

TAX CONTRIBUTION AND ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

This paper examines taxation contribution and economic growth in Nigeria. using annual time series data sourced from the central bank of Nigeria (CBN) Statistical Bulletin throughout the period 1990 - 2015, a linear version of Corporate Income Tax (CIT), Value Added Tax (VAT) and economic growth (GDP) was estimated the use of the ordinary Least square (OLS) technique. The empirical end result shows that the hypothesized link amongst company profits tax, value added tax and financial growth certainly exist in the Nigerian context. For this reason the end footprint provides tantalizing proof that taxation contributes massively to financial increase in Nigeria. This conclusion points to the need for additional measures by government in ensuring that taxpayers do not avoid and evade tax so that income can be properly redistributed in the economy. In addition, regulatory authorities charged with the sole authority of collecting tax should further be strengthened to enforce compliance by taxpayers. Above all, the tax collected should be properly distributed so that economic growth can be properly harnessed.

Keywords: Taxation; Economic Growth & Development; Corporate Income Tax; Value Added Tax; Gross Domestic Product.

Introduction

Nigeria as a nation has the imaginative and prescient of turning into one among the world's 20 largest economies within the 12 months 2020; this obviously is the mind behind the concern attention the present administration is directing at infrastructural development which is critical for financial increase. A evolved economic system is one with the factor to stimulate investment and create wealth, this by way of suggestion offers an surroundings this is business friendly and has the potentials for the actualization of the imaginative and prescient 2020. The favored final results requires huge amount of money to put the economy in a position that stimulates investment, therefore, tax policies need to attract potential investors, and the revenue from tax should be sufficient enough to meet the infrastructural expenses of the government. Apere (2003) notes that taxation is a microeconomic and fiscal policy tool; it entails the switch of sources from the private to the public area for the accomplishment of financial and social desires. It is an device the government uses to measure, access and control the informal sector that dominate developing economies of the world (Wambai & Hanga, 2013).

Taxation is not a new word in Nigeria or the world as a whole. In Nigeria, taxation has been in existence even before the coming of the colonial men or the British. Taxation can be defined as the system of imposing a compulsory levy on all income, goods, services and properties of individuals, partnership, trustees, executorships and organizations by way of the authorities (Samuel & Simon, 2011; Yunusa, 2003). Income tax is one of the dominant factors of sales to all authorities. In Nigeria, it's miles an element to be reckoned with in Federal authorities price range the taxes so amassed come back to the taxpayer in a shape of offerings. This has over the years encouraged or discouraged some activities in the private sector; though, this depends on whether the policy of the government is towards discouraging or encouraging such companies (Ola, 1999). Taxation is recognized as "a very important tool for national development and growth in most societies". It has been viewed as a major vehicle for long term development of infrastructures of the state. A decline in price of oil in current years has led to a decrease in the funds available for distribution to the Federal Government and to the State Governments. The need for state and local governments to generate adequate revenue from internal sources has therefore become a matter of extreme urgency and importance.

This need underscores the eagerness on the part of state and local governments and even the federal government to look for new origin of revenue or to become aggressive and innovative in the mode of collecting revenue from existing sources (Aimurie, 2012). Aguolu (2004) states that though taxation may not be the most important means of revenue to the government irrespective of the importance of revenue derivable from taxation, however, taxation is the most important means of revenue to the government, from the point of view of feeling of being completely sure, and consistency of taxation.

Aguolu (2004) further said that taxation is that's the reason for the most important source of revenue to the government. Because of the built-in power of the people in charge to charge taxes, the person in charge is calm and confident always of its tax revenue ignoring the events. Over time, revenue derived from taxes has been very low and no bodily development genuinely came about, hence the effect on the negative isn't being

felt. It is the view of many people that the loss of revenue because of full-size tax evasion and tax avoidance in Nigeria is due to inefficient and inept tax management. Omorogiuwa (1981) has opined that ineffective tax management is the primary thing responsible for massive scale tax evasion in Nigeria. Philips (1973) corroborates this view when he states that tax evasion is due mainly to administrative ineffectiveness. This study makes a specialty of taxation contribution and financial increase in Nigeria.

The rest of this empirical paper is organised as follows: Section two provides a review of the related literature, theoretical framework, concept and hypotheses. Section three discusses the methodology and model specification. Section four presents the empirical results and discussion. Section five ends up the paper with summary, conclusion and recommendations.

Literature Review

The theory of taxation could be based on the activities between tax liability and the state, the primary purpose of taxation is to generate revenue for the government to settle its expenditures and for the provision of social amenities and welfare for the populace. According to Ogbonna & Appah(2012), this reasoning justifies the imposition of taxes for financing state activities and for the provision of a basis for apportioning the tax burden between members of the society. They see the socio political theory of taxation as a theory that advocates for a tax system which is not designed to serve individuals but one that cures the ills of the society as a whole. The society is made up of individuals but is more than the sum total of its individual members; consequently, the tax system should be directed towards the health of the society as a whole, since individuals are integral part of the broader society (Chigbu, et.al, 2012).

Bhartia (2009) asserts that the expectancy theory of taxation is such that every tax proposal passes the test of practicality and must be the sole consideration before the tax authorities in a bid for tax proposal. It strongly emphasizes that the economic and social objective of the state is considered irrelevant since it is meaningless to have a tax that cannot be levied and effectively collected. The benefits-received theory assume an exchange or contractual relationship linking the state and the tax-payers, certain goods and services are provided by the state and the cost of such goods and services are contributed in the proportion of the received benefits, thus, the benefits received present the basis for distributing the tax burden in specific manner. This theory overlooks the possible use of the tax policy for bringing about economic growth or stabilization (Chigbu, et.al, 2012).

They see the cost of service theory as very similar to the benefits-received theory, the theory emphasize semi commercial relationship linking the state and the citizens to a greater extent. The implication according to Chigbu, et.al, (op.cit) was that the citizens are not entitled to any benefits from the state and if they do receive any, they must pay the cost thereof. In this theory, costs of services are scrupulously recovered unlike the benefits-received theory where a balanced budget is implied. Another theory of interest is the ability to pay theory, the principle in this taxation holds that taxes imposed on tax-payers should be based on the progressive tax approach which maintains that taxes

should be levied according to a tax-payer's ability to pay. This system of taxation requires that higher earning persons pay taxes higher than those with lower income. The basic principle of this explanation (of why something works or happens the way it does) is that the heavy load of taxation should be shared by the members of the society on the way of basic truth of equity and justice and that this principle necessitates that tax burden is apportioned according to their relative ability to pay. Adam Smith is the brain behind the principle of equity and justice, he advocates that the amount of tax payable should be equal, this by implication means that tax payable is in proportion to earned income. Equity and justice is assumed only when the tax system is based on the ability of the tax payer to pay the amount levied as tax liability.

Economic growth and development are backed by some theoretical frameworks, one of which is the Harrod-Domar model which was developed independently by Sir. Roy Harrod in 1939 and Evsey in 1946, it is a model that makes obvious the rate of economic growth in an economy, however, emergence of economic growth and development theories can be traced backed to Adams Smith's Wealth of Nations. Adams Smith opines that the wealth of a nation depends on division of labour and is limited by the limits of division of labour. However, a later postulation by Richardo, Milthus and Mill took definite shapes in correcting Adam Smith's exposition with further analyses which took a decade eventually surpassed the Smithian view. The concept of taxation has been several viewed by academies differently though pointing toward same direction, Wambai & Hanga, (2013) opine that taxation is a compulsory levy by the government through its agent on the profits, income, or consumption on its subjects or citizens. It is a compulsory contribution made by individuals and organization towards defraying the expenditure of government (Dandago and Alabede 2001). It plays a very important role in the economic life of a developing country. Today, Nigeria is indeed in dire need of effective and efficient tax system in order to generate enough revenue that will stimulate economic growth (Oji, 2000). According to Olusanya, et al (2012), taxation may be seen as a threat to individual's proposed standard of living or even business proposed revenue generation, but to the government and the fiscal need for taxation, it is the pillar and facilitator of development. In national development, taxation is increasing, and the introduction of new technology has stimulated continuous economic growth and development.

The real purpose of taxation is to take buying power from tax payers so that taxpayers give up control over economic valuable supplies and make them available to the state. It is a fiscal policy instrument which the government manipulate to achieve macroeconomic objective. This objective could be an expansionary one directed at reducing the rate of national unemployment, government through tax incentives can stimulate investment as the tax liability on investors is reduced and more money becomes available for investment purposes thus, reducing the level of poverty as more unemployed people becomes gainfully employed, this for sure is a signal for economic development. Taxation ensures redistribution of income and wealth, thus, a tool for the achievement of socially desirable goal (Olakunri, 2000).

Taxation is not a new word in Nigeria or the world as a whole. In Nigeria, taxation has been in existence even before the coming of the colonial men or the British. Taxation can

be defined as the system of imposing a compulsory levy on all income, goods, services and properties of individuals, partnership, trustees, executorships and companies by the government (Samuel and Simon, 2011; Yunusa, 2003). Anyafo (1996) defined taxation as a compulsory payment made by individuals and organization to relevant Inland Revenue authorities at the federal, state or local government level. Tobansi-Ochiogu (1994) sees taxation as a levy imposed by the government against the income, profit or wealth of the individual, partnership, corporate organization. Ola (1999) defined taxation as compulsory levy imposed on a subject or upon his property by the government to provide security, social amenities and create conditions for the economic well-being of the society. A precise definition of taxation by Farayola (1987) and Okon (1997) is that taxation is one of the sources of income for government, such income as used to finance or run public utilities and perform other social responsibilities. According to Adams (2001) taxation is the most important source of revenue for modern governments, typically accounting for ninety percent or more of their income.

Taxes are classified into direct and indirect. Yunusa (2003) and Aguolu (2004) defined direct taxes as taxes levied on the income of individual, group of individuals, and business firms and are paid directly by the person or persons on which it is legally imposed by the tax authority. Direct taxes can be classified into Personal Income tax, Company Income tax, Capital Gain tax, Petroleum Profit tax, and Capital Transfer tax. Indirect taxes are taxes levied on expenditure that is, goods and services. These taxes are paid as part of payment for products and services bought by the very best users or consumer who use a product or service. The incidences of this type of taxes are usually borne by the third party. Indirect taxes can be classified into the following: Import duties, Export duties and Value Addedtax (Yunusa, 2003).

Income Tax in Nigeria: Nature and History

Income tax is one of the major sources of revenue to all government. In Nigeria, it is a factor to be reckoned within Federal Government's budget the taxes so collected come back to the tax has over the years encouraged or discouraged some activities in the private sector; though, this depends on whether the policy of the government is towards discouraging or encouraging such companies (Ola,1999).According to Azubike (2007) and Samuel and Inyada (2010), the history of taxation in Nigeria can be dated back to the era of Sahara trade and the introduction of Islamic religion in Nigeria between 800AD and 1400AD. The rulers in the Northern Nigeria were known as "Safawa", Kings, who grew rich due to gifts and levies paid to them by their subordinates as taxes on cattle and agricultural crops. The Islamic religion later introduced various forms of taxes namely: Zakat, Kurdin Kasa, Shukka Shukka, Jangalia, Kharant etc. The Zakat was imposed on educational and charitable purposes. In the south, the Obas and Ezes relied on tributes, arbitrary levies, special contributions at special festivals or events, fees, present, all collected through the head of families as it system of taxation. The first legal backing of taxation was in 1904 when Sir Frederick Lugard introduced the Native Revenue Proclamation.

His proclamation was further enhanced in 1906. After independence in 1960, the government enacted three major tax laws, namely: Federal Income Tax Act (FITA),

1961; Income Tax Management Act (ITMA), 1961 and Companies Income Tax Act (CITA), 1961. The companies Income Tax Act (CITA) 1961 was applied to companies in Nigeria. It was later repealed and replaced with the companies Income Tax Act (CITA) 1979 with amendment in 1993 up to 1999. The Act is contained in chapter 60, Laws of the Federation of Nigeria (LFN) 1990. It is the sole responsibility of the Federal government to administer corporate Income taxes in Nigeria.

The Principles of Taxation

Adam (1910) maintained in his book “The Wealth of Nations” gave the most important set of principles, which are also known as the “cannon of taxation” which are still accepted generally by tax administrators all over the world. The principles of taxation are outlined below:

- i. **Equity/Equality of Sacrifices:** Adam Smith maintained in these principles that each tax payer should contribute to the support of government also referred to as “state” as nearly as possible in proportion to his ability to pay. For example 10 to 20 percent of all income above a certain figure, since there are some citizens whose incomes were so low that they were obviously to pay any taxes. Similarly, Musgrave and Peacock (1984) conceived the principles of equity as equal proportion of taxation on every income that is; in principle everyone should pay the same proportion of his income as tax. This means proportional taxation or some percentage on all incomes and therefore rejected progressive taxation i.e. (higher tax rates on higher incomes). It also means equal taxation of earned and investment incomes, existing private wealth and capital are exempted, taxation is limited to income only. In the same view, Prest and Barr (1985) said, equal amount per head should be charged and collected. It is obviously much easier to run a system under which everybody pays say ten pounds per head than one which the amount due varies according to economic circumstance.
- ii. **The basic truth of Feeling of being completely sure:** This way of thinking/basic truth strongly expresses that the taxpayer should know how much tax he has to pay, and when it is to be paid. Such information should be adequately accurate and clearly stated by the tax regulations. Thus, neither the amount nor the time of payment should be the subject of arbitrary decisions by the tax officials.
- iii. **The basic truth of Convenience:** Taxes should be collected at a time convenient for the taxpayers. For example, the Pay as You Earn income tax on salaries and wages deducted weekly or monthly as the case may be as income is received, is a good example of the principle of convenience. Convenience as a principle of taxation has to do with the enforcement of tax and administration. Eckeston (1983) has said that a good tax should not impose taxes that are impossible to enforce even when people comply to tax laws voluntary, the government should verify the tax payments, if not the tax becomes an invitation to break the law. Adam (1910) has pointed out that every tax ought to be levied at the time or in the manner in which it is likely to be convenient for the contributor to pay it. Using this principle as an example, one can argue that the convenient time for payment of tax for West African

- farmers is during the harvest time.
- iv. **The Principle of Economy:** The principle emphasizes that the cost of assessing and collecting a tax should be small in relation to the revenue so collected i.e. economy should be the yardstick so that the cost of collecting tax should not be excessive. For example, if the expenses incurred in the course of collecting a tax exceed even 50 percent of the yield, then such taxes do not conform to the principle of economy.

Objectives of Taxation

Although the tax structure in the various developing countries differs widely, the objectives of taxation in these countries are virtually the same. Unfortunately however, the objectives of the tax system and the relationship between these objectives are hardly clearly stated (Cutt, 1969). This does not only makes tax administration difficult but also give room for tax evasion with the attendant effects on economic development. Cutt (1969) therefore, state that a brief discussion on the objectives of taxation as outline below would be a gainful exercise.

- i. **Raising of Revenue:** The classical function of a tax system is the raising of the revenue required to meet government expenditure. This income is required to meet the expenditure which is either the provision of goods and services which members of the public cannot provide such as defence law and order to the provision of goods and services which the federal and state governments feel are better provided by itself such as health services and education.
- ii. **Wealth Redistribution:** In modern times, great emphasis has come to be placed on the objective of redistribution of wealth. This has two quite distinct forms. The first is the doctrine that taxation should be based on ability to pay and is summarized by the saying that “the greatest burdens should be borne by the broadest backs.” The second form presupposes that the present distribution is unjust and concludes that this should therefore be undone. This second principle sees confiscation as a legitimate objective of taxation.
- iii. **Economic Price Stability:** It has been said that the most fundamental reason a government has for taxing its citizens is to provide a reasonable degree of price stability within the nation (Summerfield, 1980). Most spending by the public and private sectors without taxes generates high demand, which is inflationary. In such a situation, the basic function of taxation is to reduce private expense in order to allow government to spend without causing inflation. So, taxation is basically a deflationary measure. On the other hand , when aggregate demand is lower than the deserved level, government has two options which are to increase government spending with increasing taxes or to reduce taxes while leaving government spending stable.
- iv. **Economic Growth and Development:** The overall control or management of the economy rests on the central government and taxation plays an important role in this direction. In addition to maintaining reasonable price stability, governments are determined to promote the near-full employment of all the resources of the country (including human resources i.e. labour) and ensure a satisfactory rate of economic growth.

Economic growth and development programmes are geared towards raising the standard of living of the masses of a country through the improvement of their economic and social conditions. Taxation in one way discourages, postpones or reduces consumption and encourages saving for private investments. This is only possible when the basic necessities of life including security, law and order, education and communication are provided by government, hence, the national development plans of developing countries are considered to be important. This objective will be of great assistance to Nigeria where there is mass unemployment of labour force and economic resources. According to Soyode and Kajola (2006) the responsibilities or objectives of government using taxation are as follows:

- (a) **Revenue Generation:** The primary objective of a modern tax system is generation of revenue to help the government to finance ever-increasing public sector expenditure.
- (b) **Provision of “Merit Goods”:** An important objective of tax system is the promotion of social, economic and good governance through provision of merit goods. Examples of merit goods are health and education. These must not be left entirely to private hands though, private participation should be encouraged. Private enterprises will push the cost of providing education and health services beyond the reach of common people if left entirely in their hands.
- (c) **Provision of “Public Goods”:** Provision of commonly consumed goods and services for which an individual cannot be levied the cost of the goods or services consumed are one of the functions of government. Examples of public goods include: Internal security through maintenance of law and order by police and other security agencies; External security through defence against external aggression by Army, Navy and Air Forces, and Provision of street lights and roads.
- (d) **Discouraging consumption of “Demerit Goods”:** Tax can be used to discourage consumption of demerit or harmful goods like alcohol and cigarette. This is done to reduce external costs to the society. These external costs include health risks and pollution.
- (e) **Redistribution of Income and Wealth:** Tax system is a means of ensuring the redistribution of income and wealth in order to reduce poverty and promote social welfare. For example, taxation can be used as economic regulator for promotion of economic stability and sustainable growth through fiscal policy. Government also has responsibility for fighting inflation, unemployment and creating a sound infrastructure for business. A tax system is one of the means of achieving this.
- (f) **Harmonization of Economic Objective:** Harmonization of diverse trade or economic objectives of different countries is one of the modern objectives of tax systems. For example, tax system can be used to achieve the philosophy of the single market in ECOWAS or Africa so as to provide for the free movement of goods/services capital and people between members states.

Nigeria's Major Taxes

In order to avoid multiple collections of taxes from the same taxpayer, at least in theory, taxes of each tier of government in Nigeria have been clearly defined by the Joint Tax Board (JTB) as follows:

- (a) Federal Taxes: Federal Taxes includes: Companies Income Tax, Custom and Excise Duties, Value Added Tax, Education Tax. Personal Income Tax in respect of: Armed Forces, Police, Nonresident individuals and companies, Staff of Nigeria Foreign Service and Individuals resident in the Federal Capital Territory.
- (b) State Taxes: Personal Income Tax, Road Taxes, Pools betting and lotteries, Business premises registration, Development Levy, Naming of street registration in state capitals, Right of occupancy on land owned by state, and Market taxes on state financed taxes.
- (c) Local Government Taxes: Shops and Kiosks rates, Tenement rates, On and off liquor license fee, Slaughter slab fees, Marriage, Birth and death Registration Fees (Rural Areas), Right of Occupancy on land in rural areas, Market Taxes and Levies, Motor Park Levies, Domestic Annual License Fees, Bicycle, Truck, Canoe, Wheelbarrow, and Cart Fees, Cattle tax payable by cattle farmers only, Merriment and Road Closure Levy, Radio and Television License Fees (other than radio and television transmitter), Vehicle Radio License (Local Government Registration of the vehicle), Wrong Parking Charges, Public Convenience and Refuse Disposal, Customary burial ground permit fees, Religious Place Establishments Permit Fees and Signboard and Advertisement Permit Fees.

Problems of Tax Administration in Nigeria

According to Soyode and Kajola (2006) problems of tax administration in Nigeria are as follows:

- (1) Tax Evasion: Tax evasion is a deliberate and willful practice of not disclosing full taxable income so as to pay less tax. In other words, it is a contravention of tax laws whereby a taxable person neglects to pay the tax due or reduces tax liability by making fraudulent or untrue claims on the income tax form. Tax is evaded through different methods some of which include the following: Refusing to register with the relevant tax authority; Failure to furnish a return, statement or information or keep records required; Making an incorrect return by omitting or understating an income liable to tax refusing or neglecting to pay tax; Overstating of expenses so as to reduce taxable profit or income, which will also lead to payment of less tax than otherwise have been paid; A taxpayer hides away totally without making any tax return at all and entering into artificial transactions.
- (2) Tax Avoidance: Tax avoidance has been defined as the arrangement of tax payers' affairs using the tax shelters in the tax law, and avoiding tax traps in the tax laws, so as to pay less tax than he or she would otherwise pay. That is, a person pays less tax than he ought to pay by taking advantage of loopholes in a tax levy. Tax can be avoided in various ways: Incorporating the tax payer's sole proprietor or partnership into a limited liability company; the ability to claim allowances and reliefs that are available in tax laws in order to reduce the amount

of income or profit to be charged to tax. Minimizing the incidence of high taxation by the acquisition of a business concern which has sustained heavy loss so as to set off the loss against future profits; Minimizing tax liability by investing in capital asset (for instance through the new form of corporate financing by equipment leasing), and thus sheltering some of the tax payers income from taxation through capital allowance claims; Sheltering part of the company's taxable income from income tax by capitalizing profit through the issue of bonus shares to the existing members at the (deductible) expenses to the company; Creation of a trust settlement for the benefit of children or other relation in order to manipulate the martinet tax rate such that a high income bracket tax payer reduces his tax liability; Converting what would ordinarily accrue to the tax payer (employee) as income into capital gain (i.e Compensation for loss of office) the advantage of the employer and employee; Manipulation of charitable organizations whose affairs are controlled and dominated by its founders thus taking advantage of income tax exemption; Buying and article manufactured in Nigeria thereby avoiding import duty on imported articles; Avoiding the consumption of the articles with indirect taxes incorporated in their prices e.g. tobacco.

Conceptual Framework

Tax is a compulsory payment made by all concerned to the government of a country from which essential services are rendered, without necessarily offering an explanation on how the money generated was spent or equating the services with the money collected. Anyanwu (1997) defined tax ``as a compulsory levy by the government on individuals, companies, goods and services to raise revenue for its operations and to promote social equity through the redistribution of income effect of taxation``. Value added tax is an indirect tax wherein a amount of cash is levied at a particular level in the sale of a products or services. Olatunji (2009) give an explanation for that the stroll in the direction of VAT system in Nigeria started with popularity of the advice of a take a look at organization on direct taxation in November, 1991. The choice to accept the recommendation changed into made public in the 1992 budget speech of the Head of State. This resulted in putting in the modified value added Tax (MVAT) committee on 1st June, 1992 as advocated through the examine institution. The recommendation of the committee that VAT must accept via an impartial commission became rejected through the authorities. Tax administration turned into however given to Federal Inland Revenue Services, which changed into already charged with the obligation of administering maximum different taxes in Nigeria. The creation of VAT in Nigeria via Decree102 of 1993 marks the phasing out for the Sales Tax Decree No. 7 of 1986.

The primary legislative enactment on companies' income Tax in Nigeria turned into added in 1939 via the instrumentality of the company income Tax Ordinance. before the law came into effect, the regulation of each personal and commercial enterprise taxation become vested in a single and the identical felony regime. The companies' income tax Ordinance vested management of the tax in a commissioner to be appointed for that reason through the Governor and the proceeds from the tax have been to be remitted to the authorities' treasury to form a part of the overall sales of Nigeria. This ordinance

turned into however determined to be useless because it didn't carry individuals into tax net. because of this weakness, The company income Tax Ordinance 1939 turned into repealed a 12 months after its passage by the income Tax Ordinance 19405 the Ordinance regulated both non-public and business taxation and carried on for 21 years whilst the second separate enactment on companies earnings tax become once more enacted.

The second one time a regulation was handed aimed toward the specific taxation of company income was in 1961. This changed into the company income Tax Act No. 22 1961 which was very crucial event regulation, first, because from the date it got here into pressure, the provisions of the Income Tax Ordinance and the Income Tax Administration Ordinance together with all regulations made there below ceased to have impact with recognize to companies earnings tax. Second the Act installed the Federal Board revenue as a statutory frame and vested it with the strength to administer companies income Tax.9- in addition to all federal taxes. Tax at the income of agencies turned into imposed by using phase 17 in admire of income accruing in, obtained from, brought into or received in Nigeria from:

- a. Any exchange or business;
- b. rent or any top class arising from a right granted to any other person for the use or profession of any property;
- c. Dividends hobby, discounts, prices or annuities;
- d. any other amount now not falling within the above classes but qualifying as annual income or gains or any amount deemed to be profits or income underneath the Act or arising from someone or provident fund below the profits Tax control Act 1961.

Empirical

Research numerous research have tested taxation as an device of financial development in one of a kind countries with diverse strategies. The outcome of the investigations however, indicates diploma of relatedness inside the effects. The tax reform in Nigeria is spearheaded through the Federal Inland revenue provider that's geared to achieving greater revenue series, voluntary and willing compliance and breaking the lengthy piercing phobia among taxpayer sand tax creditors. As an instance in a study via Wambai & Hanga, (2013) on taxation and social development in Nigeria: tackling Kano's hidden economy, they discovered that the mindset of the government on taxation need to change and recommends a tax system that concentrate on establishing simplicity, predictability, and neutrality. Chiumia & Simwaka, (2012) studies analyses the effect of taxation in sub-Saharan Africa. They found that taxes levied on personal and corporate income reduces economic growth. From their study, one may be tempted to conclude that the tax structure is largely irrelevant in less developed economies, but embedded in an effective tax system are benefits for both the taxpayers and the government. Tosun & Abizadeh (2005) studied economic growth and tax charges in OECD countries from 1980 to 1999; their study reveals that economic growth measured by GDP per capital has significant effect on tax mix of GDP per capita.

The study recorded a decline in shares of payroll, goods and services and positive growth from personal and property taxes. Olusanya et al, (2012) investigated taxation as a fiscal

policy instrument for income redistribution among Lagos state civil servants using spearman's rank correlation coefficient, the study found a positive relationship between tax as a fiscal policy instrument and income redistribution. In the observe on taxation and economic growth of the United state, Engen & Skinner (1996) observed a modest impact on the order of 0.2 to 0.3 percentage factor differences in growth rate in response to foremost tax reform. Their findings propose that such minor effect cumulatively may have large impact on the standards of residing.

Adereti et al, (2011) explored value added tax and economic growth in Nigeria, their end result discovered no causality existing among GDP and VAT revenue, and a high-quality and sizable correlation between VAT revenue and GDP. Saez, (2004) studied direct or indirect tax contraptions for redistribution: quick-run versus long-run, the findings famous that in an extended-run context individuals respond to tax incentives thru the occupational margin, which is in assessment to a quick-run state of affairs in which people are caught into their occupations and might handiest modify labour deliver on the job. Worlu and Emeka (2012) tested tax revenue and economic development in Nigeria the usage of the three stage least square estimation method, this observed that tax revenue stimulate economic growth through infrastructural development, it highlight the channels thru which tax revenue influences on economic growth in Nigeria and additionally that tax revenue has no dependent impact on growth thru infrastructural development and foreign direct investment however just allowing the infrastructural development and foreign direct investment to undoubtedly respond to growth in output.

Ferede & Dahlby, (2012) test the impact of the Canadian provincial governments' tax rates on economic growth using panel data covering the period from 1977 to 2006; the study found that higher provincial statutory corporate income tax rate is associated with lower private investment and slower economic growth. Their empirical estimation suggested that a 1 percent point cut in the corporate tax rate is related to a 0.1-0.2percentage point increase in the annual growth rate. Their findings indicate that sales tax boosts provincial investment and growth when switched from a retail sales tax to a harmonized sales tax with federal value added. Nwakanma & Nnamdi, (2013) examined taxation and national development with the least square methodology and specification on the lin-log model of human development index. Their findings reveals that Petroleum Profit Tax, Company Income Tax and Excise Tax respectively exhibit a positive relationship with the level of national development, and a negative relationship linking human development index and corporate tax. Dackehag & Hansson (2012) studied how statutory tax rates on corporate and personal income affect economic growth using panel data from 1975 to 2010 for 25 rich OECD countries, they found a negative influence on economic growth from both taxation of corporate and personal income. Their study revealed a more robust economic growth in correlation with corporate income tax. Koester and Kormendi, (1989) construct measures on average and marginal income tax rates by regressing tax revenue on GDP, and they summed the measures in a growth regression, they detect no statistically significant relationship linking taxes and economic growth.

In their finding, tax rates seem to have a negative impact on the growth rate, though with

marginal tax rate having negative effect on the level of activity. However, contrary to Koester and Kormendi findings, Padovano & Galli, (2001) constructed a similar tax measures and included a dummy slope to allow changes in tax rates over time, they found tax rates as having negative and statistical significance on growth. Their study in 2002 eventually confirms a negative correlation between marginal tax rates and economic growth, and average tax taxes to have significant impact on economic growth and development.

Xing, (2011) in his study, does tax structure affect economic growth? He examine the effects of revenue-neutral tax structure and changes on the long-run level of income per capita using panel data for 17OECD countries over the period 1970-2004. The study did not obtain compelling evidence in favour of consumption taxes over income taxes or personal income taxes over corporate taxes. The robust result appears to be that shift in tax revenue towards property taxes are associated with a higher level of income per capita in the long run. Poulson & Kaplan, (2008) studied the impact of tax policy on economic growth in the states within the framework of an endogenous growth model. They implemented the regression analysis to estimate the effect of tax on economic growth inside the kingdom from 1964 to 2004. They discovered a vast bad impact of better marginal tax rate on economic increase. This analysis however, underscores the significance of controlling for regressivity, convergence, and regional impacts in keeping apart the effect of taxes on economic growth within the states.

Methodology

The plan of this paper follows an estimation of a linear regression model. The use of secondary data sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin during the period 2007 through 2015 was employed. The study used Ordinary Least Square (OLS) technique with its Best Linear Unbiased Estimate (BLUE) Property in estimating the parameters of the model. The linear model for this study was estimated based on the empirical studies of Koester and Kormendi, (1989); Xing, (2011); Chiumia and Simwaka, (2012); Ferede & Dahlby, (2012); and Dackehag and Hansson (2012). In line with the above studies we examined taxation as an instrument of economic growth linking Corporate Income Tax (CIT), Value Added Tax with Gross Domestic Product (GDP) in a unifying model.

The model for the study is given as:

$$\begin{aligned} \text{GDP} &= \text{F}(\text{CIT}, \text{VAT}) \dots\dots\dots 1 \\ \text{GDP}_{it} &= a_0 + b_1\text{CIT}_{it} + b_2\text{VAT}_{it} + e_t \dots\dots\dots 2 \end{aligned}$$

Where:

- GDP = Gross Domestic Product
- CIT = Corporate Income Tax
- VAT = Value Added Tax
- a_0, b_1, b_2 = Regression Coefficient
- e_t = Error Term
- it = Time dimension

The importance and focus of this paper is to empirically test the relationship between some variable of taxation corporate income tax and value added tax and economic growth (GDP) in order to agree or disagree whether taxation adds to economic growth in Nigeria.

Results and Discussion

A summary of the results of the Ordinary Least Square (OLS) regressions was presented in the below table.

Table I: OLS Results Variables _

Variables	Key Statistical Indicators				
	Pearson Correlation	f-statistics	t-statistics	R ² Unadjusted	Adjusted R ²
CIT	.762	41.666	6.455	.923	.891
VAT	.495	9.7490	3.122	.845	.820
Constant	1.00		-2.5888		

From the results analyzed in table I above, the independent variables (CIT and VAT) were perfectly correlated and hence there is multi-collinearity in the result with the dependent variable (GDP) constant with 1, Corporate Income Tax (CIT) at .762 and Value Added Tax (VAT) at .495. In evaluating the goodness of fit in the model, the unadjusted R-Squared of .923 means that 92.3percent of CIT has been explained by the GDP and .845 of VAT means that 84.5 percent of VAT has been explained by the GDP. The values for CIT and VAT are high and impressive since the unexplained variation is just 7.7percent (1 – .923) and 15.5percent (1 – .845) respectively. With the adjusted R² of .89.1, it means 89.1 percent is the true value of CIT that constitute the GDP which is high and impressive since the unexplained variation is just 6.4 percent (1 – .936). Also, with the adjusted R² of .820, it means 82.0 percent is the true value of VAT that constitute the GDP which is high and impressive since the unexplained variation is just 18 percent (1 – .820). In computing the Analysis of Variance (ANOVA) in the regression model, the f-statistics test computed for CIT showed a figure of 41.666 and VAT showed a figure of 9.7490 at 5% level of significance.

Therefore with all these aforementioned explanations and analysis, it therefore implies that CIT and VAT have significant relationship with economic growth in Nigeria. The Durbin Watson (DW) test with values .722 and .121 for CIT and VAT respectively revealed that there is no existence of first order serial correlation in the model. Thus, the empirical results are suggestive; indicating that the hypothesized link between Corporate Income Tax (CIT), Value Added Tax (VAT) and Economic Growth (GDP) indeed exist

in the Nigerian context. The finding of our study implies that taxation contributes to economic growth in Nigeria.

Conclusion and Recommendations

This paper has explored the link between some parameters of taxation (Corporate Income Tax and Value Added Tax) and Economic Growth (Gross Domestic Product) using annual time series data spanning 2007 through 2015 in a unifying linear model. By focusing on a possible measure of taxation that has not been studied previously in other countries, this paper adds to literature in Nigeria that attempts to understand whether taxation contributes to economic growth in Nigeria. The empirical results offer teasing and attractive event(s) that prove that taxation is a tool of economic growth in Nigeria. This conclusion points to the need for additional measures by government in ensuring that taxpayers do not avoid and evade tax so that income can be properly redistributed in the economy. In addition, regulatory authorities charged with the sole responsibility of collecting tax should further be strengthened to enforce compliance by taxpayers. Above all, the tax revenues should be properly distributed so that economic growth can be harnessed, especially in providing basic social amenities as well as infrastructures in Nigeria.

The following recommendations are made:

- (a) There is an urgent need for the federal government to clearly state the basic objectives of its tax system and the relationship between these objectives. This will assist to give the tax administrators a sense of direction and make the tax payer see clearly the reasons he/she should pay his/her tax as at when due.
- (b) The tax collection mechanism used by tax officials must be free from corruption and embezzlement. If this is not done the revenue collected may not reach the desired point.
- (c) The Federal Government, state governments and local governments should urgently fully modernize and automate all its tax system, improve tax payer convenience in the assessment and payment process whilst at the same time entrenching effective and modern human resource management practices in the tax authorities.
- (d) Judicious use of tax payers money should be made and be seen to have been properly utilized. This will encourage tax payers to continue to pay taxes.
- (e) Effort should be made by the Federal, State and Local Government to diversify the main revenue source from oil to other sectors of the economy such as agriculture, extractive industries in order to attract direct and indirect taxes.

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