GOVERNMENT COLLECTIBLE TAX REVENUE AND ECONOMIC GROWTH IN NIGERIA: A LONGITUDINAL ASSESSMENT (1975-2015)

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ABSTRACT

Since the early 1970's a primary focus of world economic attention has been on ways of accelerating the growth rate of National Incomes. Strikingly, "economists and Politicians from all nations, rich and poor, Igbo, Hausa and Yoruba, capitalist, socialist and mixed, have worshipped at the shrine of economic growth. This study examined the effect and relationship between collectible tax revenue and economic growth in Nigeria during the 40-years period, 1975-2015. using the Pearson product moment of coefficient correlation and multiple linear regression analysis on tie series data collected, the investigation expressed the change in growth rate of Gross Domestic Product as a function of various dimensions of tax chiefly, change in period lag values of petroleum profit tax, companies income tax, customs and excise duties and value added tax that captures the contribution of collectible tax during the periods. This suggests that collectible tax revenue have positive significant stimulating effect on country's growth trajectory during the 45 years. The findings of this empirical study adumbrate the anecdotal evidence of poor resource governance architecture that has for so long characterized Nigeria's industry (oil and gas, & extractive) as well as its macroeconomic policies and management. The study recommends that all tax revenue should be remitted via e-payment system or to a direct payment account belonging to the authorities responsible.

Keywords: *Real Gross Domestic Product, Economic Growth, Collectible Tax Revenue, Petroleum Profit Tax, Customs and Excise Duties.*

INTRODUCTION

Long but large, from the early days Adam Smith and later part of David Ricardo to the present time, one known means available to any nation for the generation of the desired amounts of revenue needed to provide social and infrastructural services for the people, is through a well-structured tax system. As Nwezeaku (2005) noted, the whole essence of tax is to generate revenue to advance the welfare of the people of a nation with focus on promoting economic growth and development through the provision of basic amenities for improved public services via proper administrative system and structures. This calls for the need for proper examination of the relationship between revenue generated from taxes and the economy, to enable proper formulation of strategies towards efficiency.

Ola (2001) asserts that the level of economic development of a country has a very strong impact on the country's tax base. Similarly, Adegbie (2010) contended that changing or fine-tuning tax rates is used to influence or achieve macro-economic stability. Some of the most recently cited examples are the governments of Canada, United States, the Netherlands. United Kingdom, who have used same to create prosperity. This view was also supported by Odusola (2006), who opined that for both developed and developing economies, there exists a relationship between tax structure and the level of economic growth and development. Also, that it could be suggested that a country's tax reforms and structure indicate the amount of public generated revenue.

The Nigerian tax system under the pre-independence government was basically structured as a tool for revenue collection and the system sustained this legacy for a long time based on the 1948 British tax laws. Overtime however, some inherent problems in its structure came to the fore. Observable negative economic impact of persistent fiscal deficits was suspected to have primarily arisen from inadequacy of the revenue base to cope with the targeted level of economic activities (Fasoranti, 2013).

Odusola (2003), reports that the Nigerian tax system is concentrated in Petroleum and Trade taxes, while indirect taxes like the Value-Added Tax (VAT) are neglected. The tax system lacks the capacity to significantly diversity the revenue base of the country, provide a safeguard against the volatility inherent in crude oil prices and promote sustainability and economic viability at the lower tiers of government.

An attempt to transform and diversify the existing revenue base, led to various tax policy reviews and reforms. In spite of the various reforms, Odusola (2003) observed that the tax system still had some setbacks especially in its structure and administration. More so, the 2008 draft document of the National Tax Policy reports that the tax system lacked sufficient information for tax payers on tax compliance requirements such that it created room for leakages. This led to the increased demand by scholars and policy makers for reforms geared at widening and strengthening the administration of Total Federally Collected Revenue.

According to Fasoranti (2013), the ability of a tax system to generate revenue affects the services offered by the government. Unfortunately, the Nigerian tax system has not been able to perform the expected role of revenue generation and regulation of income distribution. This stems from the structural and administrative defects of the tax system. The machinery and procedure for implementing tax systems are inadequate, resulting in tax evasion and avoidance by most individuals and institutions.

In the same vein, Adegbie (2010) posited that tax revenue mobilization as a source for financing development activities in Nigeria has been a difficult issue, primarily because of various forms of resistance such as evasion, avoidance and corrupt practices attending to it. These activities are considered as sabotaging the economy and are readily presented as the reasons for the underdevelopment of the country. Consequent upon this, TCFR continues to fluctuate and fall short of targeted levels impacting negatively on the GDP of the country.

Due to the above, the Edozien-led committee was inaugurated in 1991 to review the Nigerian tax system. The committee clearly identified the need to transform outmoded or obsolete tax structure in Nigeria. In the same vein, a parallel group was set up to examine the feasibility of introducing Value-Added Tax in Nigeria as an improvement on the existing sales tax.

According to Chigbu, Akujuobi & Appah (2012), the recent reforms include the introduction of the Taxpayer Identification Number (TIN), which became effective since February 2008, Automated Tax System (ATS), which enhances smooth payment procedure and reduces the incidence of tax touts, Enforcement Scheme (ES), which engages special tax officers in collaboration with other security agencies to ensure strict compliance in the payment of taxes. The scholars went further to observe that despite all these measures, there are still a number of contentious issues that require urgent attention if revenue from taxes and other non-tax sources are to improve for enhanced economic growth.

Thus, it can be said that the economic growth and development of a country depend on various reasons, one of which is the presence of an efficient and effective tax revenue policy. In Nigeria, the contribution of tax revenue has not met the expectations of government. In line, government has equally expressed this disappointment and has accordingly vowed to expand the tax base (Adegbie & Fakile, 2011).

Strikingly, empirical literature on federally collectable tax revenue and economic growth, voluminous as it may be, does not present conclusive evidence (See Azubuike; 2009; Ali, 2009; Bhartie (2009; Adegbie, 2010; Adegbie & Fakile, 2011; Appah & Oyendorghan, 2011; Appah & Ebiringa, 2012; Fasoranti, 2013; Oriakhi & Aharu, 2014; Jones, Ihendiniu & Nwaiwu, 2015; Herbert, Nwaorgu & Nwaiwu, 2017).

The majority, however, find either no effect or, at best, conflicting empirical results. Thus, an objective conclusion from the empirical results of the vast research effort undertaken to date suggests that there is no strong, robust, and uniform support for the theoretical argument about

the relationship between federally collectible tax revenue and economic growth. Beside, it is generally conceded that the nature of the relationship between federally collectable tax revenue and economic growth remains a major governance concern.

Most theoretical and empirical investigation of this course effect and relationship have been predicted on data from developed countries, notably, "Anglo-America, Europe, Japan China and New Zealand". Thus, empirical studied espousing the relationship between federally collectable tax revenue and economic growth in "less developing" economies have been rather sparse. Notable exceptions include Bartlett (2006), Bhartia (2009), Lekan & Sunday (2006) Musgrave & Musgrave (2004), Yakir (2011) Silva (2013). Despite the geo-political and economic significance of Nigeria as an emerging nation and, in particular, as the second largest economy in the sub-Saharan Africa, the scant empirical investigation of the phenomenon of interest begs the question. The few reported Nigerian studies (Ihendinihu, Jones & Ibanichuka 2014; Salami; Apelogun; Omidiga & Oyoge 2015) that examined the relationship between federally collectable tax revenue and economic growth, yielded conflicting results. Although, our immediate conjecture is that the modeling apparatus of received federally collectable tax revenue is insufficiently micro-analytic to deal with the transactional phenomena of dismal performance of Nigeria's economies.

The empirical sustainability of this empirical and theoretical view is what this paper sets out to interrogate, given the fact that tax revenue reforms which have worked well in other developing countries, such as "Brazil, Ghana, India; South Africa, Malaysia, and Mexicco, have yielded abysmal results in Nigeria. The aim of this study is to investigate the relationship between federally collectable tax revenue and economic growth over the period (1970-2015). Specifically, the study seeks to empirically determine the effect of federally collectable tax revenue on economic growth. The nature of the effect among these variables is also examined. The rest of the paper is structure as follows: Following this introduction is the literature review in section two, which explores the episodes of federally collectable tax revenue, theory, conceptual and other relevant literature. Analytical framework and methodology of the study is sketched in section 3. Section 4 discusses the econometric results and their implication on Nigerian economy. Section 5 concludes with recommendation and policy implication.

Government Tax System

According to Okafor (2012), the federal tax system in Nigeria refers to the range of taxes 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 federal government agency responsible for the administration and collection of these taxes (except Customs and Excise Duties), was up until April 2007 known as the Federal Board of Inland Revenue (FBIR). In 2007, the FBIR was scrapped and replaced with the Federal Inland Revenue Services (FIRS). The collection of Customs and Excise Duties is the prerogative of the Customs and Excise Services.

The two legal bodies connected to the federal government tax system in Nigeria are the Joint Tax Board (JTB) and FIRS. The JTB was established in 1961 to advice, coordinate various aspects of tax revenue and also, to promote uniformity both in the application of the Personal Income Tax Act (PITA). The Companies Income Tax Act (CITA) further confirmed that FIRS is established to carry out the following functions:

i. To exercise the powers and duties conferred on it by any enactment of the federal government in respect of federal related taxes.
ii. To advice the federal government on request on double tax revenue arrangement.
iii. To promote uniformity both in the application of PITA and the incidence of tax on individuals.
iv. To advice the federal government on request on capital allowance rate.
v. To impose its decisions on matters of procedure and the interpretation of PITA on any state of the federation for the purpose of conforming to such interpretations (Osunkoya, 2009).

Government Collectible Taxes in Nigeria

There are many types/forms of taxes in Nigeria. Some are collected by the federal government, some by the states, some by the local governments, while some are jointly collected as clearly spelt out in the by the Taxes and Levies Act (Sen, 1999). For the sake of this study, emphasis was laid on taxes that are exclusively collected by the federal arm of government.

Companies Income Tax (CIT): This is a type of tax levied on a company's profits at a rate of 30%. The CIT was introduced by Nigeria in 1961 and was to be administered by the FIRS through the CITA (Adereti, Sanni & Adesina, 2011). The revenue from CIT has been on the increase since 1970. It grew from N45.8 million in 1970 to about N579.2 million in 1980.

However, there was a decrease between 1981 and 1983. This period coincided with the economic recession in the early 80s, which necessitated the introduction of the Structural Adjustment Programme (SAP) and other policies by the Shehu Shagari administration. It picked up again in 1984 when it recorded N787 million, and continued in an upward direction until 2012 when it reached its peak of about N970 billion. It fell to about N103 billion in 2013 and increased to about N124 billion in 2014 (Fasoranti, 2013).

Petroleum Profit Tax (PPT): This is a tax levied on oil companies in addition to Company Income Tax. The PPT is to take care of economic rent on the land used for training, It is applicable to upstream operations in the oil sector i.e., production of crude oil and gas and sale of these as primary products to downstream operations. It is regulated by the Petroleum Profit Tax Act of 1959 as amended by the Petroleum Profit Tax Act of 2007 (Odusola, 2006).

The PPT is the most prominent tax in Nigeria in terms of its contribution to federal government revenue and its percentage contribution to total foreign exchange earnings. The major problem of this source of revenue is the fluctuation resulting from price fluctuation of crude oil process

in the world market. The taxable income of a petroleum company is subject to tax at 85%, but this percentage is lowered to 65.75% during the first five years of operation (Fasoranti, 2013).

Customs and Excise Duties (CED): These are the oldest forms of modern taxation which dates back to the I9th century. Custom duties otherwise known as import duties, are taxes on imports charged either as a percentage of the value of imports or as fixed amount on specified quantity. According to Odusola (2006), custom duties are the highest yielding indirect tax. The tax is administered by the Nigerian Custom Services (NCS). Excise duties were introduced in 1962 as taxes imposed on the output of manufactured goods.

Value-Added Tax (VAT): The adoption of VAT was an important landmark in tax reforms in Nigeria. VAT is a form of consumption tax on all business profits and labour. It is levied on the value-added to the product at each stage of the production and distribution cycle as well as the price paid by the final consumer. VAT was invented by a French Economist named Maurice Laure in 1954. It was initially meant to cover large businesses, but was later extended to all businesses. By the end of the 20th century, it has been adopted throughout the European Union and many countries in Africa, Asia and South America.

In Nigeria, VAT came into operation in 1994 through the VAT Act, No. 106 of 1993. According to Adereti, Sanni & Adesina (2011), it was introduced by the federal government of Nigeria to replace Sales tax. The aim was to increase the revenue base of government and make funds available for development purposes that will accelerate economic growth. Since its inception, 15 out of the 42 sections of the Act have been amended. VAT was originally imposed on 17 categories of goods and 24 services. Such items as basic food, medical and pharmaceutical products, books, newspapers and magazines, house rent, commercial vehicles, spare parts and services rendered by the community and people's banks are VAT free (Fasoranti, 2013).

To ensure VAT effectiveness, certain amendments were made to the existing tax structures. These are as follows:

i. Reduction of the personal income tax burden through increased tax allowances and reduced tax rates.
ii. Monetization and taxation of fringe benefits.
iii. Deduction of Research and Development expenditure from the gross earnings of companies.
iv. Reduction of company tax rate from 40 to 35 percent and consequently to its present 30 percent.
v. Extension of tax free status and tax holidays to companies in rural areas and granting of incentives based on the infrastructure available in the area.
vi. Payment of petroleum profit tax in dollars (Fasoranti, 2013).

The rates of VAT vary from country to country. For example, in EU member states, the minimum standard rate is 15 percent while the maximum is 25 percent. In Nigeria, the rate is as low as 5%. VAT is administered and managed by the Federal Inland Revenue Services.

Advocates of VAT had argued that it is an efficient method of raising revenue and would allow concomitant reductions in income tax. On the other hand, opponents argue that VAT is a regressive tax that puts too much burden on those who are least able to afford its payment. In other words, lower income groups have the greater burdens.

In emphasizing the importance of VAT, Bartlett (2006), described it as the best strategy tax economists have ever devised for raising revenue without investing a lot in enforcement and economic incentives. He also asserted that the impact of VAT on incentives is minimal as it is only applied to consumption. On the contrary, Engen & Skinner (1992) argued that VAT undermines economic growth in two ways: First, it reduces incentives to engage in productive behaviour by driving a large wedge between pre-tax income and post-tax consumption. Secondly, it facilitates the transfer of resources from productive sector to the public sector thereby reducing job opportunities and also leading to diminishing economic efficiency.

Despite the opposing views on VAT, it has helped to raise non-oil revenue in many countries of the world. It has been described as a veritable source of revenue to the government. Besides, VAT is also assuming a significant place in revenue generation in the less developed countries. According to Ajakaiye (2009), VAT contributes about 20 percent to total Revenue in less developed countries. In Nigeria, the contribution of VAT to total tax revenue has been on the increase since 1994. It rose from N7.26 billion in 1994 to N58.5 billion in 2002 and by year 2006. Its contribution was as high as N22l.6 billion. As at 2014, VAT figure in Nigeria was about N935 billion.

The Concept of GDP and Economic Growth

Whereas Nominal GDP is the determination of GDP without taking into account other factors or variables such as inflation, Real GDP is the sum of the value-added in the economy during a given period or the sum of incomes in the economy during a given period, adjusted for the effects of increasing prices in inflation (Daferighe & Aje, 2009). The scholars went on to infer that Nominal GDP increases overtime for two reasons: the first is that production of most goods increases overtime. The second is that the Naira (N) price of most goods increases overtime.

For instance, Ugbede, Otache & Umar (2012) in a study on the impact of commercial banks credit on Nigeria's GDP, discovered that commercial banks credit has a high positive impact on the nation's GDP. This meant that, the higher the volume of commercial banks credit made available, the higher the corresponding GDP. This conclusion failed to take into cognizance the effect of inflation which is a great consequence. For example, their study revealed that there was an outrageous increase in GDP between 1980 (N31 ,547million) and 1981

(N205,2l3million). Within this period, the CBN report (2007) had it that inflation rate rose from 9.9 percent to 20.9 percent, an increase of about 11I percent.

Therefore, the increment in GDP to some extent was accountable by rise in price (inflation). Hence, in other to measure production and its change overtime, the effect of inflation or increasing prices need to be eliminated. The foregoing, presupposes that in the determination of GDP growth from one year to another, Real GDP gives a more accurate view of the economy. Consequently upon the foregoing, this study focused on Real GDP rather than Normal GDP.

Economic growth according to Dwivedi (2004) is a sustained increase in per-capita National Output or Net National Product over a long period of time. It implies that the rate of increase in total output must be greater than the rate of population growth. Real Gross Domestic Product is arrived at when we factor in inflation in the value of the Nominal Gross Domestic Product.

According to Ekpo & Umoh (1998), the Nigerian economy has had a truncated history in the period 1960-70." Gross Domestic Product (GDP) recorded 3.1 percent growth annually. During the oil boom era (roughly 1970-78), GDP grew positively by 6.2 percent annually, a remarkable growth. However, in the 1 980s, GDP had negative growth rates. In the period 1980- 1997 which constitute the period of structural adjustment and economic liberalization, the GDP responded to economic adjustment policies and grew at a positive growth rate, except for the period 1980-1988 where industry and manufacturing grew negatively by - 3.2 per cent and - 2.9 percent respectively.

Ekpo & Umoh (1998), opined that the contribution of agriculture to GDP, which was by 63 percent in 1960, declined to 34 percent in 1988, not because the industrial sector increased its share, but due to neglect of the agricultural sector. It was therefore not surprising that by 1975, the economy had become a net importer of basic food items. The apparent increase in industry and manufacturing from 1978-1988, was due to activities in the mining sub-sector, especially petroleum.

The economy never experienced double-digit inflation during the 1960s. By 1976 however, the inflation rate stood at 23 percent. It decreased to 11.8 percent in 1979 and jumped to 41 percent and 72.8 percent in 1989 and 1995 respectively. By 1998, the inflation rate had however, reduced to 9.5 percent from 29 percent in 1996 (Oriakhi & Ahuru, 2014).

From 2003 to 2007, Nigeria implemented an economic reform programme known as National Economic Empowerment & Development Strategy (NEEDS). The purpose of NEEDS was rates of 0% and 100%. Professor Laffer concluded that a 100% tax rate raises no revenue in the same way that 0% tax rate raises no revenue.

This is because at 100% rate, there is no longer incentive for a rational taxpayer to earn any income, thus the tax raised will be 100% of nothing. It follows that there must exist at least one rate in between where tax revenue would be at maximum.

Arthur Laffer attributes this theory to two scholars- Ibn Khaldum and John Maynard Keynes. One potential result of this theory is that there is an optimal tax rate that encourages savings, investment, labour, supply and productivity. And as such, increasing tax rate beyond this optimal rate will become counter- productive for raising further tax revenue because of diminishing returns (Laffer, 2004).

Ibn Khaldun Theory of Taxation: This theory was explained in terms of two different effects. These are, the Arithmetic effect and the Economic effect which VAT rate have on revenue. The two effects have opposite result or revenue in case the VAT rate is increased or decreased. According to the Arithmetic effect, if VAT rates are lowered, the VAT revenue will be lowered by the amount of the decrease in the rate. The reverse is the case for an increase VAT rates (ishiahi, 2006). The Economic effect however, recognized the positive impact that a lower VAT rate has on work, output and employment and thereby the tax base, by providing incentives to increase these activities. At a very high VAT rate, negative Economic effect dominates positive Arithmetic effect, and the VAT revenue declines (Ishiahi, 2006).

Empirical Studies

Salami, Apelogun, Omidiya & Ojoye (2015) empirically investigated the Impact of Taxation on the Economic Growth of the Nigerian economy from 1976-2006. The study employed the use of both single and multiple regression analysis of the Ordinary Least Squares (OLS) method to analyze data generated from the CBN Statistical Bulletin. Their study found out that the explanatory variables of PPT, CED, VAT and CIT. HAD significant impact on the economic growth of Nigeria (proxied by RGDP).

In their study to assess the long-run equilibrium relationship between the Tax Revenue components and Economic Growth in Nigeria, Ihendinihu, Jones & Ibanichuka (2014), used Time Series data on different types of taxes and real GDP from 1986-2012. Bounds testing technique was employed to analyze the data generated from government official sources. The analysis results showed that Total Tax Revenue had significant effect on Economic growth, which explained about 73.4% of the variation in real GDP. CIT. EDT and Other Tax Revenue (OTR) were also found to have significant influence on Economic Growth.

Ihenyen & Mieseigha (2014) studied Taxation as an Instrument of Economic Growth in Nigeria using Time Series data from 1980 through 2013 sourced from the CBN Statistical Bulletin. A linear model of CIT, VAT and Economic Growth (proxied by GDP) were extracted and analyzed using the Ordinary Least Squares (OLS) technique. The results suggested that the hypothesized link among CIT, VAT and Economic Growth existed in the Nigerian context.

In an attempt to examine the Impact of various Taxes on the Economic Growth of Nigeria, Ebiringa & Erneh (2012) used Time series data from the National Bureau of Statistics spanning I 985-201 1 and the instrumentality of the OLS regression technique to conclude that the various taxes used as independent variables were positively related to GDP, except Customs and Excise Duties (CED) that was negatively related to GPD. This implied that an inverse relationship existed between CED and Economic Growth (proxied by GDP).

Chigbu, Akujuobi, & Appah (2012) appraised the causality between Economic Growth and Taxation in Nigeria for the period 1970 to 2009. Secondary sourced data from the CBN Statistical Bulletin were analyzed using econometric and diagnostic models such as Augmented Dickey-Fuller, Granger Causality and Johansen Co-integration tests. The results revealed that taxation affected and did granger cause Economic Growth.

Edame & Okoi (2014) introduced the variable of investment into the equation as they examined the Impact of Taxation on Investment and Economic Growth in Nigeria from 1980 to 2010. The Ordinary Least Squares method of multiple regressions was used to analyze secondary data generated for the study from the CBN Statistical Bulletin and the National Bureau of Statistics. The result showed that 79% of Nigeria's GDP was influenced by taxation, while the remaining 21% was accounted for by the stochastic term. Hence, the researchers were able to conclude that there was a direct significant relationship between taxation, investment and GDP in Nigeria.

In studying the Effects of Tax Revenue on the Economic Growth of Nigeria from 1970 to 2011, Otu & Adejumo (2013) brought in domestic investment, foreign direct investment and labour force together with tax revenue as explanatory variables. Secondary data were generated from the Statistical Bulletin of the CBN and analyzed using the OLS regression technique. The results established that tax revenue, domestic investment, foreign direct investment and labour force all had positive and significant effects on the economic growth of Nigeria.

Some scholars investigated a single Federal tax type instead of multiple Federal tax types. For instance, Izedonmi & Okunbor (2014) empirically examined the contribution of VAT to the Development of the Nigerian economy. The study employed Time series data generated from the National Bureau of Statistics on GDP, VAT Revenue, Total Tax Revenue and Total Federal Government Revenue from 1994 to 2010. Data for the study were analyzed using multiple regression modeling. Their findings showed that VAT Revenue accounted for 92% significant variations in Nigeria's GDP. It also showed a positive but insignificant correlation between VAT Revenue and GDP.

Onaolapo, Fasina & Adegbite (2013) examined the Effect of PPT on Nigeria's economy using secondary data from 1970 to 2010. The OLS technique was used to analyze data generated for the study from the National Bureau of Statistics. In conclusion, the scholars opined that PPT had a positive impact on Economic Growth.

In line with the study conducted by Onaolapo, Fasina & Adegbite (2013), Ogbonna & Appah (2012) investigated the Impact of PPT on the Economic Growth of Nigeria with secondary data collected from the CBN, FIRS from 1970-2010. The Breusch-Godfrey Serial Correlation test tested for auto-correlation, while the Johansen co-integration and Granger Causality test were employed to test for co-integration and causality respectively. The scholars concluded that there was absence of auto-correlation in the series and that the series were cointegrated, It was also found out that there existed an equilibrium relationship between PPT and Economic growth (proxied by GDP) in the long-run.

Furthermore, Jibril, Blessing & Ifurueze (2012) ascertained the Impact of PPT on the Nigerian economy for the period 2000 to 2010. They made use of the OLS regression technique to analyze Time series data collected from the CBN Statistical Bulletin. The scholars were able to find out that PPT impacted positively on GDP used as proxy for Nigeria's economy and that the relationship was statistically significant.

Still on PPT as a single variable, Appah & Ebiringa (2012) investigated the Impact of PPT on the Economic Growth on the Economic Growth of Nigeria. Relevant data were collected from the Central Bank of Nigeria Statistical Bulletin and the Federal Inland Revenue Services from 1970-2010 and analyzed with the use of the Granger Causality model. The results suggested a long-run equilibrium relationship between Economic Growth and PPT. It was also found out that PPT did granger cause GDP used as proxy for Economic Growth in Nigeria.

Yet again, Adegbie & Fakile (2011) studied PPT and the Economic Growth and Development of Nigeria from 1981 to 2007 and collected data from the oil and gas industry, F1RS and the CBN. They used a 5-point likert scale to analyze the primary data generated, while ANOVA was used to analyze the secondary data. Finally, the scholars concluded that there was a significant relationship between PPT and Economic Growth as proxied by GDP in Nigeria for the period of study.

In a similar study, but with the use of another variable by the same researchers, Adegbie & Fakile (2011) examined the Relationship between CIT and Nigeria's Economic Growth and Development for the period 1981 to 2007. They used the GDP to capture the Nigerian economy which was measured against total annual revenue from CIT for the period. The scholars employed the use of chi-square and multiple linear regression analysis to analyze data collected from both primary and secondary sources. With an R^2 of 98.6% and an adjusted R^2 of 98.4%, it was revealed that there was a significant relationship between CIT and Nigeria's Economic Growth and Development. The scholars also found out that tax evasion and avoidance were major hindrances to revenue generation in Nigeria.

Another single tax variable study was conducted by Adereti, Sanni & Adesina (2011). The scholars studied the Relationship between VAT and Economic Growth in Nigeria. Secondary data for the research were generated from the National Bureau of Statistics for the period 1994-2004. A simple regression analysis performed on VAT and Economic Growth (proxied by

GDP) for the period, showed a positive coefficient of VAT, confirming a priori expectation of a positive relationship between VAT revenue and Economic Growth.

Oriakhi & Ahuru (2014) investigated the Impact of Tax Reforms on Total Revenue generated in Nigeria using Time series data from 1981 to 2011. Four Federal income taxes (CIT, CED. PPT and VAT) were used as proxies for tax reforms. The Augmented Dickey-Fuller and the Johansen Co-integration tests showed that the variables were stationary and co-integrated. Finally, the scholars established a positive relationship between tax reforms and total federal income tax in Nigeria.

Ogbonna & Appah (2012) investigated the impact of tax reforms on the Economic Growth of Nigeria and also used Federal taxes like PPT, CIT, VAT, EDT, CED, and PIT as proxies for tax reforms and used GDP as proxy for Economic Growth. Secondary data for the study were generated from the CBN Statistical Bulletin and FIRS from 1994 to 2009. Breusch Godfrey test for auto- correlation, Augmented Dickey-Fuller test for unit root, the Johansen Cointegration test for co-integration and Granger Causality test were all performed on the series of data. From the results obtained, the scholars concluded that tax reforms were positively related to Economic Growth and that tax reforms Granger cause Economic Growth.

The issue of fiscal policy was introduced by Babalola & Aminu (2011). The study focused on Fiscal policy and Economic Growth in Nigeria from 1977 to 2009. A unit root test (ADF) technique for stationarity of the variables and Error Correction Model (ECM) was used to test the short-run effects of the variables. From the results, the scholars opined that direct income tax (used as part of the explanatory variables), have positive statistical significance with RGDP used as proxy for Economic Growth.

Medee & Nenbee (2011) obtained similar conclusions with Babalola & Aminu (2011). Their study centered on an Empirical Investigation of the Impact of Fiscal policy Variables on Economic Growth in Nigeria between 1970 and 2009 using secondary Time series data from the CBN Statistics Bulletin. While adopting the Vector Auto-Regressive (VAR) and Error Correction Model (ECM), the researchers found out that there was a positive impact of tax revenue on the GDP used as proxy for Economic Growth.

In another dimension, Jones, Ihendinihu & Nwaiwu (2015) studied the Relationship between Total Revenue and Economic Growth in Nigeria from 1986-20 12 using time series data. The OLS univariate regression method and the Error Correction Method were used to analyze data for the period generated from the National Bureau of Statistics and the Central Bank of Nigeria statistical Bulletin. The findings of the study showed that total revenue had both short- run and long-run equilibrium relationships with Economic Growth in Nigeria.

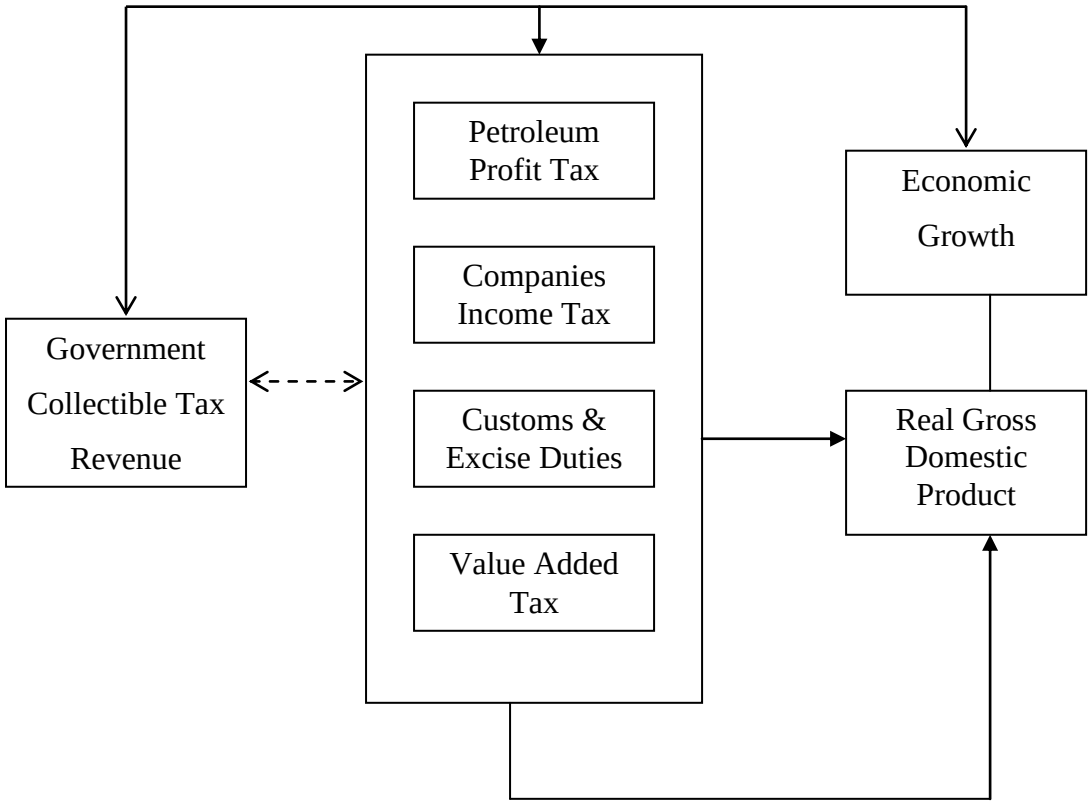
Fasoranti (2013) studied Tax Productivity and Economic Growth in Nigeria from 1970 to 2009 also using Time series data from the Central Bank Statistical Bulletin. With the aid of a multiple regression analysis, the scholar concluded that Total Tax Revenue (TTR) and PPT

were negatively related to RGDP used as proxy for Economic Growth. According to the study only CED and CIT were elastic and positively related to RGDP and as such, were the only two tax types that were sustainable sources of tax revenue.

In a study where non-oil revenue was introduced as one of the explanatory variables, Ojong, Anthony & Arikpo (2016) looked at the Impact of Tax Revenue on the Economic Growth of Nigeria from 1981 to 2007. The scholars had the objectives of examining the relationship between PPT and the Nigerian economy, the impact of CIT and the Nigerian economy and the effectiveness of non-oil revenue on the Nigerian economy. Data for the study were sourced from the CBN Statistical Bulletin, while the Ordinary Least Squares of multiple regression models was used to explain the relationship between the dependent and independent variables. The regression results indicated a very positive and significant relationship between the components of tax revenue, non-oil revenue and the Economic Growth of Nigeria.

Lastly in the same vein, the study conducted by Ayuba (2014) on the Impact of Non-oil Tax Revenue on Economic Growth in Nigeria from 1993 to 2012, used CIT, PIT, CGT, STD, VAT, CED as proxies for non-oil tax revenue, while RGDP was used as proxy for Economic Growth. Relevant secondary data were collected from the Statistical Bulletin of the CBN and analyzed using the OLS regression technique. The researcher was able to conclude that there existed a positive impact of non-oil tax revenue on the Economic Growth of Nigeria.

From the empirical studies, some scholars studied a single tax source, while others studied more than one tax source. Yet, some other scholars in addition to tax revenue introduced other variables like expenditure, investment, labour and non-oil revenue into their study. Nevertheless, there was a significant level of agreement among the scholars that tax has a significant impact on Economic Growth and Total Federally Collected Revenue.



<------> Denote Relationship ←——— Denote effect/Influence

Figure 1: Operational framework of federally collectible Tax Revenue and Economic Growth in Nigeria.

Analytical framework and Methodology

Any theoretical formulation about any form of taxation must be set against the backdrop of five main considerations. First, there is a universal consensus that all 3 tiers of government need lots of revenue to finance public sector expenditures which must be raised from a variety of sources to anchor sustainable development goals, primarily economic growth and development, social development, and environmental protection. Secondly, the details of taxation are guided by two principles; ability to pay and expected benefit. Any tax reforms must be anchored on these two precepts. Against this backdrop, this study seeks to examine the long-run effect of federal government collectable tax revenue on Real Gross Domestic Product from 1970-2015, a period spanning over four decades. We concentrate on this period because it encompasses bouts of significant tax revenue reforms over different natural governance regimes; military interregnums and uninterrupted democratic dispensation (1999-2017).

This longitudinal stretch provides an ample empirical observational base of the effect of economic growth variable such as tax revenue reforms. The research design applied is causal-comparative design which attempts to identify the cause-effect relationship between two or

more variables. The study is to evaluate the effect of overall collectable tax revenue and economic growth and to determine the causal effects of the variables. Time series data (secondary data) of real gross domestic product, total revenue and federally collected tax revenue namely petroleum profit tax, company income tax, custom and excise duties, and value added tax and other taxes spanning from 1970-2015 from the central bank of Nigeria statistical bulletin, CBN 2015 statistical bulletin, annual CBN reports, National Bureau of statistics because of the established integrity of data produced by them over the years. The choice of secondary data and its sources were based on the fact that the data are assumed to be reliable, suitable and adequate for the nature, scope and objectives of the study and are therefore assumed to be error free.

The multiple linear regression (MLR) method of estimation is used to analyse the time series data collected from the CBN statistical bulletin between 1970-2015 as noted by Herbert; Nwaorgu & Nwaiwu (2017). The MLR is one of the most commonly used methods in econometric investigations involving large models.

Model specification

The model specification is based on the theory that federally collectable tax revenue and economic growth of Nigeria (Adegbie, 2010; Jone, 2014; Ihendinihu, Jones & Ibanichuka, 2014). Specifically, the model from related empirical evidence used by Jones, Ihendinihu & Nwaiwu (2015) was adopted but we made modifications. We generated three models to achieve the target of the investigation. Consequently, the model specification was formulated in the following functional forms:

$$RGDP_{it} = \int(PPT_{it}, CIT_{it}, CEP_{it}, VAT_{it}) \quad - \quad - \quad - \quad (i)$$

Where the operational definition are

PPT_{it} = Petroleum Profit Tax "i" for period of the year 't'

CIT_{it} = Company Income Tax "i" for period of the year 't'

CED_{it} = Custom and Excise Duty "i" for period of the year 't'

VAT_{it} = Value Added Tax "i" for period of the year 't'

$RGDP_{it}$ = Real Gross Domestic Product "i" for period of the year 't'

Explicitly, Expanding the functional forms into mathematical forms:

$$RGDP_{it} = \beta_o+\beta_1 PPT_{it}+\beta_2 CIT_{it} + \beta_3 CEP_{it}+\beta_4 VAT_{it} \quad - \quad - \quad (ii)$$

These functional and mathematical forms do not have a random or stochastic variable and since in statistical relationship we deal with random or stochastic variables, that is, variables that have probability distribution, the above functional and mathematical equations are stated in equations that describes how the dependent variables are related to al the independent

variables and an stochastic error term or stochastic disturbance term stated as a multiple regression model as follows:

$RGDP_{it} = \beta_o+\beta_1 PPT_{it}+\beta_2 CIT_{it} + \beta_3 CEP_{it}+\beta_4 VAT_{it}+\mu_{it}$ - - (iii)

Where:

β_o = Intercept term (parameter). $B_1 - \beta_4$ are parameters known as partial regress coefficient or partial slope coefficient (GoJarati, 2006; GaJarati & Porter, 2009; Osuala, 2010). μ_{it} = represents the random or stochastic disturbance term or error term or unexplained variables. It represents the residual term of all the other variables not included in the model. And "it" denotes the value of the variables "I" for the period "t".

Econometric Results and Discussion

The characteristics of the time series data used in the coefficient and regression is presented in the table below:

H_{o1}: There is no significant relationship between federally collected tax revenue and economic growth in Nigeria.

Table 1: Relationship between FCTR and Economic Growth of Nigeria.

		Federally Collectable Tax Revenue	Economic Growth
Federally Collectable Tax Revenue(PPT, VAT, CED,CIT)	Pearson Correlation	1.000	-.185
	Sig (2-tailed)		000
	Df	45	45
Economic Growth(RGDP)	Pearson Correlation	-.185	1.000
	Sig (2-tailed)	000	
	Df	45	45

In order to determine the study variables correlation or regression, the variables were subjected to Pearson Moment Coefficient of correlation analysis.

Table 1 above presents the test results of the relationship between federally collectable tax revenue and economic growth in Nigeria. Specifically, with an r value of -.185, the empirical results indicates the existence of insignificant and negative relationship between federally collectable tax revenue and economic growth. We therefore accept the null hypothesis and conclude that there is no significant relationship between federally collectable tax revenue and economic growth in Nigeria. The empirical results of this study are inconsistent with the findings of Adereti; Sani & Adesina (2011), Akintoye & Tashie (2013), Fasovanti (2013), Ihenyen & Mieseigha (2014), Izedonmi & Okunbor (2014) who report no significant

relationship between federally collectable tax revenue and economic growth. The evidence is however consistent with the results obtained by Ishichi (2006), Jakir (2011), Yibril, Blessing & Ifurwezc (2012), Ihendinihu, Jones & Ibanichuka (2014), Oriakhi & Ahara (2014), Jones, Ihendinihu & Nwaiwu (2015), Ojong, Anthony & Arikpo (2016), Nwaiwu & Tekena (2017) who report significant positive relationship between federally collectable tax revenue and economic growth in an earlier investigation of Nigeria economy (Jones, 2014; Jones, Ihendinihu & Nwaiwu, 2015; Herbert, Nwaorgu & Nwaiwu 2017). Total Revenue with petroleum profit tax, value added tax, company income tax from 1986-2012; 2006-2016, where as we measured it as minimum years of 1970-2015. Despite the methodology differences between the three studies, their findings are largely similar.

H_{02}: Government collectible Tax Revenue does not exert any significant effect on real gross domestic product in Nigeria.

variables/Test statistics	Linear function	Experiential function	Semi-Log function	Double-log function
constant	3.946E8* (.696)	16.783*** (8.879)	-2.225E9*** (-3.767)	9.170*** (4.872)
X_1: Petroleum Profit Tax	3.083E7* (1.390)	.130*** (.413)	3.127E8 (1.491)	.192*** (.267)
X_2: Value Added Tax	-1.6243E7* (-.417)	-.959*** (728)	-1.160E8* (-516)	-.820* (-1.071)
X_3: Custom and Excise Duty	1.204E8** (.184)	-.389* (-.934)	3.365E8** (.916)	1.783*** -1.421)
X_4: Company income Tax	1.412E8* (1.767)	1.272*** (3.810)	6.708E8** (1.946)	6.035*** (4.210)
R	.697	.725	.703	.745
R^2	.486	.526	.494	.555
Adj R^2	.388	.437	-395	.469
Std error of the estimate	3.10854E8	1.03201	3.09338E8	1.00261
F-ratio	5.023***	6.436***	5.820***	4.249***
Durbin-watson	1.873	2.545	1.838	2.417

N/B: *** = significant at 1%; ** = significant at 5% and * = significant at 10% and above "t" value is shown in parenthesis.

Table 2 above indicates the test empirical results of the effect of "federally collectible tax revenue on real gross domestic product in "four functional forms". Based on the number of significant factors and the statistical values of the "Co-efficient of determinations" R^2, "correlation coefficient" R, Adjusted R^2, standard – error of the estimate, Durbin – Watson and F-ratio, the exponential function yields the best fit and is accordingly used as basis for our discussion. The Durbin-watson yielded 2.545. Standard Error of the estimate 1.03201 and Adjusted R^2 of .437. Strikingly, the f-ratio of 6.436 is found to be significant at 1% probability

level and provides sufficient evidence that the model specification is appropriate. The results indicate that federally collectible tax revenue accounts for only 3.56% of the changes in real domestic product with 36.6% due to other factors of the four components of federal collectible tax revenue, only petroleum profit tax, company income tax is showing to exhibit significant positive effect on real gross domestic product. This indicates that improvements in PPT and CIT are most likely to translate into growth in the real gross domestic product of Nigeria. However, VAT and CED are both shown to be negatively correlated with and having insignificant effect on real domestic product of Nigeria. We therefore accept the null hypotheses and conclude that federally collectible tax revenue does not have any significant effect on real gross domestic product of Nigeria.

This finding is inconsistent with the alternative hypothesized positive effect of federally collectible tax revenue on real Gross domestic product with that obtained by Enimola (2009), Fasarani (2013), Onaolapo, Fasina & Adegbite (2013) in Nigeria.

Concluding Remark and Recommendations

This empirical investigation was motivated by the desire to evaluate the relationship between federally collectible tax revenue and economic growth in Nigeria. Again, the confounding evidence on Nigeria's conflicting policies, regarding the effect of federally collectible tax revenue on real gross domestic product. This is underscored by the conflicting results of prior studies that were majorly undertaken in matured economies.

The study used time series data drawn from 1970-2015. the empirical models employed have yielded results which suggest that (a) that there is a strong positive relationship between federally collectible tax revenue and economic growth, and (b) in other words, federally collectible tax revenue have significant positive effect on real gross domestic product in Nigeria. These findings followed a series of robust checks, which is consistent with prior findings.

Given the positive effect and relationship between federally collectible tax revenue and economic growth aggressively pursued by government. The study recommends that:

(1) All tax revenue should be remitted via e-payment system or to a direct payment account belonging to the authorities responsible.
(2) The tribunal recommended by the tax Act of 1993, should be constituted to address and adjudicate on cases of tax evasion and remittance of collectible, especially in the case of company's income tax which reported poor effect on both RGDP.
(3) Those in power should make sure the best, professionals, qualified and trustworthy personal are entrusted with the responsibility of tax administration in Nigeria.

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