TAX REVENUE AND ECONOMIC DEVELOPMENT IN NIGERIA

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Abstract

The main aim of this research is to analyse the relationship between total tax revenue and economic growth in Nigeria. Time series data on different types of total tax revenue and economic development from 1986-2016 were collected from Central Bank of Nigeria statistical bulletin, Federal Inland Revenue Service and National Bureau of Statistics. Multiple regression analysis was used in analysing the data with the aid of stata version 13. The results indicate that the exits a significant positive relationship between total tax revenue and unemployment in Nigeria. The study concludes that total tax revenue relates positively to unemployment and recommends that government should distribute its social welfare programmes in such a way to provide direct benefit to tax payers. This makes them believe that the portion of their hard earned money paid for purposes, is being effectively utilised by the government. The tax official needs improvement through adequate training and provision of suitable working materials and facilities.

Keywords: *Total Tax revenue, Tax Rate, Economic Development, Unemployment and Growth Rate.*

Introduction

The quality of life of people living in a country is the focus of any development objectives. Access to education, improved health care delivery, employment opportunities, clean air, safe drinking water and security of life and property determine the people's quality of life or standard of living (The World Bank Group, 2004).

Economic development refers to economic growth accompanied by certain desirable economic changes. If the growth in per capita income comes from only one narrow source, the country will not be regarded as experiencing economic development. For there to be economic development the increase in per capita income must be accompanied by general improvement in all areas (or at least several areas) of the economy. The per capita income of Nigeria rose steadily from 1965 to 1982 yet in terms of real economic development Nigeria did not do as well as this growth would indicate because rise in income came from one source (mineral oil). A key element in economic development is that the people of the country must be major participants in the process that brought about those changes in structure.

In Nigeria, the government has depended so much on oil revenue for execution of its primary functions and economic development programmes. Presently, there is a general fall in the price of crude oil which has adversely affected the Nigeria economy (Anyaehie and Areji, 2015; Uzonwanne, 2015). To this effect, the former Minister of Finance, Ngozi Okonjo-Iweala and other concerned citizens have called on governments at various levels to look for other means of revenue generation for the sustainable economic development of Nigeria. Kiabel and Nwokah (2009) corroborate this idea by saying that the dwindling revenue and increased cost of running government require all tiers of Nigeria government to look for alternative means of improving their revenue base. It is obvious that the country's revenue from oil can no longer fully support its development objectives.

Akintoye and Tashie (2013) denoted that the Nigeria Government had to raise revenue through taxation in order to meet its expenditure, which has a time to expend much. Section 141 of the 1963 constitution of Federal Republic of Nigeria made specific provision for shared for development purpose in each state.

Pratt (2008) defines taxation as exaction for the support of the government thus, what a tax does is to provide a means through which the government derives majority of the revenues necessary to keep it in operation. Therefore to determine the effect of tax revenue in the development of Nigeria economy, we have to examine the relationship between Human development index, unemployment rate, Gross domestic product, and tax revenue and identification of the problem in the Nigeria tax system.

Taxes are used to pool resources for public health and safety, infrastructure, research, schools, transportation, courts, funding the police and providing parks and safe drinking water, amongst others. Taxation is a tool to achieve economic development in any country.Taxation has been associated with many historical developments. Hence, the instrumentality of taxation to development especially as subsumed to public policy is a recent discovery, yet it has come to overshadow all other of its features. Although fiscal policies are diversified and have evolved overtime, it is through the conduct of taxation that makes it most pervasive impact on the economy. Tax revenue is used to provide public goods and services to the Nigeria populaces through which economic growth are induced.

At all times, revenues from taxes have formed an appreciable position of the total revenues accruing to the federal government of Nigeria, Jones and Ekwueme (2016) posit that the level of revenue generation through taxes to provide critical infrastructural development in an economy is depending on the country's existing tax structure and how robust it is effectively and efficiently assess, collect and account by the tax collectors, this mainly because of the forms in which the taxing power has been granted to it and the manner in which it has wielded same. The Nigeria tax system comprises two components that are in the law; the rate and the base. It does provide the frame work for the administration of the tax system. Tax which takes a constant proportion as income is called proportional tax. Progressive tax is an increase proportion of income as its rises.

However, Nigeria tax planning and management has suffered from both tax evasion and tax avoidance. These problems, combined with incompetent tax officials, high rate of bribery and corruption in the economy ensured that government in the financial sector were anemic and demonstrably incapable of acting as an engine of growth and development .Overall, the Nigeria economy suffered from large fiscal deficits resulting from board-based increase in expenditure unmatched by the growth in revenues insufficient supervision, excessive administration interference and bureaucratic control in the tax management committee. As a result of this, under development was perhaps inevitable, being a concomitant of tax evasion and unimplemented proper tax policy.

Thus, taxation can be used as a policy of economic development, if it is used to redistribute resources, encouraging saving, investment and redistributing the fruit of economic development among members of the society. Base on this analysis this research intends to examine the relationship between taxation and economic development in Nigeria.

The remainder of this paper is structured as follows: Section two provides the theoretical framework and review the related literature, section three presents the methodology, section four analyses the data and discusses the results while section five makes few conclusion and recommendations.

Review of related literature

This study anchored on expediency theory, this theory asserts that every tax proposal must pass the test of practicality. It must be the only consideration weighing with the authorities in choosing a tax proposal. Economic and social objectives of the state and the effects of a tax system should be treated as irrelevant (Bhartia, 2009). Anyafo (1996) and Bhartia (2009) explained that the expediency theory is based on a link between tax liability and state activities. It assumes that the state should charge the member of the society for the services provided by it. This reasoning justifies imposition of taxes for financing state activities by inference, provides a basis for apportioning the tax burden between members of society. This proposition has a truth in it, since it is useless to have a tax which cannot be levied and collected efficiently.

There are pressures from economic, social and political groups. Every group tries to protect and promoted its own interest and authorities are often forced to reshape tax structure to accommodate these pressures. In addition, the administrative set up may not be efficient to collect the tax at a reasonable cost of collection. Tax revenue provides a powerful set of policy tools to the authorities and should be effectively used for remedying economic and social ills of the society such as income inequalities, regional disparities, unemployment, and cyclical fluctuations and so on.

Adolph Wagner advocated that social and political objectives should be the deciding factors in choosing taxes. Wagner did not believe in individualist approach to a problem. He wanted that each economic problem be looked at in its social and political context and an appropriate solution found thereof. Accordingly, a tax system should not be designed to serve individual members of the society, but should be used to cure the ills of society as a whole. This theory relates to a normal development process and represents a benchmark against which country specific empirical evidence may be compared.

This study therefore focuses on benefit received theory which enables us to assess the extent to which the Nigerian tax system conforms to this scenario where there exist an exchange relationship between tax payer and the nation. If applicable, such a characterization will enhance tax revenue projection and targeting of specific tax revenue sources given an ascertained profile of economic development. It will also assist in estimating a sustainable revenue profile thereby facilitating effective management of a country's fiscal policy, among others. This is because the benefit received theory focuses on the fact that taxes are collected to achieve economic objectives which enhances the growth and development of a society in all its spheres.

Economic Development:

Economic development is the development of economic wealth of countries or regions for the well-being of their inhabitants. From a policy perspective, economic development can be defined vices as efforts that seek to improve the economic well-being and quality of life for a community by creating jobs and supporting or growing incomes and the tax base. Economic development implies improvements in a variety of indicators such as literacy rates, life expectancy, and poverty rates. GDP is a specific measure of economic welfare. Economic Development encompasses policies that governments undertake to meet broad economic objectives such as price stability, high employment, expanded tax base, and sustainable growth. Economic growth is a phenomenon of market productivity and rise in GDP, it is one aspect of the process of Economic Development. It is also the growth of an economy' s output of goods and services which are sometimes referred to as the Gross National Product (GNP) growth. When the rate of GNP decline, unemployment results and income generally falls. When this happens, the government has a duty to pursue a set of policies aimed at stepping up the economy outputs. As such the goal of sustained economic growth & development should be important to any government.

Gross Domestic Product (GDP):

The organisation for economic co-operation and development (OECD) defines GDP as "an aggregate measure of production equal to the sum of the gross value added of all resident and institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs). An international monetary fund (IMF) publication states that "GDP measures the monetary value of final goods and services - that is, those that are bought by the final user - produced in a country in a given period of time (say a quarter or a year)".

Total GDP can also be broken down into the contribution of each industry or sector of the economy. The ratio of GDP to the total population of the region is the per capita GDP and the same is called Mean Standard of Living. GDP is considered the "world's most powerful statistical indicator of national development and progress. The gross domestic product (GDP) is one of the primary indicators used to gauge the health of a country's economy. It represents the total dollar value of all goods and services produced over a specific time period; you can think of it as the size of the economy. Usually, GDP is expressed as a comparison to the previous quarter or year. For example, the Q3 2017 GDP is up 3%, this is thought to mean that the economy has grown by 3% over the third quarter. While quarterly growth rates are a periodic measure of how the economy is faring, annual GDP figures are often considered the benchmark for the size of the economy.

There are many different ways to measure a country's GDP, they include:

Nominal GDP: This is the raw measurement that includes price increases. The Bureau of Economic Analysis measures nominal GDP quarterly. It revises the quarterly estimate each month as it receives updated data.

Real GDP: To compare economic output from one year to another, you must account for the effects of inflation. To do this, the NBS calculates real GDP. It does this by using a price deflator. It tells you how much prices have changed since a base year.

Growth Rate: The GDP growth rate is the percentage increase in GDP from quarter to quarter. It tells you exactly how fast a country's economy is growing. Most countries use real GDP to remove the effect of inflation.

GDP per Capita: This is the best way to compare gross domestic product between countries. That's because some countries have enormous economic outputs because they have so many people. To get a more accurate picture, it's helpful to use GDP per capita. This divides gross domestic product by the number of residents. It is a good measure of the country's standard of living.

The best way to compare gross domestic product by year and between countries is with real GDP per capita. This takes out the effects of inflation, exchange rates and differences in population.

The different measures of GDP are great tools for comparing the economies of other countries or how an economy changes over time. When economists talk about the " size" of an economy, they are referring to GDP. In 2007, the United States lost its position as the world's largest economy.

The growth rate measures whether the economy is growing more quickly or more slowly than the quarter before. If it produces less than the quarter before, it contracts and the growth rate is negative. This signals a recession. If it stays negative long enough, the recession turns into a depression. As bad as a recession is, you also don't want the growth rate to be too high. Then you'll get inflation. The ideal growth rate is between 2 per cent to 3 per cent.

Unemployment Rate

The unemployment rate is defined as the percentage of unemployed workers in the total labour force. Workers are considered unemployed if they currently do not work, despite the fact that they are able and willing to do so. The total labour force consists of all employed and unemployed people within an economy. Unemployment is a multi-dimensional phenomenon; it is an economic phenomenon showing imbalance in economic activities. Moreover, it is also considered social phenomenon because of its effects on the social structure of societies. The two economic and social dimension of unemployment increase its complexity and impose adopting extensive analysis to understand the causes and consequences and to identify the response to such phenomenon. The greater the unemployment rate, the less opportunities to achieve high economic development as well as the emergence of the negative social aspects.

The unemployment rate provides insights into the economy's spare capacity and unused resources. Unemployment tends to be cyclical and decreases when the economy expands as companies' contract more workers to meet growing demand. Unemployment usually increases as economic activity slows.

There are different types of unemployment: Frictional unemployment refers to temporary unemployment during the period when people are searching for a job. Structural unemployment is a mismatch between workers' skills or locations and job requirements. Seasonal unemployment is caused by seasonal patterns in economic activity, such as harvesting or tourism. The unemployment rate is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labour force. During periods of recession, an economy usually experiences a relatively high unemployment rate. According to International Labour Organization report, more than 200 million people globally or 6% of the world's workforces were without a job in 2012.

The causes of unemployment are heavily debated. Classical economics, new classical economics, and the Austrian School of economics argued that market mechanisms are reliable means of resolving unemployment. These theories argue against interventions imposed on the labour market from the outside, such as unionization, bureaucratic work rules, minimum wage laws, taxes, and other regulations that they claim discourage the hiring of workers. Keynesian economics emphasizes the cyclical nature of unemployment and recommends government interventions in the economy that it claims will reduce unemployment during recessions.

This theory focuses on recurrent shocks that suddenly reduce aggregate demand for goods and services and thus reduce demand for workers. Keynesian models recommend government interventions designed to increase demand for workers; these can include financial stimuli, publicly funded job creation, and expansionist monetary policies. Its namesake economist John Maynard Keynes, believed that the root cause of unemployment is the desire of investors to receive more money rather than produce more products, which is not possible without public bodies producing new money. A third group of theories emphasize the need for a stable supply of capital and investment to maintain full employment. On this view, government should guarantee full employment through fiscal policy, monetary policy and trade policy as stated, for example, in the US Employment Act of 1946, by counteracting private sector or trade investment volatility, and reducing inequality.

In addition to these comprehensive theories of unemployment, there are a few categorizations of unemployment that are used to more precisely model the effects of unemployment within the economic system. The main types of unemployment include structural unemployment which focuses on structural problems in the economy and inefficiencies inherent in labour markets, including a mismatch between the supply and demand of labourers with necessary skill sets. Structural arguments emphasize causes and solutions related to disruptive technologies and globalization. Discussions of frictional unemployment focus on voluntary decisions to work based on each individual’s valuation of their own work and how that compares to current wage rates plus the time and effort required to find a job.

Causes and solutions for frictional unemployment often address job entry threshold and wage rates. Behavioural economists highlight individual biases in decision making, and often involve problems and solutions concerning sticky wages and efficiency wages. Unemployment is a multi-dimensional phenomenon; it is an economic phenomenon showing imbalance in economic activities. Moreover, it is also considered social phenomenon because of its effects on the social structure of societies. The two economic and social dimension of unemployment increase its complexity and impose adopting extensive analysis to understand the causes and consequences and to identify the response to such phenomenon. The greater the unemployment rate; the less opportunities to achieve high economic development as well as the emergence of the negative social aspects

Value Added Tax (VAT)

VAT is a consumption tax that is relatively easy to administer and difficult to evade and it has been embraced by many countries world-wide (Federal Inland Revenue Service, 1993). Value-added Tax Act, 1993 is the law that regulates the collection of tax due on vatable goods or services (Adereti, 2011). It was introduced to replace the old sales tax. It is a consumption tax levied at each state of the consumption chain, and is borne by the final consumer. It requires a taxable person upon registering with the Federal Board of Inland Revenue to charge and collect VAT at a flat rate of 5% of all invoiced amounts of taxable goods and services (Ariyo, 1998). Adereti (2011) explained that evidence so far supports the view that VAT revenue is already a significant source of revenue in Nigeria. For example, actual VAT revenue for 1994 was N8.189 billion, which is 36.5 higher that the projected N6 billion for the year. Similarly, actual VAT revenue for 1995 was N21 billion compared with the projected N12 billion. In terms of contributions to total federally collected revenue, VAT accounted for about 4.06% in 1994 and 5.93% in 1995. As much as N404.5 billion was collected on VAT (5.1% of total revenue) in 2008. Every person, whether resident in Nigeria or non-resident in Nigeria, who sells goods or renders services in Nigeria under the VAT Act (as amended) is obligated to register for VAT within six months of its commencement of business in Nigeria. Registration is with the Federal Board of Inland Revenue (FBIR).

Ajakaiye (2000) worked on the impact of VAT on key sector and macroeconomic aggregates, using a Computable General Equilibrium (CGE) model considered suitable for Nigeria. The study developed three scenarios. In order to approximate the presumed Nigerian situation, the study assumed that government pursued an active fiscal policy involving the reinjection of the VAT via increases in government final consumption expenditure in combination with a presumed non-cascading treatment of the VAT. Two other simulations considered an active fiscal policy combined with a cascading treatment of VAT with an active fiscal policy not only had the most deleterious effects on the economy, it was also the one that most closely approximated the situation in Nigeria. VAT revenues under this scenario are more than 3% lower ran the first scenario, the general price index increases by 12%, and wage and profit incomes fall by 8.54% and 12.27% respectively. Overall, the GDP declines by 11.34%. Such a situation, as observed by the researcher, poses a great threat to the sustainability of VAT.

Empirical Studies

Several studies have examined taxation as an instrument of economic development in different countries with diverse techniques. The outcome of the investigations however, shows degree of relatedness in the results. The tax reform in Nigeria is spearheaded by the Federal Inland Revenue service which is geared to achieving greater revenue collection, voluntary and willing compliance and breaking the long piercing phobia between taxpayers and tax collectors. Naiyeju (1996) argued that the positive result received from any tax depends on the extent of how it is properly managed. The extent of how the tax law is interpreted and implemented as well as the publicity brought into it will determine how a particular tax is able to meet its objectives. Ariyo (1997) in his study on productivity of the Nigerian tax system reported a satisfactory level of productivity of the tax system before the oil boom. The report understood the urgent need for the improvement of the tax information system to enhance the evaluation of the performance of the tax system and facilitate adequate macroeconomic planning and implementation.

Adereti et al (2011) did a study on Value Added Tax and Economic growth in Nigeria. They emphasized Time series data on the Gross Domestic Product (GDP), VAT Revenue, Total Tax Revenue and Total Federal Government Revenue from 1994 to 2008 using both simple regression analysis and descriptive statistical method. The Findings of the study showed that VAT Revenue accounts for as much as 95% significant variations in GDP in Nigeria. A positive and significant correlation exists between VAT Revenue and GDP. Both economic variables fluctuated greatly over the period though VAT Revenue was more stable. No causality exists between the GDP and VAT Revenue, but a lag period of two years exists and also, this could be true as VAT is not easily evaded as it is collected at source on the consumption of goods and services. The study will further verify to see if the result will comply with the above findings.

Olaoye (2009) worked on the administration of VAT in Nigeria. The objective of the study was to seek ways of improving government revenue generation base in order to improve on the economy. Government introduced VAT as a way of improving Government revenue and make funds available for development purposes. The study like in Adereti et al (2011) showed a positive correlation between VAT and GDP. Recommendation was made that more awareness was needed on VAT.

Adegbie & Fakile (2011) examined the relationship between company income tax and Nigeria’s economic development for the period 1981 to 2007. They used the GDP to capture the Nigerian Economy which was measured against total annual revenue from company Income Tax for the same period. They employed the use of chi-square and multiple linear regression analysis method to analyze data obtained from both primary and secondary sources. Their variables included various taxes regressed against GDP. With an R squared of 98.6% and an adjusted R squared of 98.4%, revealing that company income tax’s impact on GDP is very high and impressive. It further showed that there is a significant relationship between company income tax and Nigerian economic development and that tax evasion and avoidance are the major hindrances to revenue generation. Overall the study examined only company income Tax which calls for the need to see the impact of all Tax revenue on the Nigerian economy.

Owalabi & Okwu (2011) evaluated the contribution of VAT to the development of Lagos State economy. Development aspects considered included infrastructural development, environmental, agricultural sector development, health sector development and transportation sector development. Result showed that VAT revenue contributed positively to the development of the respective sectors. However, the above studies show there is paucity of comprehensive research on the impact of tax revenue on the Nigerian Economy. Rather, most research has focused only on a single aspect of the tax sources.

In their study of the relationship between company income tax and Nigerian economic development, Festus & Samuel (2007) reported that in Nigeria, the role of tax revenue in promoting economic activities and growth is not felt primarily because of its poor administration, perception and often an undesirable imposition which bears no relation to the responsibilities of citizenship or to the service provided by the government. Their study further revealed that an efficient and effective tax administration results in increased revenue yield but this is not possible because of the presence of evasion and avoidance due to loop holes in the tax laws.

On the other hand, Adedeji & Oboh (2010) stated that people expect that by sacrificing their private resources to the state in the form of taxes, government is expected to reciprocate by spending public revenue in a way that will enhance their welfare. However, government and tax collectors have been dubiously mismanaging the public treasury. There is high level of manipulation and diversion of tax revenue by the collectors. The dwindling tax revenue as presently witnessed results from lack of encouragement to the taxpayer, due to the fact that there is very little evidence to show for taxes collected. For these reasons, there are increased cases of tax evasion. Therefore, this gap in existing literature on tax revenue and economic growth needs to be filled (Appah, 2004).

Tax revenue is the most important source of revenue for modern governments, typically accounting for about 70-90% or more of their income, while the remainder of government revenue comes from borrowing, both domestic and external. Countries differ considerably in the amount of tax they collect Jhingan (1995).

Hypotheses

The study will consider the following hypotheses:

H_{01}: There is no significant relationship between total tax revenue and unemployment in Nigeria.

H_{02}: There is no significant relationship between exchange rate and unemployment in Nigeria.

Methodology

This section shows the methodology used to evaluate the long run equilibrating relationship and short run dynamics in the variables if any to achieve the set objectives of the study. The study design applied is ex-post facto research design and time series data regarding the variable were sourced from central bank of Nigeria (CBN) statistical Bulletin, Federal Inland Revenue Services and Nigeria bureau of statistics (Ihendinihu., Jones & Ibanichuka, 2014; Jones., Ihendinihu & Nwaiwu, 2015). For the purpose of this research work, Augmented Dickey Fuller test for unit test is used to test for stationality of the variables and the hypotheses were tested using multiple regression analysis with the aid of stata version 13 in analysing the data collected.

Model Specification

For the purposes of this study, three appropriate model specifications were adopted. First, the formulated functional forms are as thus:

$$ED = \int(UR, GDP) \quad - \quad - \quad - \quad - \quad (1)$$

Expanding the functional form into the mathematical model are stated as follow.

$$ED = \alpha_0+\beta_1 UR+\beta_2 GDP \quad - \quad - \quad - \quad - \quad (2)$$

Both equation 1 & 2 does not have error term, or the error term stated as a multiple regression model as follows:

$$ED = \alpha_0+\beta_1 UR+\beta_2 GDP+\mu \quad - \quad - \quad - \quad - \quad (3)$$

Results and Discussions

The main research question to be ascertained in this empirical study is whether, there is a significant relationship between tax revenue and economic development in Nigeria.

H_{01}: There is no significant relationship between total tax revenue and unemployment in Nigeria.

H_{A1}: There is a significant relationship between total tax revenue and unemployment in Nigeria.

F(2, 28) = 15.45
Prob> F = 0.0000**
R-squared = 0.5247
Adj R-squared = 0.4907

unemr	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
ttrnbn	.0011034	.0007941	1.39	0.176	-.0005231	.00273
exr	.0416909	.0178292	2.34	0.027	.0051695	.0782123
_cons	5.146861	1.304935	3.94	0.000	2.473823	7.819898

In the table above, we observed from the OLS Linear regression that the adjusted R-squared value of 0.4907 shows that about 49% of the systematic variations in the dependent variable (UNEMR) was jointly explained by the independent variables (TTR,EXR) and that 51% has been captured by the error which is quite high. The F-statistic value of 15.4% and its associated P-value of (0.176) ** shows that there is no significant relationship between TTR and UNEMR. That is to say that the null hypothesis is accepted while the alternate hypothesis is rejected. This empirical result in inconsistent with the finding of Akintoye & Tashie (2013), Jones., Ihendinihu & Nwaiwu (2015) who find a positive relationship between total tax revenue and unemployment in Nigeria.

H_{02}: There is no significant relationship between exchange rate and unemployment in Nigeria.

H_{A2}: There is a significant relationship between exchange rate and unemployment in Nigeria.

F(2, 28) = 15.45
Prob> F = 0.0000**
R-squared = 0.5247
Adj R-squared = 0.4907

unemr	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
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_cons	5.146861	1.304935	3.94	0.000	2.473823	7.819898

Exchange rate as an independent variable with (0.027)** which is less than 5% shows that null hypothesis is not true, we therefore accept the alternate hypothesis which says that there is significant relationship between exchange rate and unemployment rate. This empirical result is consistent with the findings of Appah (2010), Anyaehie & Glodson (2009), Anyaehie & Areji (2015), who found a positive relationship between total tax revenue and unemployment in Nigeria.

Conclusion and Recommendations

The investigation attempts to add to the literature by providing empirical evidence from the emerging economy on the relationship between total tax revenue and economic development in Nigeria. The empirical studies conclude that total tax revenue relates positively to economic development variables (unemployment in Nigeria from the period of study). Based on the conclusion of the study, we recommended that:

(i) Government should distribute its social welfare programmes in such a way to provide direct benefit to tax payers. This makes them believe that the portion of their hard earned money paid for purposes, is being effectively utilised by the government.

(ii) The tax official needs improvement through adequate training and provision of suitable working materials and facilities.

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