Tax Revenue and Sustainable Development in Nigeria: A Disaggregated Analysis

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ABSTRACT: *Lately, Nigerians are in confusion on the rationale of paying tax due to the inability of the government to let taxpayers feel the impact of paying tax. These unethical practices have made some Nigerians want to evade tax wholly or partially. All and sundry still limbo in doubt as to whether the tax could ever be flexible or efficient; and if yes, can they deliver the sustainable growth that has eluded Nigeria for decades. This study investigates the impact of tax components in achieving sustainable growth in Nigeria using time series data from 1987-2019 using the ARDL bound testing approach to cointegration to ascertain the long run and the speed of adjustment (Short run) in analyzing the relationship. The result revealed that Petroleum Profit Tax, Company Tax, Value Added Tax and Personal Income Tax have a positive short-run relationship with economic growth (GDP) while Custom and Excise Duties and Personal Income Tax exhibits a negative relationship in the short and long run. This study hereby recommends strong institutional reforms in the department of customs to plug the manifest leakages in other to enable the revenue generated from the unit to reach the desired point to facilitate sustainable development in Nigeria by the year 2030.*

KEYWORDS: Tax components, Sustainable development, Nigeria.

INTRODUCTION

The contribution of tax cannot be underrated. Aside from serving as a revenue generator, it also helps the government in achieving both fiscal and monetary macroeconomic objectives of the country. (Onakoya & Afintinni 2016). The revenue generated from tax serves as a powerful tool for economic reform and a significant player in every economy of the world. It is dynamic and reflects recent happenings in the economy. The tax system is an opportunity for the government to collect additional revenue besides other sources of income that is needed in discharging its pressing obligations. A good tax system serves as one of the most effective means of mobilizing a nation's internal resources and also to creating enabling and conducive environment to the promotion of the growth and development of the economy (Ogbonna, 2011).

There are two major classifications of the economic effects of tax: The micro effect which deals with the efficient use of resources and the distribution of income while the macro effect entails the level of output capacity, prices, employment and growth. Hence, it is important to note that taxes affect productivity and economic resource allocation (Azubike, 2009).

Over the years, the revenue derived from taxes has been shallow. Hence, few physical developments took place to reflect the effectiveness of the taxes realized. Thus, the masses didn't feel much positive impact due to deceitful actions of the personnel collecting the tax and improper knowledge of the reason to pay tax by payees. (Afuberoh & Okoye, 2014). However, the relationship between taxation and sustainable development in Nigeria needs to be further investigated. Not only with a view to confirming the results of previous studies: {Anyanwu (1997); Ogbonna and Appah (2012); Yaya (2013); Akwe (2014)} indicating a positive relationship between taxation and economic growth or negating the studies conducted by {Saibu (2015); Gareth (2000); Bonu and Pedro (2009); Saima , Muhammad, Sofia and Amir, (2014)} which showed negative relationship.

Going by the discrepancy in the literature of taxation-growth nexus, it is pertinent to investigate the link between taxation and growth in Nigeria. This study tends to examine tax efficiency and Sustainable development in Nigeria critically. The scope of this study covers 33 years (1987-2019) while the choice of the period is as a result of the unavailability of official data on the various collectible taxes in Nigeria before this period. The data used for this work was sourced from the Central Bank of Nigeria (CBN) and World Bank World Development Indicators (WDI). This study will provide policy recommendations for both private individuals and government to improve the methods of tax collection effectively and efficiently as this is one of the significant means of achieving stable economic growth.

LITERATURE REVIEW

Tax is a compulsory contribution to the revenue of the state, assessed and imposed by a government on the activities, expenditure, enjoyment, income and properties of individuals and organization (Black law dictionary, 1999). A good tax system must generate the needed revenue for the government, redistribute income, and provide investment infrastructure that will guarantee an enabling environment for business to strive thereby leading to economic growth. The enabling environment created by government will encourage the establishment of new business and the survival of existing business (Muriithi & Moyi, 2003). Naiyeju (1996) opines that the success or failure of any tax system depends on the extent to which it is appropriately managed i.e. the extent to which the tax law is properly interpreted and implemented.

Tax efficiency is an arrangement that allows the payee to pay no or less tax than usual. It attempts to minimize tax liability when given many different financial decisions. Smith (1776) outlined four significant reasons why taxes can be inefficient: administration, tax wedge, costs associated with evasion and burdens of compliance. The efficiency of a tax system is its ability to waste as little money and resources as possible which is measurable against three significant standpoints which relate to the cost of operating the tax system, its flexibility and certainty:

There are various types of federal government collectible tax in Nigeria, some of which are: Custom and Excise Duties, Company Income tax, Value Added Tax, Petroleum Profit Tax and Personal Income Tax. However, Jarkir (2011) highlighted some significant roles of taxation such as: Reduction

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of inequalities in income and wealth, Price stability and accelerated economic growth, Optimum allocation of available resources etc.

Empirical Review

Owolabi and Okwu (2011) employed simple regression models as abstractions of the respective sectors considered in the study to examine the contribution of Value Added Tax to Development of Lagos State Economy. The study considered a vector of development indicators as dependent variables and regressed each on VAT revenue proceeds to Lagos State for the study period. Margareta and Asa (2012) deployed the fixed effects regression on a panel data of 25 OECD countries from 1970 to 2010. The study reports that both taxation of corporate and personal income negatively influence economic growth and found out that the correlation between corporate income taxation and economic growth is more robust. Stoilova and Patonov (2012) used panel regression to study the fundamental trends in the distribution of the total tax burden in EU (27) member states from 1995 to 2010. There exists a clear and strongly expressed impact of the direct taxes on economic growth. Anichebe (2013) conducted a study on the impact of tax on economic growth in Nigeria for the periods 1986 to 2010. He found out that a significant relationship exists between tax composition and economic growth. Umoru and Anyiwe (2013) employed co-integration and error correction methods of empirical estimation with an empirical strategy of disaggregation to examine the effect of tax structure on economic growth in Nigeria. The study found out that a direct taxation is significantly and positively correlated with economic growth while indirect taxation has an insignificant negative impact on economic growth. Emmanuel (2013) examined the effects of VAT on economic growth and total tax revenue in Nigeria between 1994 and 2010. He found out that VAT has a significant effect on GDP and also on total tax revenue. Saima, *et al* (2014) utilised the Johansen's co-integration tests for estimation of data and time series data from 1973 to 2010. They found out that high taxes in Pakistan have adverse effects on consumption, investment and GDP. However, the findings of Ugwunta and Ugwuanyi (2015) found out that an insignificant but positive relationship was found to exist between non-distortionary taxes and economic growth of sub – Saharan countries. Ebi & Ayodele (2017) examines the elasticity and buoyancy of the various tax components in Nigeria using the Error Correction Mechanism. The study found out that all tax components were inelastic. They recommend that government should diversify the economy for more development as well as strengthen tax reforms to increase overall tax revenue.

METHODOLOGY

Theoretical Framework

This study is underpinned the benefit theory of Erik Robert in 1919. The theory assumes that citizens tend to pay more taxes when they feel they have sufficient benefits from the activities of the state. Hence, taxes are collected to achieve economic objectives with will enhance economic growth. It also enables us to assess the extent to which the Nigerian tax systems conform to this scenario where the link between tax liability and economic activities.

Model specification

In analyzing the relationship that exists tax components and sustainable economic development in Nigeria, this study adopted the model of Okafor (2012) and extended by Okoli, Njoku & Kaka (2014) and Akor & Ekundayo (2016) with probable modifications. The basic model is given as:

$$RGDPt = \beta_0 + \beta_1 VAT_t + \beta_2 CED_t + \mu \quad \ldots\ldots (1)$$

Where RGDP= Real Gross Domestic Product
VAT= Value Added Tax
CED= Custom and Excise Duties
The above model was adapted and our variables of interest are included to avoid the problem of omitted variables due to their importance. The model includes Petroleum Profit Tax (PPT), Company Income Tax (CP) and Personal Income Tax (PIT) as control variables and respecified as;

$$RGDP = \beta_0 + \beta_1 PPT_t + \beta_2 CP_t + \beta_3 CED_t + \beta_4 VAT_t + \beta_5 PIT_t + U_t \quad \text{.......}$$
(2)

The model is presented in a log form as;

$$lnRGDP = \beta_0 + \beta_1 lnPPT_t + \beta_2 lnCP_t + \beta_3 lnCED_t + \beta_4 lnVAT_t + \beta_5 lnPIT_t + U_t$$
……..(3)

L = the natural log of the variables
RGDP= Real Gross Domestic Product
PPT= Petroleum Profit Tax
CP= Company Income Tax
CED= Custom and Excise Duties
VAT= Value Added Tax
PIT= Personal Income Tax
$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ are parameter estimates
U_t = Error term
A priori Expectation: $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5 > 0$

Estimation Techniques

In examining tax components and sustainable development in Nigeria, the study made use of a 2-stage econometric procedure. First, the Augmented Dickey-Fuller (ADF) test was undertaken to ascertain the order of integration of the variables, then the Auto Regressive Distributed Lag (ARDL) model was employed to account for a long-run and short-run relationship in the model. However, the study uses the descriptive statistical approach of central tendencies and dispersion such as mean, standard deviation, minimum and maximum value to organize, summarise and present the data in an informative way to capture the behaviour of the variables.

RESULT AND DISCUSSION

This part of the paper discusses the method of analysis and the result of the current study. Here, the preliminary analysis, estimation, and the post-estimation analysis tests conducted will be presented.

Pre-Estimation Techniques

Descriptive Statistics of the Variables
The table below presents that summary statistics for the variables employed for this study

Table 4.1.1 Descriptive Statistics

	LRGDP	LPPT	LCP	LCED	LVAT	LPIT
Mean	12.60479	11.34055	10.62206	10.83925	8.429505	4.528402
Median	12.69104	11.52440	10.83696	11.23198	10.96284	4.580925
Maximum	13.46979	12.25682	11.43981	11.38274	11.95497	5.988202
Minimum	11.04888	9.833466	9.091667	9.549126	0.000000	2.610234
Std. Dev.	0.784533	0.834338	0.767893	0.603286	4.860945	1.050767
Skewness	-0.579756	-0.232634	-0.671003	-0.813546	-1.177905	-0.116212
Kurtosis	2.017639	1.533033	2.107837	2.182273	2.432973	1.908129
Jarque-Bera	2.790648	2.861896	3.137961	4.006960	7.094561	1.505828
Probability	0.247753	0.239082	0.208257	0.134865	0.028803	0.470992
Sum	365.5390	328.8760	308.0398	314.3382	244.4556	131.3237
Sum Sq. Dev.	17.23380	19.49136	16.51048	10.19071	661.6059	30.91510

Source: Author, 2022

This study commenced its analysis by examining the characteristics of the variables of estimates. The table 4.1 above showed that the means and medians of all the variables lie within the maximum and minimum values indicating that the variables had high tendency to be normally distributed. The kurtosis statistics showed that RGDP, PPT, CP, CED, VAT and PIT were platykurtic, suggesting that their distributions were flat relative to a normal distribution. Skewness indicates the variables are negatively skewed. The standard deviation also indicates the spread of the model. The Jarque-Bera statistics shows that the series is normally distributed since the p-values of all the series are not statistically significant at 5% level. Thus informing the acceptance of null hypothesis that says each variable is normally distributed.

Time Series Properties of the Variables
Table 4.1.2: Unit Root Test: Augmented Dickey-Fuller Test (ADF)

Variables	ADF statistics	Critical Value	Level of Significance	Order of Integration
lnRGDP	-3.516464	-2.971853	5%	I(0)
lnPPT	-5.356257	-3.711457	1%	I(1)
lnCP	-3.424472	-2.971853	5%	I(0)
lnCED	-3.282927	-2.971853	5%	I(0)
lnVAT	-41.99837	-3.769897	1%	I(0)
lnPIT	-6.067969	-4.323979	1%	I(0)

Source: Author, 2022

The time series properties of the variables were conducted using Augmented Dickey-Fuller (ADF) test of unit root. The results indicate that Real Gross Domestic Product (RGDP), Company Tax (CP), Custom and Excise Duties (CED), Value Added Tax (VAT) Personal Income Tax (PIT) are stationary at level while Petroleum Profit Tax (PPT) is stationary at first difference. The appropriate modus operandi of analysis that captures the combination of I (1) and I (0) stationary variables, according to Pesaran, Shin and Smith (2001), is the ARDL model.

Estimation Results

Lag Length Selection
There is need to select the optimal lag length for the cointegration equation based on the hypothesis that the residuals are serially uncorrelated. The lag length which minimizes the Akaike Information Criterion (AIC), Schwarz Criterion (SC) and the Hannan-Quinn Criterion (HQC) and at which the model does not have autocorrelation is the optimal lag length. For this analysis, we would make use of the **Akaike Information Criterion (AIC)** as the choice for the selection of our optimal lag length.

Table 4.2.1 Lag Length Selection Criteria

Lag length	AIC	SC
1	-3.609193	-1.576883
2	-5.716745	-1.942455
3	-12.06207*	-6.545801*

Source: Author, 2022

Based on the result in the table above, the lag length which minimizes Akaike Information Criterion (AIC) is **lag 3** and thus becomes our optimal lag length. Given our optimal lag length, we can proceed to test for long-run relationship among the variables

BOUND TEST RESULT

Table 4.3: ARDL Bound Test

Null Hypothesis: No Long-Run Relationships Exist		
Test Statistics	**Value**	**K**
F-statistics	8.080719	5
Critical Value Bounds		
Significance	**I(0) Bound**	**I(1) Bound**
10%	2.26	3.35
5%	2.62	3.79
2.5%	2.96	4.18
1%	3.41	4.68

Where k is the number of regressors
Source: Author, 2022

The result of the bound test for cointegration depicts that the F-statistics value of 8.080719 exceeds the upper bound value at 1% level. Hence, we can reject the null hypothesis that no long-run relationships exist, accepting the alternative there exists a long-run co-integration relation between taxation and economic growth

Short-run relationship between Taxation and Economic Growth
Table 4.4 ARDL short-run relationship result

Dependent Variable: LRGDP				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
LRGDP(-1)	-0.290831	0.265710	-1.094542	0.3099
LPPT	0.218402	0.070620	3.092629	0.0175**
LPPT(-1)	-0.024237	0.056295	-0.430531	0.6798
LPPT(-2)	0.126257	0.068327	1.847824	0.1071
LCP	0.242029	0.197040	1.228326	0.2590
LCP(-1)	0.065488	0.184890	0.354203	0.7336
LCP(-2)	0.376419	0.222200	1.694056	0.1341
LCP(-3)	0.167858	0.131941	1.272222	0.2439
LCED	-0.501809	0.219541	-2.285714	0.0562***
LCED(-1)	0.290971	0.158875	1.831446	0.1097
LVAT	0.008702	0.007220	1.205227	0.2673
LVAT(-1)	0.026604	0.009122	2.916508	0.0225**
LVAT(-2)	0.020539	0.016412	1.251467	0.2510
LVAT(-3)	-0.022706	0.007836	-2.897785	0.0231**
LPIT	0.017367	0.049321	0.352130	0.7351
LPIT(-1)	-0.089120	0.036669	-2.430422	0.0454**
LPIT(-2)	0.008731	0.030026	0.290791	0.7796
LPIT(-3)	0.051395	0.037727	1.362275	0.2153
C	5.799066	2.198808	2.637368	0.0336**
R-squared	0.999288	**Akaike info criterion**		-3.854269
Adjusted R-squared	0.997459	**Schwarz criterion**		-2.934890
F-statistic	546.1545	**Durbin-Watson stat**		1.954027
(Prob)	0.000000			

Note: *(**)(***) implies 1% (5%)(10%) significance level
Source: Author, 2022

The estimated result presented in table 4.4 above explained the short-run relationship between tax efficiency and sustainable development in Nigeria. The independent variables explained approximately 99.8% of the total variations in the dependent variable indicating that the model had a very high goodness of fit. The result also showed that in the short-run, Petroleum Profit Tax, Company Tax, Value Added Tax and Personal Income Tax have a positive relationship with Gross Domestic Product while Custom and Excise Duties has a negative relationship with Gross Domestic Product. The value of the F-statistic (0.0000) was statistically significant at 1% level indicating that the model was significant. The value of the Durbin-Watson statistic of 1.954027 implies that the model had no serial correlation problem.

Long-run relationship between Taxation and Economic Growth
Table 4.5 ARDL long-run relationship result

Dependent Variable: lnRGDP				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
LPPT	0.248229	0.088155	2.815841	0.0259**
LCP	0.659881	0.159394	4.139926	0.0043*
LCED	-0.163335	0.130329	-1.253250	0.2504
LVAT	0.025672	0.014262	1.800030	0.1149
LPIT	-0.009007	0.031067	-0.289928	0.7803
C	4.492506	1.050934	4.274773	0.0037

Note: *(**) implies 1% (5%) significance level

Cointeq = LRGDP - (0.2482*LPPT + 0.6599*LCP -0.1633*LCED + 0.0257 *LVAT 0.0090*LPIT + 4.4925)
Source: Author, 2022

The estimated result presented in table 4.5 above explained the long-run relationship between taxation and economic growth in Nigeria. The result revealed that the coefficients of Petroleum Profit Tax (PPT), Company Tax (CP) and Value Added Tax (VAT) are positive and statistically significant at 5% and 1% level of significance respectively. Which implies that: a percentage increase in Petroleum Profit Tax, Company Tax and Value Added Tax leads to approximately 0.25, 0.66 and 0.03 percentage increase in economic growth (RGDP) in Nigeria respectively in the long run. However, the coefficients of Custom and Excise Duties (CED) and Personal Income Tax (PIT) is negative which implies that a percentage increase in Custom and Excise Duties and Personal Income Tax leads to approximately 0.16 and 0.01 percentage decrease in economic growth (RGDP) in Nigeria in the long run.

Post-Estimation Results
Diagnostics Statistics
Serial Correlation Test

Table 4.6.1.1   Serial Correlation LM Test Result

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	1.891128	**Prob. F(3,4)**	0.2723
Obs*R-squared	15.24885	**Prob. Chi-Square(3)**	0.0016

Source: Author, 2022.
Null Hypothesis: No serial correlation in the residuals
Alternative Hypothesis: There is serial correlation in the residuals

Given the probability value of 0.2723 percent, we fail to reject the null hypothesis and conclude that our model is free from serial correlation.

Heteroscedasticity Test
Table 4.6.1.2 Heteroscedasticity Test Result

Breusch-Pagan-Godfrey Heteroscedasticity Test:			
F-statistic	0.486164	**Prob. F(18,7)**	0.8969
Obs*R-squared	14.44514	**Prob. Chi-Square(18)**	0.6996
Scaled explained SS	1.612169	**Prob. Chi-Square(18)**	1.0000

Source: Author, 2022.

Null Hypothesis: Residuals are homoscedastic
Alternative Hypothesis: Residuals are heteroscedastic

The p-value (0.8969) showed that we cannot reject the null hypothesis. Which implies that: residuals do have a constant variance which is desirable. That is, residuals are homoscedastic.

Normality Test
Table 4.6.1.3 Normality test result

	F-Statistics	**Prob.**
Normality Test (Jarque-Bera)	2.105993	0.348891

Null Hypothesis: Variables are normally distributed
Alternative Hypothesis: Variables are not normally distributed

The p-value (0.348891) showed that we cannot reject the null hypothesis. Which implies that: variables are normally distributed.

CONCLUSION AND RECOMMENDATIONS

In this study, the question of whether the efficiency of tax is a vital source of sustainable development in Nigeria has been extensively explored. The Result indicated that Petroleum profit tax, Company Income tax and value added had a positive relationship with Real Gross Domestic product both in the short run and long run. While the relationship with Custom & Excise duties, Personal Income Tax and Real Gross Domestic Product on the other hand were negative which implies that, the tax revenue from the department of customs to promote economic growth wasn't remitted and cannot be accounted for due to leakages in the unit.

However, Personal Income tax must be flexible enough so that the taxpayers won't evade taxes which will lead to decrease in the revenue generated from tax which follows the theoretical proposition of Arthur Laffer in his Laffer curve which shows the relationship between tax rate and tax revenue. He suggests that taxation should be moderately high till its revenue elasticity is not significantly lower than one otherwise it will be disastrous to the economy.

This study hereby recommends that the government should maintain the optimum income tax rate at which tax revenue will be at its peak in other to enhance sustainable growth. Also, there should be strong institutional reforms in the department of customs to plug the manifest leakages. The tax collection mechanism used by tax officials must be free from corruption and embezzlement in other

to plug the loopholes in other to make the revenue collected from tax reach the desired point and to contribute immensely to the development of the economy.

Also, tax authorities should establish a good relationship with the professional associations involved in tax matters to reduce tax malpractices perpetrated by taxpayers with the connivance and often active support of external auditors and tax consultants. In other to support the cashless economy currently operating in Nigeria and proper accountability, all taxes should be remitted via direct payment to the various tax authorities' accounts or via an e-payment system in other to eradicate income inequalities as one of the major goals of sustainable development by the year 2030.

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