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The Nomenclature of Taxation in Nigeria: Implications for Economic Development

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ABSTRACT

The paper analyzed the impact of taxation on economic development in Nigeria as it concerns value-added tax (VAT), Company Income Tax (CIT) and Petroleum Profit Tax (PPT). For the purpose of this study, the major source of data was a secondary source. Data were collected from the Central Bank of Nigeria Statistical Bulletin and Federal Inland Revenue Services. The data collected were analyzed with Ordinary Least Square Multiple Linear Regressions since there were more than two variables. The analysis revealed that all the independent variables (VAT, CIT and PPT) used in this study have a significant positive relationship on the dependent variable (GDP), which is used to measure economic development while value-added tax, company income tax, and petroleum profit tax were used to measure taxation. It was therefore recommended that the government should extend its database to capture all tax revenue by employing practically and technically oriented professionals. Results also imply it is recommended for the government to foster a favorable environment for young entrepreneurs to initiate and grow businesses that will lead to an increase in tax revenue for the government. It was also recommended that social science, which is the umbrella that covers management sciences, should be employed to manage businesses so as to ensure the survival of businesses and boast the nation's revenue through tax, as it concerns training having an impact on resources utilization and allocation, thus promoting profit maximization.

1. Introduction

Tax is a compulsory levy on the citizen and private sector by the government. Taxation is very important as it is one of the major sources of a country's revenue. The impact of tax cannot be overemphasized. It is a source to think of in both the state and federal government budgets. The taxes collected conic back to the taxpayers in the form of social amenities provided by the government. Global developed economies, such as Britain, France, United States of America, West Germany and the like are based on one form of taxation or the other, such that citizens comprehend tax as being a part of their life, and as such consider the payment of tax mandatory.

Taxation has always been a relevant part of society and it will continue to be so. Developed countries have different fiscal policies enabling them to expose various types of taxation and impose them on their citizens with the purpose of enhancing revenue, regulation, and governance of the economy. The government of Nigeria, as one of these countries, has legislative powers to impose on its citizens any form of tax and at whatever rate it deems appropriate. (Abiolaji and Asiweh 2012).
Considering the fact that taxation is a microeconomic instrument, it involves the transfer of resources from the private to the public sector for the accomplishment of economic and social goals. It is an instrument the government uses to measure, access and control the informal sector dominating developing economies of the world. Economic development involves the development of human capital, increasing the literacy ratio, enhancement of relevant infrastructure, improvement of health and safety and other domains with the objective of increasing the general welfare of the citizens. This is government policy to ensure the increase the economic, social welfare and stable political environment. Similarly, economic development can also be measured by taking into account the effect of tax on GDP. The tax to GDP ratio compares the amount of tax collection to the nominal GDP. Generally, the ratio in poor countries is around half of what is obtained in developed nations. According to the Heritage foundation 2012 data, France had a tax to GDP ratio of 44.6%, Sweden 456%, UK 39%, US27%, Tanzania 12%, Burkina Faso 11.5%, Nigeria 6.1%. In most countries of the world like France, Sweden, UK, US, etc., taxation has aided their development. After proper examination in Nigeria, it was found that taxation had not helped the development of human capital, increasing the literacy ratio, enhancing relevant infrastructure, improve health and safety, and other areas with the objective of increasing the general welfare of the citizens of Nigeria. Over the years, Nigeria government have been collecting revenue from various forms of taxes such as VAT, CIT, PITA, custom and excise duty, PPT, etc. The effect of revenue generated from a tax on

Nigeria economy has been very low when seen from the angle of the provision of social amenities, and no physical development actually took place, hence its impact was not sensed. Several studies have been carried out in the past on this subject. According to Chude D.I. and Chude W.P (201 5), in a study analyzing the effect of taxation in sub-Saharan Africa, they found t that taxes levied on personal and corporate income reduce economic development. From their study, one may be tempted to conclude that the tax structure is largely irrelevant in less developed economies. Nevertheless, embedded in an effective tax system are benefits for both taxpayers and the government. There are researchers that have done studies on the evaluation of the tax system in Nigeria, such are the works of (Samuel, 1999), (Adanson, 1997), (Morrison, 1990), (Peterson, 1080), (Brander, 2000), (Ndubason, 2012), (Alolote, 2008), (Adu, 2011), (Sotoye, 2010) and (Wari, 2013). Since the previous empirical studies revealed a lack of consensus on the research findings, indicating there is a research gap in the existing literature, this study aims to resolve previous disagreements. This research is conducted with the objective to determine the effect of VAT, CIT, and PPT on the Nigerian economy.

Objectives of the Study

The main objective of this study is to evaluate the impact of taxation on the economic development of Nigeria. Other objectives are as follows:

- To determine the extent to which Value Added Tax affects the economic development of Nigeria.
- To determine the extent to which the Company Income Tax affects the economic development of Nigeria.
- To determine the extent to which the Petroleum Profit Tax affects the economic development of Nigeria.
- To provide recommendations for improving the economic development of Nigeria through taxation.

Literature Review

This section deals with the contributions of different scholars on the issues concerning the impact of taxation on economic development. Hence, it is the review of contributions and shortcomings on the subject of taxation. However, precisely these shortcomings led to further studies on the evaluation of taxation on economic development.

Studies have shown that in both developed and developing countries taxation is an important means or instrument in the hands of the government. It is directed not only to generating revenue but also to achieve financial goals influencing the direction of investment and taming the consumption and production of certain goods and services, (Anyanfo 2012). Taxation is an instrument employed by the government for generating public funds (Anyanfo, 2004). Furthermore, this is a required payment imposed by the government on the income, profit or wealth of individuals, groups and corporate organizations. Piana (2003) states that a well-designed tax system can help the government in developing countries prioritize their spending, build stable institutions and improve democratic accountability. The main purpose of a tax is to: enable the public sector to finance its activities in order to achieve a nation's economic and social goals. It can also be intended for the purpose of wealth redistribution to ensure social justice, Olu (2001). Therefore, taxes can be used as an instrument for achieving both micro and macroeconomic objectives, especially in developing countries such as Nigeria. However, Musgrave arid Musgrave (2004) comment that the dwindling level of tax revenue generation in the developing countries makes difficult to use tax as an instrument of fiscal policy for the achievement of economic development. Some governments like Canada, United States, Netherlands, and the United Kingdom have substantially influenced their economic development through tax revenue generated from company income tax, value-added tax, and personal income tax and have prospered through tax revenue, Cluba (2008). In Africa, natural resources such as income from production shares, royalties and corporate income tax on oil and mining companies yield a significant portion of revenue (Pfister, 2009). The tax sources are the basic and most reliable sources of government revenue because of their certainty and flexibility characteristics. Certainty characteristics imply that the collection of taxes from taxpayers is assured, all other things being equal. Tax collection is not affected by the state of the economy; whether the economy is declining, stagnant or growing. Its flexibility makes it possible for the government to adjust the tax system to suit her desired purpose.

The socio-political and economic development of any nation depends more fundamentally on the amount of revenue generated through taxation for the provision of infrastructure for economic growth. According to Appab (2004), Anyanfo (1996), Anyanwu (1997), Appah and Oyandonghan (201 1), Ogbonna and Appah (2012), tax is a 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. Usually, taxes are imposed to regulate the production of certain goods and services, protect infant industries, control business, curtain inflation and reduce income inequalities amongst other operations. Taxes are the most essential instruments of fiscal policy used to manage the economy.

As an instrument of fiscal policy, Tosin and Abizadeh (2005) outline five possible mechanisms by which taxes can affect economic growth. Firstly, taxes inhibit investment rate through such taxes as corporate and personal income and capital gain taxes. Secondly, taxes can slow down growth in labor supply by disposing of labor leisure choice in favor of leisure. Thirdly, tax policy can affect productivity growth through its discouraging effect on research and development expenditures. Fourthly, taxes can lead to a flow of resources to other sectors that may have lower productivity. Fifth, high taxes on labor

supply can distort the efficient use of human capital. Above all, there is the tendency or possibility of discouraging employment as a result of the high tax system on employees' income (Johnson, 2008).

2. Conceptual Framework

Economic development is a policy intervention effort designed to increase the economic and social well-being of people. It aims to improveme the quality peoples' life, to introduce new goods and services using modern technology, mitigation of risk and dynamics of innovation and entrepreneurship.
lhenyen and Miesigha (2014). The objective of economic development is to create an enabling environment for local communities and regions to develop new ways of production of goods in such quantities that may lead to exportation to other countries. Availability of financial resources from export leads to further investment in infrastructure for the benefit of the society and improvement in living conditions for the people, such as education, transportation network, health conditions, water supply, sewage and sanitation conditions. The changes create conditions for longterm economic growth by positioning the economy on a higher growth trajectory. Ihenyen and Miesigha (2014).However, there are different categories of tax in Nigeria.

Direct tax:

This is a situation whereby the payer pays directly to the government through salaries, wages, etc.

Indirect tax:

This is a situation whereby the incident is not on the payer directly but through the purchase of commodities. This type of tax is built into the commodity produced. In this instance, it influences the price of the commodity.

Sales tax:

This tax is imposed on the goods either at the manufacture, wholesale or retail level. Seller is supposed to pay the tax to the government. But due to poor accountability, there is a low significant part that the government actually receives. The problem with this type of tax is that sellers pass some proportion of the incident to the respective buyers, in term of the high price.

Property tax:

This type of tax is based on visible wealth or properties such as land and houses. This plays a low significant role in Nigeria's revenue, but strict control would generate increased revenue in Nigeria. It is one of the major sources of revenue in a developed economy.

Theoretical Framework:

Many theories of taxation exist but this study presents three of those theories as follows.

Diffusion theory of taxation

According to diffusion theory of taxation, under perfect competition, when a tax is levied, it gets automatically equitably diffused or absorbed throughout the community. Advocates of this theory describe that when the state imposes a tax on a commodity, it automatically passes on to consumers. Every individual bears the burden of tax according to his ability to bear it.

For instance, a specific tax is imposed on, cloth manufacturer. The manufacturers thereforeraise prices of a commodity according to their capacity and thus share the burden of the tax. In the words of Mansfield: 'it is true that a tax laid on any place is like a pebble falling into a lake and making circles till one circle produces and gives motion to another". This quotation explains that just as a pebble gets diffused in a lake, similarly a tax imposed on a commodity is also absorbed and its burden is felt equally among a various section of the commodity.

Benefit Theory of Taxation

According to this theory, the state should levy taxes on individuals according to the benefit conferred on them. The more benefit a person derives from the activities of the state, the more he/she should pay to the government. If in accordance with the benefits theory of taxation," we conceive taxes as payments made in exchange for government benefits, perhaps the state should be obliged to confer personal tax benefit on residents who contribute to their tax coffers. The benefits theory would imply that a resident should be able to collect personal tax benefits to the extent that her tax payment to the source state exceeds the monetary value of any source state government benefits she already receives, including infrastructure, regulated labor, and capital market, and so on.

Ability to Pay Theory

The most popular and commonly accepted principle of equity or justice in taxation is that citizens of a country should pay taxes to the government in accordance with their ability to pay, rather than the benefits principle. The "ability to pay principle" generally dominates modern equity discussions. Under the ability to pay principle, people with higher incomes should pay more taxes than people with lower incomes. It appears very reasonable that taxes should be levied on the basis of the taxable capacity of an individual. For instance, if the taxable capacity of a person A is greater than person B, the former should be asked to pay more taxes than the latter.

Empirical review

Along with the theoretical modeling of optimal taxation and the empirical literature on the determinants of tax effort, a distinct type of research has arisen over the past several decades, examining the impact of reliance on different tax instruments for different aspects of economic activity, including economic growth. Generally speaking, these empirical studies have found a significant result for the effect of different tax on growth.

Robert et al (2013) found evidence that greater reliance on indirect taxation, as opposed to direct taxation, has a significant positive effect on economic growth. Along similar lines, Kneiler, Bleancy, and Gemmell (1999) suggest that in OECD countries, while income taxes reduce growth, consumption taxes do not. For the same group of countries, Wildman (2001) found similar evidence for personal income tax, especially with higher progressiveness, measured in terms of the long-run income elasticity of tax revenues. Wildman suggests that personal income tax progressively affects growth, not so much through the accumulation of physical capital, as through accumulation of human capital.

Omojimite (2012) findings show a positive relationship between fiscal deficit and inflation and a negative relationship between private investment and national income. Stalova and Patonov (2012) suggest in their studies there is a negative relationship between fiscal deficit financing and economic growth. The differences in opinions on the effect of fiscal deficit financing on the Nigeria economy arise from the mode, Nature, Scope, and Objectives of financing.

Methodology

This study adopted the ordinary least square (OLS) econometric technique or data analysis. We used multiple linear regressions because the variables are more than two. This technique possesses the unique proper of a best linear unbiased estimator (BLUE) as well as the desirable qualities of consistency and efficiency. The statistics tested for the variables in the regression equation include the coefficient of determination (R2), T-test, F-test and Durbin Watson (DW) statistics. The statistics package for social sciences (SPSS) 20 for windows was the statistical computer software used to run the analysis. Where: coefficient of determination (R2) measures the explanatory power of the Independent variables on the dependent variable, student T-test for the overall statistical significance of the models, which was to generalize the hypotheses; and the Durbin Watson (DW) statistics tests for the autocorrelation of the variables in the regression equation.

Mode Specification

To achieve objectives of the study and the test of hypotheses the following regression model was developed to capture the causal relationship between VAT, CTT, PPT, and GDP:

GDP= f (VAT, CIT, PPT)

The above model was translated into a specific regression equation as stated below:

GDP $\beta_0 + \beta_1$ (VAT) + β_2 (CIT) β_3 (PPT) + e

Where:

GDP = Gross domestic product, the dependent variable, and the proxy for economic development

VAT = Value added tax, the independent variable

CIT = Company income tax, the independent variable

PPT = Petroleum profit tax, the independent

β_o = is the constant term

$\beta_1, \beta_2, \beta_3$ = are the coefficient of the independent variables

e = is the error term of the equation

Data Analysis

Dependent variable = GDP

Variable	Coefficient	Std. error	T- statist	Prob.
Const.	43063.20	42990.09	3.165290	0.7262
VAT	20201.40	4931.357	4.096521	0.0062
CIT	1.141852	3.110845	0.367055	0.0194
PPT	19.56056	2.666072	7.336847	0.0001

R-square 0.902150 mean dependent var 460.83.93

Adjusted R - 0.85224 S. D dependent var 28527.42

S. E. of regression 10929.23 Akaike criterion 21.72544

Sum square 1.771E-010 Schwaerz Criterion21.84648

Resid.

Log-likelihood – 1078.43066 Durbin-Watson stat 1.816

Source: Windows SPSS 20

Discussion of findings

This study evaluates the effect of VAT, CIT and PPT on GDP using the OLS technique based on the computer software package windows SPSS 20 version. The table above shows the summary of the regression, that is, the correlation between VAT, CIT, PPT, and GDP. From the results, it is evident that all the independent variables are significant and positively related to GDP.

The explanatory power of the model as given by the R2 0.90 or 90 percent is significant given the high value of the adjusted R2 value of 0.85 or 85 percent. This also means the independent variable jointly and adequately explained or accounted for changes in the dependent variables. The calculated Durbin Watson (OW) value is 1 .816 which is less than 2.0 indicated that there was no autocorrelation between the independent variables.

The regression model demonstrates a good fit given that 8.5 percent of the variation in the dependent variable (GDP) is jointly explained by changes in the behavior of VAT CIT and PPT. The relatively high adjusted R2 of 0.85 or 85 percent showed that the model is a good fit.

CIT have statistically positive significant relationship with GDP, this is given the fact the prob. value of CIT is 0.0 194 and this is less than the critical value of 0.05, VAT had statistically

positive significant relationship with GDP given the prob. value of 0.006 and less than critical value of 0.05 and PPT have statistically positive significant relationship with GDP given the prob, Value of 0.001 and less than critical value of 0.05. This means that VAT, CIT and PPT have a positive effect on GDP. The result of the study analysis has shown that value-added tax has a positive effect on economic development.

Conclusion

The results show that taxation has a positive and significant effect on economic development. This result supports the findings of Robert et al, (2009) asserting that GDP is a measure of economic development, supporting the social well-being, economic equality, welfare, or the environmental well-being of people of a state. The implication is that tax revenue does not have such a significant impact on economic development as on gross domestic product of Nigeria. The increasing amount generated from tax every year should have ensured improved economic well-being and a better standard of living for the Nigerian citizens. Baghebo (2012) in his study on the efficient utilization of tax revenue in Nigeria notes that high rate of poverty, unemployment, inflation, insecurity, and inadequate healthcare delivery still prevails, despite the increased tax revenue. One can attribute these problems to the ineffective and inefficient utilization of tax revenue. Availability and mobilization of income are the primary factors on which economic development is managed and sustained. Global Alliance for Tax Justice (2015) considers tax to be the most important, reliable, beneficial and sustainable source of finance for development. Hence, less developed countries are being advised to aim at replacing foreign aid with revenue, this especially relevant for Africa. Therefore, to ensure sustainable economic development, generated tax revenue must be sufficient, efficiently and judiciously utilized. The government should pay attention to building confidence by tax accountability, ensuring that the promises made to the citizens are delivered. It should also ensure that the tax system is highly transparent and that the proceedings from taxes are actually used for the betterment of the citizens.

Provision of facilities that will ensure the comfortable existence of necessary amenities for the well-being of the majority of citizens must not be treated with levity. If individuals and companies don’t have drinking water or good traffic connection, the improved healthcare system and educational system, and have to live in perpetual fear, why would they be willing to pay tax? The citizens must feel the impact of development so as to pay tax voluntarily. The federal government should drastically reduce municipal waste of funds. Engagement and inclusion of graduates who are professionally, technically and practically trained in tax administration and Practical application of tax revenue to solving problems surrounding welfare of the citizens, will result with the further generation of tax revenue.

Recommendations

Based on the above findings, the study recommends that the tax authorities in Nigeria should improve tax administration system, as tax revenue has been proven to be an important source of government revenue for sustainable development. The study also recommends that the tax authorities responsible for tax administration should upgrade the tax database to include all potential tax-payers in order to broaden the tax income.

- The government should embark on massive public enlightenment campaign and provide tax education to the citizenry as to ensure voluntary tax compliance.
- Also, qualified tax professionals, especially professional graduates in finance, should be employed and trained regularly in order to ensure they possess the knowledge of tax computations.
- The amount taxpayer should pay should be certain, so that he/she can plan on the receiving balance.

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