EFFECT OF TAX SYSTEM ON ECONOMIC GROWTH IN NIGERIA

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Abstract

This research explores the impact of the tax system on the economic growth of Nigeria. The study utilized data extracted from annual financial reports of the Central Bank of Nigeria, focusing on indicators like Gross Domestic Product, Petroleum Profit Tax, Value Added Tax, and Company Income Tax. The chosen timeframe spans 28 years, encompassing the years 1984 to 2021, aiming to assess how the tax system influences economic growth in Nigeria. To analyze the data, the researchers employed an Autoregressive Distributed Lag (ARDL) technique and conducted preliminary tests before the main analysis. The outcomes of the research indicate that all the explanatory variables (Petroleum Profit Tax, Value Added Tax, and Company Income Tax) exhibit positive effects on the dependent variable (Gross Domestic Product). However, the impact of Petroleum Profit Tax was found to be statistically insignificant. Based on the findings, the study concludes that there exists a noteworthy positive relationship between the tax system and economic growth in Nigeria. Consequently, the research recommends that all sectors adhere to established tax policies and standards to minimize tax avoidance and evasion. This, in turn, could lead to an increase in overall government revenue.

1. INTRODUCTION

A lack of effective policies can hinder the progress and competitive edge of individuals, businesses, and governments. Similarly, a nation without pragmatic policies faces challenges in both economic and political spheres. Policies serve as a set of guiding principles that aid individuals, businesses, and governments in making informed economic choices (Fasua et al., 2023). In the context of a country's tax matters, a multitude of policies exist to assist governments in making economic decisions. These encompass guidelines for both indirect and direct taxes,

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considerations for their incorporation or exclusion, and the impacts of newly enacted policies. Tax policies play a crucial role in helping governments arrive at vital decisions and serve as a foundation for evaluating a country's economic growth and development (Adu, 2021).

According to Brautigam (2017), Nigeria's tax system can be traced back to 1904 when the personal income tax (PIT) ordinance was established in the northern division of Nigeria before the nation's divisions were amalgamated by colonial powers. This approach was subsequently extended to the western and eastern divisions in 1917 and 1928, respectively, through the native revenue ordinance, with additional amendments in the 1930s. These changes were later consolidated into the Direct Taxation Ordinance No. 4 of 1940 (Arowomole & Oluwakayode, 2016). Over time, the Nigerian tax system has undergone various reforms aimed at enhancing tax collection and oversight while minimizing administrative costs. However, a major challenge faced by the Nigerian economy is the current tax system in place, which has led to issues such as non-voluntary taxpayer compliance due to the system's complexity, resulting in widespread instances of tax evasion and avoidance.

Economic growth is assessed through periodic changes in revenue, recorded productivity, economic diversification, and job creation. Adebowale (2019) asserts that economic growth generates "resources available for comprehensive development." Recently, an effective method for boosting government revenue has been through taxation, as suggested by Fasua (2021). Historically, taxation wasn't a primary revenue source for any level of government in Nigeria, according to Richards and Ekhator (2019). However, due to the challenges stemming from overreliance on oil revenue, Nigerian governments at all levels have been compelled to seek alternative non-oil revenue sources, like taxation, due to the volatility of the global oil market.

This shift in focus towards generating tax revenue has led to an influx of taxes and sometimes unfavorable treatment of taxing authorities. To address these issues, the proposition of formulating a National Tax Policy emerged, aiming to define taxation objectives and establish fundamental principles for managing the Nigerian tax system.

Motivated by these circumstances, this study aims to investigate the relationship between taxation policy and the economic growth and development of Nigeria. The principal objective is to analyze how taxation policy influences public economic growth and development in Nigeria. The specific objectives include exploring the correlation between petroleum profit tax and economic growth and development, examining the connection between value added tax and economic growth and development, and investigating the relationship between company income tax and economic growth and development in Nigeria.

To attain the stated goals, this research will examine the subsequent hypotheses: there exists no noteworthy correlation between actual gross domestic product and petroleum profit tax; there exists no significant association between

actual gross domestic product and value added tax; and there exists no substantial link between actual gross domestic product and company income tax. The remaining facets of this investigation are addressed through a conceptual review, theoretical review, empirical review, methodology, data analysis, and ultimately, the conclusion.

2. LITERATURE REVIEWS

2.1. CONCEPTUAL REVIEW

Tax represents an unavoidable obligation imposed by the government on both individuals and businesses, aimed at pooling resources to cover incurred expenses and address public requirements. This is an essential mechanism for governments to fulfill the needs of their citizens (Institute of Chartered Accountants of Nigeria [ICAN], 2020; Fasua et al., 2023). Consequently, diverse forms of tax revenue contribute to both a country's capital development and recurrent expenditure. Tax revenue serves as a primary source through which a nation accumulates financial resources necessary to meet its citizens' constitutional demands. The increasing responsibilities faced by modern governments have compelled them to seek more effective means of generating ample income to tackle challenges spanning various sectors and citizenry. These challenges extend beyond revenues derived solely from crude oil, given the diverse spectrum of needs across education, pandemic responses, infrastructure provision, and security against internal and external threats.

The importance of tax revenue cannot be overstated, as it serves as a pivotal mechanism for a country's developmental and economic sustainability (Mladen, 2015). Tax holds diverse roles in a nation's growth and progress. Beyond being a revenue generator for the government, it functions as a tool through which fiscal policies are executed. These policies are instrumental in mitigating unemployment levels, addressing wealth and income inequality, managing inflation rates, and curbing consumption patterns. Consequently, tax operates as the driving force propelling a nation forward. It provides a steady and anticipated stream of income to fund developmental ventures. Hence, a well-structured and efficient tax system empowers the government to amass adequate resources to cover projected expenses, cater to citizens' needs, contribute meaningfully to the global economy, elevate citizens' quality of life, enhance education standards, bolster healthcare provision, create employment opportunities, offer essential amenities, and ensure the safety of lives and property (Ofoegbu et al., 2016).

The Companies Income Tax Act (CITA) defines a company as any corporate entity (excluding sole proprietorships) established under the laws of Nigeria or any other authority. As per ICAN (2020), the tax rate for small firms is 20% on their taxable profits, while the rate is 30% for regular trades or businesses. The Value Added Tax (VAT) is governed by the Value Added Tax Act Cap VI, 2004 LFN. This Act replaced the sales tax regulated by Federal Government decree No. 7 of 1986. VAT is a specific type of indirect tax that is levied at various stages

of production and distribution of goods and services. According to ICAN (2020), VAT is imposed on the value added, which is the difference between a company's sales and its purchases of inputs from other companies. Alternatively, it represents the cumulative contribution a company makes to a product or service by utilizing its own production resources. In Nigeria, the current VAT rate is 7.5%, applied to selected lists of goods and services. Exceptions include items like medical and pharmaceutical products, as well as basic food items.

The Petroleum Profit Tax Act mandates the taxation of profits derived from petroleum mining in Nigeria and outlines the assessment, collection, and associated objectives of such tax. The governing legislation is the Petroleum Profits Tax Act (PPTA), which was initially enacted in 1959 with retroactive effect from 1 January 1958. This primary Act and all its subsequent amendments are consolidated under Chapter P13 of the Laws of the Federation of Nigeria (LFN) 2004. Petroleum profit tax (PPT) is a tax applicable to upstream activities in the oil industry. It primarily relates to rents, royalties, margins, and profit-sharing elements associated with oil mining, prospecting, and exploration leases. It holds significant importance in Nigeria, contributing to 95% and 70% of foreign exchange earnings and government revenue, respectively.

Economic Growth

Economic growth pertains to the expansion of material production within a relatively short timeframe, usually a year, driven by positive changes. In economic theory, the concept of economic growth involves an annual increase in material production, quantified by the growth in national income. However, this growth alone doesn't encompass economic development. Economic development entails not only the augmentation of material production but also encompasses broader socioeconomic progress and transformations prompted by both economic and non-economic factors (Fasua et al, 2023; Mladen, 2015).

According to Adebowale (2019), economic growth is a comprehensive notion that encompasses not only income and productivity growth but also encompasses job creation and economic diversification. Policies play a pivotal role in influencing economic growth, including measures relating to security, employment generation, agricultural output, and poverty reduction. This kind of growth generates resources that are reasonably available for holistic development across various aspects, including economic development. Economic development, however, extends over a longer duration and involves a sequence of structural changes.

The study posits that a country's economic development can be achieved through increased engagement in industrial production's processing capabilities, and at higher stages, it increasingly centers on the service sector. The synthesis of various existing literature reviews reveals a consensus among different studies' definitions of economic growth and development.

2.2. THEORETICAL REVIEW

A Tax Revenue Theory

Kiabel and Nwokah (2018) assert that the foundation of a tax revenue theory rests on the assumption that paying taxes and receiving benefits from the government are not directly correlated. Thus, the theory of tax revenue posits that social and political objectives should guide tax selection. According to this theory, the purpose of a tax system isn't to exclusively cater to individual citizens, but rather to address the overall health of the state. This forms a reciprocal relationship between the nation and its taxpayers. The country provides specific services to its citizens, who, in turn, contribute to the costs of these provisions in proportion to the benefits they receive. A country's tax system significantly influences various macroeconomic indicators. In particular, the theory argues that for both developed and developing nations, there exists a connection between economic growth and tax structure. It contends that the level of economic development has a substantial impact on a nation's tax foundation, and tax policy objectives differ with different development levels. As described by Olapade (2010), growth signifies an expansion in economic activities, while economic growth denotes an increase in a country's potential GDP or production.

The Musgrave-Rostow model (1998) examines the growth of public expenditure, focusing primarily on taxes as the primary revenue source. The study concludes that during the early stages of economic development, public spending growth might not be extremely low, as governments provide crucial infrastructure, many of which are capital-intensive investments. Consequently, government expenditure gradually increases. The primary goal of taxes is to generate revenue to cover government expenses, redistribute wealth, and regulate the economy (Olugbemi et al., 2020). Taxes can serve as a significant tool in various ways. For instance, they can facilitate the optimal allocation of available resources by diverting income from taxed sectors to non-taxed sectors. This redistribution of resources aims to boost overall state growth. Tax resources can be directed towards developmental initiatives in underdeveloped sectors where typical investors might be hesitant to invest. An effective tax system can also mitigate income and wealth inequality, stimulate economic growth, ensure price stability, and manage critical economic conditions like depression and inflation.

2.3. EMPIRICAL REVIEW

Olugbemi et al. (2020) conducted a study on the correlation between tax revenue and economic growth by utilizing a multiple regression model. This model was employed to assess the influences of taxation, government expenditure, and domestic investment on Nigeria's economic growth. The study's results indicated a positive impact of tax revenue on economic growth, using GDP as a representation

of economic growth. Specifically, taxation, government expenditure, and domestic investment displayed positive effects on Nigeria's economic growth.

In a similar vein, Dibia and Onwuchekwa (2019) examined the relationship between taxation and economic growth in Nigeria using time series data. They explored the connection between Nigeria's economic growth, represented by Real Gross Domestic Product (RGDP), and taxation, decomposed into company income tax and petroleum profit tax. Through pre-estimation and multivariate regression techniques, the study revealed that both petroleum profit tax and company income tax share statistically significant positive relationships with Nigeria's RGDP.

Cornelius et al. (2016) delved into the impact of tax revenue on Nigeria's economy, utilizing regression analysis. Their study focused on the connection between petroleum profit tax and the growth of Nigeria's economy. Their findings pointed towards a significant relationship between petroleum profit tax and economic growth within Nigeria's economy, while company income tax exhibited no significant relationship with economic growth in the country. Turning to the role of accountancy firms in tax avoidance, Sikka and Hamphon (2015) investigated using chi-square and multiple regression analysis. Their research explored the link between company income tax and Nigerian economic development, using data collected from primary and secondary sources. The results highlighted a statistically significant relationship between company income tax and economic development.

In a separate study, Aabi (2011) examined the correlation between value added tax and economic growth in Nigeria. Through descriptive statistical methods and simple regression analysis using time series data, the study assessed the impact of VAT revenue, total tax revenue, and total revenue from 1994 to 2008 on the gross domestic product (GDP). The findings highlighted a statistically significant positive effect of value added tax on Nigeria's economic growth.

3. RESEARCH METHOD

This study employed preliminary estimation alongside a panel regression analysis to examine the impact of the tax system on economic growth within Nigeria. The variables representing the tax system include Petroleum Profit Tax (PPT), Value Added Tax (VAT), and Company Income Tax (CIT), while Gross Domestic Product (GDP) serves as a measure for economic growth.

3.1. MODEL SPECIFICATION

Descriptive statistics and correlation coefficients were computed for all the chosen variables, and the Augmented Dickey Fuller stationarity test was applied to determine the stationarity order of the variables. Moreover, the Autoregressive Distributed Lag (ARDL) Bound co-integration method was utilized to assess the enduring relationship between the dependent and independent variables. Lastly, the ARDL long-run form and co-integration test were employed to analyze the extended and immediate impacts of the tax system on economic growth in Nigeria. The overall ARDL model can be expressed as:

$$y_t = \sum_{i=1}^{j} a_i y_{t-i} + \sum_{l=0}^{k} b_l x_{t-l} + e_t \qquad \text{(iv)}$$

yt= dependent variables (GDP)

xt = independent variables (PPT, CIT, VAT)

a, b =ARDL Regression parameters

e_t = error term

In addition, we further subjected our results to post-estimation tests which include the Jarque-Bera (J-B) residual normality, serial correlation, and the heteroscedasticity tests.

The study used the panel data econometric technique to test the significance of various explanatory variables (PPT,CIT and VAT) on GDP. The study formulated a model for the purpose of the panel data analysis in this study. The model is specified as follows:

$$\text{GDP} = f(\text{ PPT, CIT, VAT}) \qquad \text{(3.1)}$$

$$\text{GDP} = \beta_0 + \beta_1 \text{PPT} + \beta_2 \text{CIT} + \beta_3 \text{VAT} + \varepsilon_t \qquad \text{(3.2)}$$

Where: GDP = Gross Domestic Product

PPT   =   Petroleum Profit Tax

CIT   =   Company Income Tax

VAT   =   Value Added Tax

ε_t =   Stochastic error term

β_0 =   Constant/Intercept

β_1 ….. β_3 =   Regression coefficients

3.2.   MEASUREMENT OF VARIABLES

Table 3. Measurement of Variables

S/N	Variable	Definitions	Capacity of Variables	Measurements/ Proxies	Aprior Expectation
1	GDP	Gross Domestic Product	Dependent	Disclosure	NA
2	PPT	Petroleum Profit Tax	Independent	Disclosure	+ve
3	VAT	Value Added Tax	Independent	Disclosure	+ve

4	CIT	Company Income Tax	Independent	Disclosure	+ve

Source: Researcher's Compilations (2023)

3.3.   SOURCES OF DATA

The data employed in this study are from secondary sources. This study used the periodic data of GDP, PPT, CIT and VAT on the Central Bank of Nigeria database and other relevant books spanning a twenty eight-year period (1984 to 2021). The choice of number of years is based on the period NTP was employed by the Federal Executive committee and sufficient enough to show short and long run effects.

4.   RESULTS AND DISCUSSION

This section contains the results of the descriptive statistics, correlations, unit root and long-run co-integration tests. All these tests are carried out to ascertain the statistical properties and the behavior of study variables with one another for model.

4.1.   PRELIMINARY ANALYSES

Descriptive Statistics

Table 4.1. Descriptive Statistics

	GDP	PPT	VAT	CIT
Mean	4.414393	1452241.	180039.1	191186.0
Median	4.625000	458650.0	52800.00	48650.00
Maximum	15.33000	16368300	802684.0	963551.0
Minimum	-1.810000	284.0039	845.4490	967.5800
Std. Dev.	3.789262	3113368.	244530.8	281330.5
Skewness	0.458080	4.115551	1.351942	1.502367
Kurtosis	3.808652	20.26766	3.490605	3.939888
Jarque-Bera	1.742143	426.9103	8.810289	11.56378
Probability	0.418503	0.000000	0.012214	0.003083
Sum	123.6030	40662741	5041096.	5353209.
Sum Sq. Dev.	387.6797	2.62E+14	1.61E+12	2.14E+12
Observations	28	28	28	28

Table 4.1 contains descriptive statistics of the study variables. Relevant to the present study are the mean, skewness, kurtosis and the J-B statistics (and its probabilities). For the study, the average (mean) values of GDP, PPT, CIT and VAT are 4.41%, #1452241.M, #180039.1M and 191186.0M, respectively. All the variables are skewed to the right of the mean. GDP, PPT, CIT and VAT have

skewness coefficients 0.458080, 4.115551, 1.351942 and 1.502367, respectively. These skewness coefficients are not far from the mean. 3.808652 20.26766 3.490605 3.939888 VAT has kurtosis approximately 3, signifying that the variable is normally distributed; VAT is platykurtic with kurtosis approximately 3 and are normally distributed. However, GDP, PPT and CIT are all leptokurtic as their kurtoses are all greater than 3. This scenario is further confirmed by the JB statistics and their respective probabilities. VAT is normally distributed. There are 28 observations (years) in all.

Correlations Coefficients

Table 4.2. *Correlation Coefficients*

	GDP	PPT	VAT	CIT
GDP	1.000000			
PPT	0.113724	1.000000		
VAT	0.413625	0.176332	1.000000	
CIT	0.375181	0.174849	0.794072	1.000000

Table 4.2 contains correlation coefficients among the study variables in the models. However, our interest is in the correlation of PPT, VAT and CIT with GDP variable. PCGD has a fairly low positive correlation with GDP (0.11, 0.41 and 0.37).

Unit Root Tests

To test for the stationarity of the research data, we subject the variables to the Augmented Dickey Fuller – Fisher unit root test and the results are summarized in table 4.3

Table 4.3. *Summary of Unit Root Tests Results*

Variable	ADF Statistics	At Level 5% critical value	Prob.	ADF Statistics	At First Difference 5% critical value	Prob.	Stationarity Order
VAT	-1.7556	-2.9762	0.3924	-5.10828	-3.5950	0.0018	I(1)
CIT	-0.0425	--3.5866	0.9934	-6.20485	-3.5403	0.0001	I(1)
PPT	-5.4060	-3.5629	0.0006	-	-		I(0)
GDP	-4.3003	-3.5366	0.0083	-	-	-	I(0)

Source: Author's computation with E-Views 10 (2023).

Two of the variables (PPT and GDP) are stationary at level given their ADF-Fisher statistics and their probabilities [-5.4060 (0.0006<0.05) and -4.303 (0.0083<0.05) respectively. However, VAT and CIT are all stationary at first difference given their ADF-Fisher statistics and their corresponding probabilities as

revealed on table 4.2. These results, among other support the use of ARDL to analyze the data for inference purpose.

ARDL Bound Co-integration Tests.

We tested for the existence of long-run relationship between the explanatory and each of the dependent variable GDP) using the ARDL Bound test. Table 4.4 summarizes the results of the test.

Table 4.4. ARDL Bound Test (Models 1-3)

Model 1: **Dependent Variable = GDPC**				
F – Bounds Test Relationship			Null Hypothesis: No Long-run	
Test Statistic	Value	Significant	1(0)	1(1)
F – Statistic	1.767795	10%	2.72	3.77
k	3	5%	3.23	4.35
		2.5%	3.69	4.89
		1%	4.29	5.61

Source: Author (2023)

At k = 3 degree of freedom, the calculated F-Statistics of model is 1.767795. The Bound test employs to ascertain whether the variables examine are co-integrated. Table 4.4 summarizes the outcomes of Bound test conducted. From Table 4.4 the F-Statistic is 1.767795 which is lower than the critical lower and upper bounds at 99%, 97.5%, 95% and 90% level of significance. This implies that the variables employed in this study are not co-integrated. The null hypothesis of co-integration can be accepted. The existence of co-integrating equations among the variables, but with the results of unit root test offer the basis for using the ARDL method in estimating short and long run relationship between the dependent variable, GDP and independent variables, PPT, VAT and CIT.

4.2. SHORT-RUN EFFECTS OF TAX SYSTEM ON ECONOMIC GROWTH IN NIGERIA

Having ascertained that the variables are stationary at level and first difference and that according to the result of Bound test they are no long run co-integrated, the ARDL technique is then employed to investigate the short and long-run the effect of tax system variables on the GDP Table 4.5 is the ARDL results.

In the short-run, the PPT, CIT and VAT positively affect GDP but PPT impact is statistically insignificant. A unit rise in CIT and VAT will cause economic growth (GDP) to significantly increase by 0.000218 and 0.000209 respectively with a probability values of 0.0392 and 0.0406 respectively ($p < 0.05$). One potential explanation for this observation in the short run is that while Petroleum Profit Tax (PPT), Company Income Tax (CIT), and Value Added Tax (VAT) all seem to have a positive impact on Gross Domestic Product (GDP), the lack of statistical significance in the impact of PPT might be attributed to its relative contribution or its sensitivity to immediate changes. On the other hand, a unit increase in both CIT and VAT appears to lead to a statistically significant

increase in economic growth (GDP) by approximately 0.000218. This suggests that in the short term, the influence of CIT and VAT on stimulating economic growth might be more consistent and notable compared to the impact of PPT.

However, PPT exerts positive but statistically insignificant effect on economic growth (GDP). An addition unit in PPT will lead to insignificant 9.84E-08 in economic growth (GDP) with a probability of 0.6957 (> 0.05). This is not in agreement with *a*-priori expectation; One potential explanation for the situation where Petroleum Profit Tax (PPT) has a positive but statistically insignificant impact on economic growth (GDP) could be related to its weight or relevance in the overall economic landscape. While there appears to be a positive relationship between PPT and GDP, the lack of statistical significance might indicate that the scale of change in PPT doesn't exert a substantial enough influence on GDP to be confidently attributed to the tax itself. This could be due to various factors, such as the structure of the tax rate, its relative contribution to government revenue, or the intricate interplay of other economic factors that outweigh its direct impact. The insignificant result might also highlight the complex nature of economic growth, which is influenced by a multitude of variables beyond the scope of PPT alone.

The null hypotheses of no significant effects of CIT and VAT on economic growth in the short-run cannot be accepted while alternative will be accepted because the effect is statistically significant, but in case of PPT null hypotheses of no significant effect of PPT on economic growth in the short-run cannot be rejected since it is not significant sufficient for inference rationale. The CointEq (-1) of -1.493513 implies that about 1.49% of last year's deviations in GDP is corrected in the present year by the independent variables.

Table 4.5. *Short-run Effects*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	458.1729	187.4665	2.444026	0.0557
D(GDP(-1))	0.139327	1.088051	0.308170	0.7684
D(PPT)	9.84E-08	2.40E-07	0.410525	0.6957
D(CIT)	0.000218	0.000083	2.628461	0.0392
D(VAT)	0.000209	0.000080	2.600361	0.0406
CointEq (-1)*	-1.493513	1.303176	-1.146057	0.2954

R-squared	0.788683	Mean dependent var	4.414393
Adjusted R-squared	0.263632	S.D. dependent var	3.789262
S.E. of regression	365.2348	Akaike info criterion	14.86214
Sum squared resid	2934722.	Schwarz criterion	15.23579
Log likelihood	-214.1830	Hannan-Quinn criter.	14.98167
F-statistic	2.483200	Durbin-Watson stat	2.041206
Prob(F-statistic)	0.048563		

Source: Author's Computation, 2023.

4.3.   POST ESTIMATION TESTS

Four post-estimation tests were carried out on the study results, including, Jarque-Bera (J-B) residual normality, serial autocorrelation, heteroscedasticity tests. Table 4.6 shows the summarized results of the J-B of residual normality for model.

Table 4.6. *Summarized Results of J-B Tests on Models 1 – 3.*

Model	J-B Statistics	Prob (J-B Stat)	Conclusion
	3.377583	0.184743	Normally distributed

Source: Author's Computation (2023).

The decision rules on whether residuals are normally distributed or not are to compare the probability of J-B statistics with the 0.05 level of significance. For model , the residuals are normally distributed if the probability of J-B statistics is greater than the 0.05 then the residuals are normally distributed and vice-versa. From table 4.6, the J-B statistics (3.377583) and its corresponding probability (0.184743) for model reveals that the residuals are normally distributed.

Table 4.7. summarizes the results of the serial correlation and heteroscedasticity tests which follow the standard F-distribution criterion.

Table 4.7. *Serial Correlation and Heteroscedasticity Tests*

Test	F-Statistics	Probability	Decision
Breusch-Godfrey Serial Correlation LM Test	31.02810	0.1131	No serial correlation
Breusch-Pagan-Godfrey Test of Heteroscedasticity	4.782436	0.1870	Heteroscedastic

Source: Author's (2023)

Given the estimated values of F-distribution and their respective probabilities (>0.05) for models, the residuals of the results are free from serial correlation problem and heteroscedastic.

5. CONCLUSION AND RECOMMENDATIONS

This study examined the effect of tax system on economic growth in Nigeria. The model was formulated for the purpose of analysis. In the short run, CIT and VAT have positive and significant effect on economic growth. The study reveals that while Petroleum Profit Tax (PPT) exhibits a positive relationship with economic growth (GDP), this impact is statistically insignificant. Despite this, both Company Income Tax (CIT) and Value Added Tax (VAT) are found to have a significant positive influence on GDP in the short run.

Given the results, policymakers should consider exploring strategies to enhance the effectiveness of Petroleum Profit Tax (PPT) in contributing to economic growth. This might involve evaluating the existing tax structure, its proportion in government revenue, and potential adjustments to make it more impactful. Additionally, the positive impact of CIT and VAT underscores their potential as revenue sources that actively foster economic growth. Hence, the government could focus on optimizing these tax mechanisms further, potentially by aligning them with specific sectors or economic activities that are conducive to growth.

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APPENDIX

DATA

YEAR	GDP	PPT	CIT	VAT
1984	-1.12	4,762	787	
1985	5.91	6,711	1,004	
1986	0.06	4,811	1,101	
1987	3.2	12,504	1,235	
1988	7.33	6,815	1,551	
1989	1.92	10,598	1,914	
1990	11.78	26,909	2,997	
1991	0.36	38,616	3,828	
1992	4.63	51,477	5,417	
1993	-2.04	59,208	9,554	
1994	-1.81	42,803	12,275	7,261
1995	-0.007	42,858	21,878	20,761
1996	4.2	76,667	22,000	31,000
1997	2.94	68,574	26,000	34,000
1998	2.58	68,000	33,300	36,000
1999	0.58	164,300	46,200	47,100
2000	5.02	525,100	51,100	58,500
2001	5.92	639,200	68,700	91,800
2002	15.33	392,200	89,100	108,600
2003	7.35	683,500		

YEAR	GDP	PPT	CIT	VAT
			114,800	136,400
2004	9.25	1,183,600	113,000	159,500
2005	6.44	1,904,900	140,300	178,100
2006	6.06	2,038,300	244,900	221,600
2007	6.59	1,500,600	275,300	289,600
2008	6.76	2,812,300	416,800	404,500
2009	8.04	1,256,500	568,100	468,400
2010	8.01	1,944,700	657,300	562,900
2011	5.31	3,070,591	659,596	659,154
2012	4.23	3,201,319	816,519	710,555
2013	6.67	2,666,370	963,551	802,684
2014	6.31	1,927.54	967.58	845.449
2015	2.65	1,484.88	1,404.38	1,283.70
2016	-1.62	484.739	1,791.41	1,475.03
2017	0.81	910.3131	1,704.34	1,800.00
2018	1.92	2,666.02	1,669.32	1,543.99
2019	2.21	4,301.18	1,708.51	1,703.89
2020	-1.79	284.0039	1,767.89	2,190.62
2021	3.65	16,368,300.00	1,476.87	1,838.35
YEAR	GDP	PPT	CIT	VAT
1984	-1.12	4,762	787	
1985	5.91	6,711	1,004	
1986	0.06	4,811	1,101	
1987	3.2	12,504	1,235	
1988	7.33	6,815	1,551	
1989	1.92	10,598	1,914	

1990	11.78	26,909	2,997	
1991	0.36	38,616	3,828	
1992	4.63	51,477	5,417	
1993	-2.04	59,208	9,554	
1994	-1.81	42,803	12,275	7,261
1995	-0.007	42,858	21,878	20,761
1996	4.2	76,667	22,000	31,000
1997	2.94	68,574	26,000	34,000
1998	2.58	68,000	33,300	36,000
1999	0.58	164,300	46,200	47,100
2000	5.02	525,100	51,100	58,500
2001	5.92	639,200	68,700	91,800
2002	15.33	392,200	89,100	108,600
2003	7.35	683,500	114,800	136,400
2004	9.25	1,183,600	113,000	159,500
2005	6.44	1,904,900	140,300	178,100
2006	6.06	2,038,300	244,900	221,600
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2016	-1.62	484.739	1,791.41	1,475.03
2017	0.81	910.3131	1,704.34	1,800.00
2018	1.92	2,666.02	1,669.32	1,543.99
2019	2.21	4,301.18	1,708.51	1,703.89
2020	-1.79	2,840,039	1,767.89	2,190.62
2021	3.65	16,368,300	1,476.87	1,838.35