TAXATION AS A VERITABLE TOOL FOR WEALTH CREATION IN NIGERIA

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Abstract
The aim of this study was to establish taxation as a veritable tool for wealth creation in Nigeria. The study adopted the *ex post facto* design. Data covering 16 years between 2001 and 2016 were collected and analyzed using inferential statistics and simple regression technique. The finding shows that total tax revenues have a significant effect on the GDP which was used as proxy for wealth creation. The implication of the conclusion is the strong need for more effective collection of the tax revenue and greater emphasis on efficient tax administration. The study recommended that the government should make concerted efforts to put in place sustainable tax policies, more effective tax administration and stricter enforcement of tax laws in Nigeria. The Nigerian tax authorities should set up appropriate structures and strategies to cultivate more consistent, functional and efficient tax regimes. This study would be of benefit to tax policy makers and researchers.

Keywords: Taxation, Wealth Creation, Tax Revenues, and Gross Domestic Product.

1.0 INTRODUCTION

There is a general belief among tax experts that the country would be better funded if tax revenues are appropriately collected (Ebiringa & Yadirichukwu, 2012; Libabatu, 2014). The national tax policy further lends credence to the revenue adequacy claim (National Tax Policy Document, p.36). Adeosun (2017), Onuoha and Dada (2016), and Ladi and Henry (2015) have added voices to the role of tax administration in directly influencing the Gross Domestic Product (GDP). Somorin (2012) asserts that tax administration refers to the government agency that is responsible for collecting taxes at both federal and states levels. In Nigeria, these are the Federal Inland Revenue Service (FIRS) for the federal taxes and the states inland services (SIRS) for the state taxes.

For many years, as a result of the oil boom, Nigeria has almost forgotten the importance of tax revenues. The situation had been so grave that the revenues that would come from taxes in some areas were lost because companies defaulted in tax payments with impunity. Today, the result of this shows in the dismal contribution of tax revenue to the gross domestic product (GDP). Recently, following the sudden fall in the international oil price the nation's foreign earnings have dropped drastically (Bhartia, 2009). Adeosun (2017) maintains that there is need for sustained discussions on how the outstanding taxes from the many tax debtors could be collected.

This paper attempts to determine on empirical terms the significance of taxes on the Nigerian economy as a means of important wealth creation. The study analyzes how all revenues generated from all taxes, namely direct and indirect taxes impact on the nation’s wealth creation position. Direct taxes are those assessed on, and paid, directly by individuals and companies. The personal income tax (PIT) and the companies’ income tax (CIT) fall into the direct tax category. The indirect tax has to do with sources that are paid passively by the taxpayer. This includes taxes on goods and services such as Value Added Tax (VAT) and withholding tax (WT), among others.

Taxation as a source of wealth creation is an important index of public welfare proxied by the GDP. A growing GDP is a positive factor on the rating of the country's standard of living. It would equally be true to say that dismal taxation revenue would contribute poorly to the GDP with hard consequences for employment and development. The sad realities of this could be explained through the extent of restiveness in the communities, the level of vandalization of state physical infrastructures and declining general welfare of the people (Abata, 2014; Emenike, 2014).

The foregoing real and potential consequences warrant serious consideration of the organization of the collection of the direct and indirect taxes. The government would need every unit of revenue from taxes to provide needed infrastructure for the benefit of the people and to protect lives and property. The importance of the last statement may be proved from the rapid decline of public confidence in the government where there is failure on the part of the government to provide basic amenities in the communities. A timely contrarian warning is that the government would fail to deliver physical and other basic infrastructure where the expected revenues from taxation is in breach (Enegbu, Akujuobi & Ebimobowei, 2012).

The study of taxation as a source of wealth creation finds significance from the importance of government's delivery of social and economic infrastructure which would be near impossible where tax revenues are not forthcoming. In tandem with Section 1.4 of the National Tax Policy for Nigeria (2012:35) the study identifies five important ways in which taxation could play a vital role in wealth creation:

i) Taxation could be employed to stimulate economic growth through increased trade and economic activities. This is expected to arise from use of tax revenues to provide basic infrastructure such as power, roads, transportation networks, schools, and other infrastructure.
ii) Taxation could be used as a tool for stimulation of domestic and foreign investment through policies that are favourable to retention of local investments in the country in addition to attracting foreign investments. Examples of such policies include tax-free zones, tax holidays on certain products or lines of investments, and international treaties.
iii) Revenues from taxes could be applied directly to specific sectors of the Nigerian economy for stimulation purposes. For example, tax revenues could be applied to the development of agriculture or agro allied industries.
iv) Tax incomes could be deployed to the development of “effective regulatory systems, strengthen financial and economic structures and address market imperfections and other distortions in the economic sector” (NTP 2012:35).
v) The government could pursue income redistribution among the citizens. To achieve such would involve using tax earned from high income earners to provide infrastructural facilities for the lowest income earners, or for the creation of social security net for indigent citizens.

The study looked at the significance of tax revenues to the achievement of the highlighted roles with the gross domestic product (GDP) as proxy. It is expected that the paper would benefit not only the tax authorities at the states and federal levels, but also all current and potential taxpayers would appropriate from the conclusion of the study the veracity of every taxpayers' compliance to their tax payment responsibility.

The study was driven through the central question: To what extent does tax revenue influence the gross domestic product? With tax revenue (TR) as the independent variable and the gross domestic product (GDP) as the dependent variable, the research question was investigated through the null hypothesis (Ho) that there is no significant relationship between tax revenue (TR) and the gross domestic product.

2.0 LITERATURE REVIEW

This section presents the conceptual, theoretical and the empirical reviews of taxation and wealth creation.

2.1 Conceptual Review

In this subsection, concepts of taxation, direct tax, indirect tax, and wealth creation are reviewed to provide foothold for understanding of the phenomenon under study.

2.1.1 Taxation

Taxation has been in use for centuries as a tool for collecting tax revenue or a weapon to generate revenues that would support the governmental expenses in terms of capital and recurrent expenditures that help in improving life conditions of the citizens. The population has more expectation from the government in terms of infrastructural development such as schools for quality of education, hospitals for improved health care, roads for transportation and movements of goods and services that keep businesses running, security services such as armed forces and police services that ensure the safety of the nation. Thus, taxation has been defined as a mechanism, process, procedures or a system set by government of a given nation with the main aim of collecting tax revenues or income from citizens such as individuals, entities or companies, in order to finance its public expenditures or utilities and fulfillment of other public duties and responsibilities (Farayola, 1987; Adams, 2001; Somorin, 2012).

Afubero and Okoye (2014) look at tax as a main source of national income in all countries, developed or developing because it is the only sure tool that governments use in getting contribution from citizens and entities that would raise government revenue with a certain level of certainty. This is based on the fact that none can escape such compulsory contribution or payment to the government which imposes it through tax laws, rules and regulations for its administration. Tax is always deducted from consumption, income and capital of owners or consumers. This is because the government has contributed to the opportunities that would generate the employment, businesses, services and investments in which the citizens were co-beneficiaries. Thus, this appropriately makes tax to be a compulsory contribution of those citizens to the public expenditures. From the tax revenues generated, many opportunities may be created by the government for the sustainability of social and economic development of the nation.

Taxation is used as a mechanism by the government to stabilize the economic growth and for improvement of living conditions or standards, redistributing wealth that has been created in an economy, promoting industrial development in prioritized areas that officials and political leaders think is the way to go for the sustainability of the economy (Afuberoh and Okoye, 2014). Thus, social, economic and political components base their decisions on the tax revenue that has been collected during a certain period of time. This shows that social and physical infrastructures depend on the generated and collected revenues by the state from its citizens and this requires a sound tax system that encourages taxpayers to pay their dues and on time (Ogbonna and Ebimobowei, 2012).

According to Azubike (2009), tax is considered as key factor by many governmental players in the war of collecting public revenues that would support officials to discharge their responsibilities in creating and enhancing the welfare of the citizens. Taxes collected constitute a major source of government revenue earned more regularly than other pubic investments. Tax as a compulsory contribution to the government expenditure is fundamental to the provision of security, welfare and economic stability of a nation (Oladele and Uduma, 2013; Emenike, 2014; Abata, 2014).

2.1.1.1 Direct taxes

These include all taxes that are demanded from the very person who is intended or desired should pay it. These are taxes paid directly by the individuals or companies from their direct income or revenues. These include personal tax, property, capital gain and income taxes (Somorin, 2012).

2.1.1.2 Indirect taxes

These are impersonal taxes which are deducted or imposed on transactions, goods and services. They are not directly borne by individuals' incomes, rather consumers of goods and services pay often not knowing they do. These taxes are imposed on last line consumers. They include sales tax, services tax, value added tax, excise duties, customs (import/export) duties, expenditure tax, stamp duty, registration duty, transaction tax, entertainment tax and taxes on some hard drinks, tobacco and petrol, and they are also imposed on the manufacturers (Somorin, 2012).

2.1.2 Wealth Creation

The meaning of wealth has different connotations for different perspectives and people. In general, it means abundance of something which someone or entity possesses with embedded value. In business terms, wealth means products or services generated by a given economic activity, and usually refers to the accumulation of resources by a certain society (Yelwa and Emmanuel, 2013). The measurement of wealth creation has been in scholarly discussion for a long time and it has been differently viewed. Otu and Adejumo (2013), Ibadin and Oladipupo (2015) opined that wealth creation is measured as economic growth that is normally measured by Gross Domestic Product (GDP). These scholars conclude that the GDP measures national production for a given period of time in a way that shows capital stock operations, technological advancements, quality of education and healthcare and security services.

For a nation, wealth creation is measured by its economic growth which is any kind of increase in production and service activities that sustain the national income for some period of time which is more than one year. This shows that increased employment, capital stock improvement and technical advancement are taking place. An increase in labor force shows that there is an economic activity that generates employment for the citizens; the investment climate is fair to all and resources are being equally allocated where there is also increase in production output of a nation and per family or head which is translated as improvement in citizens' welfare. Through capital stock, there is increase in investment opportunities since there is availability of finance from primary and secondary capital markets (Lee and Gordon, 2005). Thus, wealth creation requires the development and improvement of basic physical and social infrastructures that improves standard of living in the society. These include construction of schools for education, hospitals for quality healthcare, roads construction, bridges settings, railways, seaports and modern airports. These become facilities for wealth creation among the citizens of a nation (Afuberoh and Okoye, 2014; Adereti, Adesina and Sanni, 2011). The government's role should be the stabilization of the national economy, improvement of services provision to citizens and redistribution of income among the population in terms of public facilities (Ayuba, 2014).

Appah (2010) considered economic growth as a measurement of wealth creation for the nation that comes from the economic activities which are supported by the government's contribution to the business conduct and facilitation in terms of public goods creation. Lymer (2010) and Chigbu and Njoku (2015) are of the opinion that government should have a sound and fair fiscal policy which allows for economic stability, employment provision, externalities balance and sustained economy so that its nation should continually develop and secure its future for the citizenry. Thus, the tax policy should be used to collect relevant tax revenues or income to government for government's capacity to generate public goods as indicators of wealth creation.

Somorin (2011) and Afuberoh and Okoye (2014) have corroborated that taxation plays an important role in wealth creation in Nigeria. Their list of the areas that are supported by tax revenues include: (i) stimulating growth in the economy, by increased trade and economic activities; (ii) stimulating domestic and foreign investment; (iii) revenue generated from taxes can also be applied directly to identify sectors of the Nigerian economy to stimulate more attractive sectors; (iv) revenue earned from taxes can be used to develop effective regulatory systems, strengthen financial and economic structures and address market imperfections and other distortions in the economic sector; and (v) redistribution of income. Worlu (2012) adds that tax revenue realized from high income earners is used to provide public infrastructure and utilities to the lowest income earners.

Adeyemi (2012) is of the opinion that taxation has a role to play in terms of attracting the domestic and foreign direct investment that all aim at providing the sustainable social and economic development and growth. Thus, tax incentives and exemptions are used in creating investment opportunities. This shows that the tax system of any given country is a tool for improved level of investment that creates wealth to the owners of the capital (investors) and citizens who get employment and earn income that helps them to solve their social and economic problems. As a result, tax experts agree that new investments bring new monetary flows within a nation where many people get involved and new business activities would be developed as small scale activities created by big investments. Thus, tax policies should be developed in such a way that maximizes value creation in terms of wealth that is distributed among the citizens and business partners who also develop themselves as a result of domestic and foreign direct investments attracted through those tax policies. This shows that taxation should be well structured so that it becomes a tool for increasing and improving the economic sustainability of a nation as source of fostering the development in all economic and social endeavors of the population (Ogbonna & Ebimobowei, 2012; Gale, Krupkin & Kim, 2015).

2.2 Theoretical framework

Three theories are reviewed in this paper, namely: social political tax theory, benefit received theory, and ability to pay theory**.** However, the study would be anchored on the social political tax theory for its broad relevance to the wealth creation paradigm of taxation. The socio political theory posits that states have political and social objectives as major contributing factors in the taxes policies selection and establishments. This theory holds that the tax system should be established not to serve individuals but to solve the problems of society as a whole. Thus, all the politics around taxes setting and administration should focus on the social and economic objectives of a nation (Bakija, 2013). The result is a tax system that provides mutual benefits to the state and the people.

2.3 Empirical review

The study of Tomljanovich (2004) demonstrates that taxes are imposed with the main objective of reducing the wealth inequalities between the poor and rich who dwell in the same nation, reduce the level of inflation and are tools used by the national fiscal policy. This is completed by the study of Gentry and Hubbard (2005) which suggested that tax system is normally used for the economic growth and wealth creation in a given economy or country. Azubike (2009) has demonstrated that tax is a major source of revenue for any country - developed or developing, and that would be effectively used to discharge its traditional political, social and economic functions. These functions include installing public facilities and goods, enforcing the good conduct of business and the citizenry by maintaining law and order, reducing the economic and security external aggression. Others are to improve business environment for more wealth creation and development in many other real sectors.

The study of McBride (2012) corroborates Gentry and Hubbard (2005) and added that taxation is used to deal with wealth creation and distribution among the citizens of a nation. According to the researchers, taxation proves a veritable tool for creation of employment, expansion of economic sectors for the production of goods and services, and for dealing with economic and social growth. It is the strong argument of McBride (2012) and Gentry and Hubbard (2005), therefore, that taxation plays a fundamental role in the development of the economy, employment and income distribution among the citizens.

Ogbonna and Ebimobowei (2012) agree with McBride (2012) and Gentry, et al (2005) that taxation is an important weapon that any nation uses in order to achieve national development. They consider that taxation plays a role as wealth creation engine and helps to regulate economic activities by motivating some sectors considered important for more development opportunities.

Ogbonna and Ebimobowei (2012) have also found that tax reforms had significant effect on the economic growth. Their study shows that taxation is a significant tool that is used in Nigeria and helps in the wealth creation manifested in the economic growth of the nation. Thus, the government should be continuously watching any environmental issues and use tax to regulate business environment towards creation of tax revenues and reinvesting in public goods that in return enhance the business and economic activities conducted. This calls for fair and transparent tax administration, policies and procedures to encourage voluntary tax compliance. Baghebo (2012) found that tax revenue rather helps government to achieve its intended social and economic development and this is achieved if and only if the government is transparent in using the tax revenues. Emenike (2014) studied the generation of tax revenue from the private sector and advises that government should seek measures that minimize tax evasion and avoidance in order to grow tax revenues. He asserted that the ways to improve on tax revenue would be to reduce tax administration gaps such as corruption and inefficiencies in the tax collections process. He notes that the resultant increase in income generation from taxes would be beneficial to the government as it would be possible to create more wealth through physical and social infrastructures.

Ojong, Anthony, and Arikpo (2016) study on the tax revenue and national economic growth in Nigeria find that petroleum profit tax contributes to the wealth creation of Nigerian economy. Also they found that non-oil tax revenue significantly affects economic growth and the low tax contributor to the tax revenue pool was found to be company income tax. The main challenge they asserted were the poor tax administration, tax evasion and tax avoidance levels which were too high. The study revealed further that most of the economic activities that have been created provide more tax revenues and that the government should restructure the tax administration and aim for greater diversification of the economy.

The present researcher identifies empirical gap in the existing studies reviewed here. The existing studies have paid so much attention on the effect of tax administration on tax revenue, tax evasion and avoidance (Ojong, et al, 2016); impact of tax revenues on economic growth (Ogbonna, et al, 2012); and wealth creation in the light of wealth distribution (McBridge, 2012). There has been less research on the link between the tax revenue and wealth creation. The present study will, therefore, attempt to verify empirically the strength of taxation as a tool for wealth creation in Nigeria.

3.0 METHODOLOGY

This study adopted *ex post facto* design. The data was collected from published reports by the Central Bank of Nigeria (CBN) and the Federal Inland Revenue Service (FIRS). The period covered by this study is 16 years ranging from the year 2001 to the year 2016. This period was considered appropriate because of the availability of data and its currency to the prevailing economic environment of the country. The study adopted inferential statistics which helped to test the econometric model of the study by using the simple regression statistics run on Statistical Product for Service Support-SPSS version 23.

The hypothesis was investigated using the model: Y = f(X).
Where Y = the dependent variable with the gross domestic product (GDP) as proxy.
X = the independent variable represented by Tax Revenues (TR).
The econometric model, therefore, is:

$$GDP = \beta_0 + \beta_1 TR + \mu$$

Where β_0 = constant, β_1= coefficient of independent variable, and μ = error term.

4.0 FINDINGS AND DISCUSSION

This section aims at presenting and discussing the findings of the study about the link between tax revenues and wealth creation for the period 2000 to the year 2015.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.931[a]	.867	.857	11286.3788677

a. Predictors: (Constant), Tax revenues

Table 2: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	11619474218.509	1	11619474218.509	91.217	.000[b]
	Residual	1783352871.243	14	127382347.946		
	Total	13402827089.752	15			

a. Dependent Variable: GDP
b. Predictors: (Constant), Tax revenues

Table 3: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	852.493	5187.847		.164	.872
	Tax revenues	16.742	1.753	.931	9.551	.000

a. Dependent Variable: GDP

The results from this study demonstrate that tax revenues have significant effects on the GDP. Table 1 shows the model is fitting as indicated by the R-Square coefficient of .867 which is translated as 86.7%. This suggests that tax revenues account for 86.7% variation in GDP while the remaining 13.3% is associated to other variables that have not been part of this study. The results from ANOVA in Table 2 show that the F-Test is 91.217 which is positive, indicating that there is a high level of significance as indicated by p-value is less than 5% level of estimated significance. This result is interpreted to mean that tax revenues have significant effect on GDP of Nigeria considering the period of this study which is 2000-2015.

From the findings in Table 3, the formulated econometric model under equation GDP= $\beta 0 + \beta 1TR + \mu$ is statistically represented as GPD= 852.493 + 16.742TR + 1.753. This means that every N100 of increase in tax revenues leads to N16.742 increase in GDP with minimum estimated error of 1.753 with T-statistics of .955 at significance level of p-value < .05. Therefore, based on the findings of the study, tax revenues have significant effect on Gross Domestic Products (GDP) in Nigeria. The findings of this study are in conformity with the study of Abata (2014), Worlu (2012), and Baghebo (2012) who found that tax revenues have significant effect on the national economy.

The implication of the findings is that government could boost the growth of the GDP and create more employment through the investment of the tax revenues in employment generating opportunities. This further implies that, by the introduction of the right tax policies, the government could support the small scale industries with more funding or attract more foreign investors to invest within the domestic market whereby more wealth and employment opportunities could be generated.

5.0 CONCLUSION AND RECOMMENDATIONS

This study has demonstrated that total tax revenues have a significant positive effect on wealth creation as measured by the GDP. The economic growth and development of Nigeria requires the contribution of every economic agent. The companies and individuals that are eligible to run economic activities and get an income have to become familiar with all public payments that the law enforces as taxable activities. Thus, taxpayers should be involved in all tax endeavors especially in the payment of company income tax, personal income tax and other categories of direct and indirect taxes.

The study recommended that since tax revenues have significant positive effect on wealth creation, concerted efforts need to be brought on taxation policy formulation, administration and enforcement. The tax authorities should set up appropriate strategies that would make for more functional and efficient tax administration. There is need to bring several taxpayers into the tax net as so doing would increase the national GDP, predispose the government for provision of basic infrastructures amenable to wealth creation and promote other positive social advantages for the domestic economic growth.

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