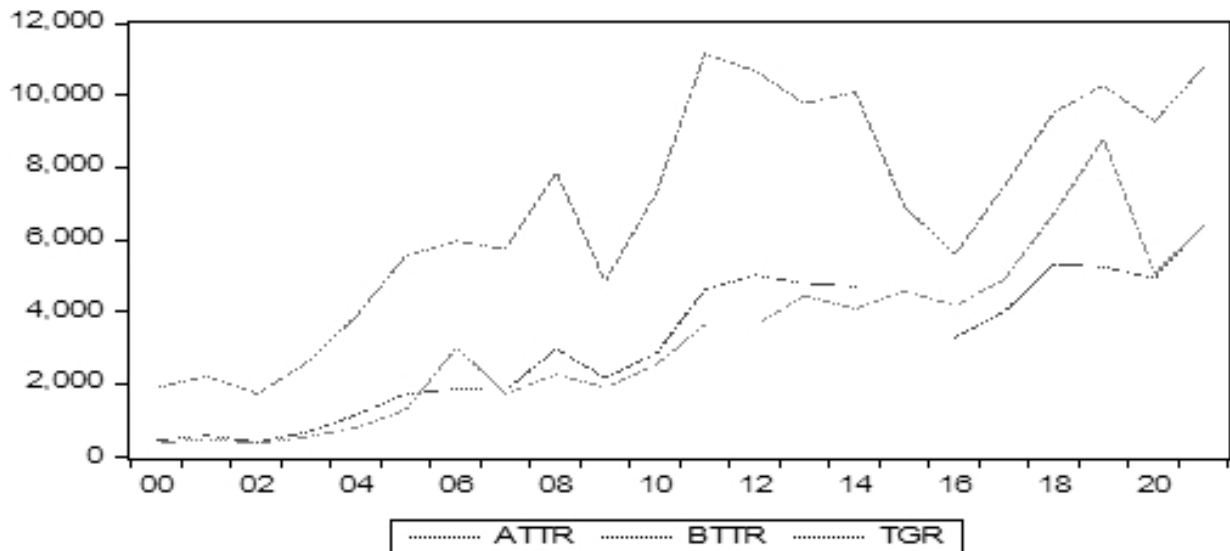


Fig.1 Graph of Government Revenue, Actual Total Tax, Budgeted Total Tax Revenue and Economic Growth

Source: Authors' Plot (2023)

In spite of the direct/positive relationship amongst government, tax revenue and economic growth, an obvious gap undoubtedly exist among them as can be seen from Fig. 2.

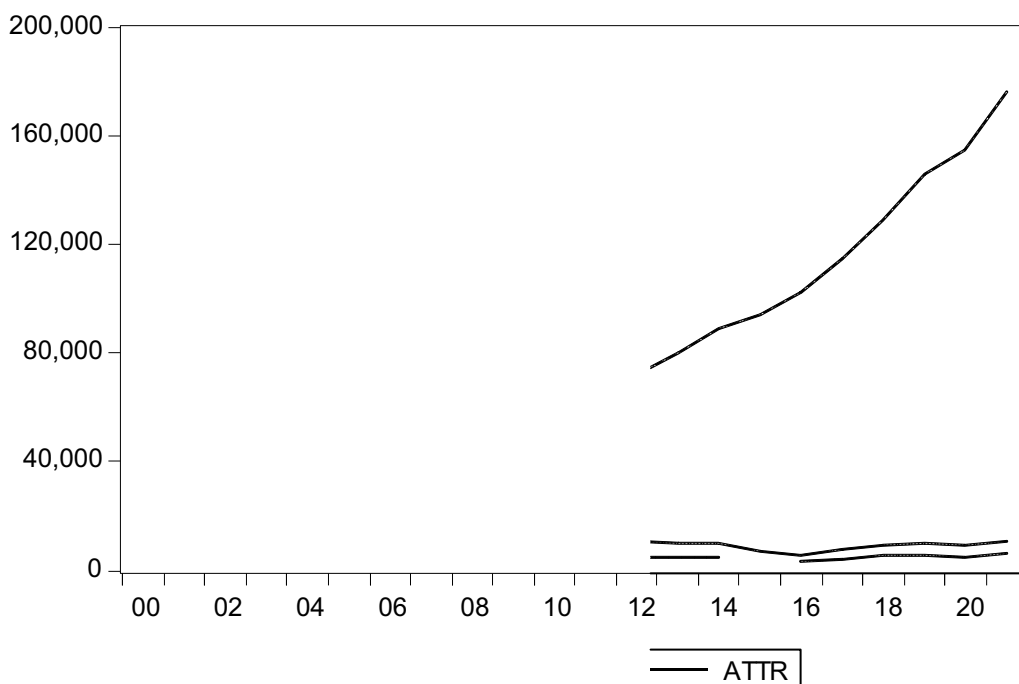


Fig.2: Graph of Government Revenue, Actual Total Tax Revenue and Economic Growth
Source: Authors' Plot (2023)

This is not unconnected with the increasing decline in tax revenue due largely to Tax evasion, over reliance on oil revenue and other factors. Essentially, this explains the drive of the present administration in the area of present administration's drive in diversifying the economy from its monolithic status to one with multiple and multifaceted revenue sources. These further call to task the need for enhanced and improved tax regimes and revenue.

5.0 CONCLUSION

In conclusion, this study suggestively outlines the following ways of increasing tax revenue:

(a) Tax Education

For efficiency and effectiveness, appropriate tax awareness should be created for the tax officials and citizens. Preferably, a committee should be set up; one person from each zone or state of the federation for coordination of the tax system and creation of to coordinate the tax system and create awareness. As a matter of fact, friendliness should be established between the government and taxpayers through enlightenment campaigns.

(b) Identifying Taxable Adults and Organizations

A headcount and periodic records reviews have become essential in establishing a data base for all taxable individuals and corporate organizations. Reviews of records have become essential in establishing a data base for all taxable individuals and corporate organizations alike.

(c) Tax System Restructuring and modification of Tax Payment Pattern

Arguably, the only tax revenues that The only tax revenues Nigeria genuinely collects are those from civil servants. This is largely because, it is deducted at source. Many people in the private sector do not bother to pay tax, because Nigeria's economy is government-driven. The need to restructure the tax system and mode of collection cannot be overflogged.

(d) A Check on Official Corruption

Tax evasion and non-compliance to tax requirements have largely been blamed on the incidences of corruption by some revenue officers and government officials alike. The incidences of double taxation should be addressed to minimize friction between tax payers and revenue officers.

(e) Elimination of Tax Consultant (s)

The use of tax consultants should be abolished; it has been observed that this encourages corruption and abuse of responsibility. Jobs should be created for deserving youths through this channel and it, which will definitely reduce unemployment. Such ills as like inadequate invoicing, improper remittances of government revenue, and misappropriation of government revenue have largely come from the excesses of tax consultants.

Though this work does not claim to be exhaustive, it is believed it will stimulate further research interest on this issue and that if the recommendations are rightly pursued, taxation will be repositioned as a veritable revenue source and by extension a driver of national development.

RECOMMENDATIONS

Replying on the summary and conclusions made in this paper, it is indeed our frank opinion to recommended that in order to strengthen the Nigerian tax administration and , compliance which will invariably bring economic growth and national development.

1. Continuous education and training should be advocated for tax officials on the changes made to the tax laws and better remuneration should be earmarked to encourage efficiency, responsiveness and responsibility .
2. Government should put in place all the needed machineryies to stop revenue leakages and corruption on the path of tax workers.
3. A patriotic tax culture should be encouraged among taxpayers. In most developed economies, tax payment is considered as a moral and civic responsibility, thus tax avoidance is glowered at. This suggests that our leaders should demonstrate high moral and ethical values by living an exemplary life worthy of emulation.
4. Government should adopt a more effective approach for tax administration in Nigeria. This will surely encourage more participation which will thenreby increase the national revenue profile that will promote national development

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