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TAXATION AND NIGERIA ECONOMIC GROWTH

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ABSTRACT

The study examined the impact of taxation on economic growth in Nigeria from 1980 to 2014.To achieve the objective of the study, relevant secondary data were collected from the Central Bank of Nigeria (CBN) Statistical Bulletin and other relevant government agencies. The data collected were analysed using descriptive statistics and econometric models. The results from such the augmented Dickey-Fuller (ADF) statistic, unit root test show that taxation has positive and significant relationship with economic growth. On the basis of the findings, the study concluded that taxation improves the revenue generating machinery of government to undertake socially desirable expenditure that would translate to economic growth in real output. However, it was recommended that sustainable economic growth cannot be attained with tax reform processes except obsolete tax laws and rates were reviewed in line with macroeconomic objectives, corrupt-free and efficient tax administrative machinery with personnel's and accountability and transparency of government officials in the management of tax revenue.

INTRODUCTION

Tax is a major source of government revenue all over the world. Government use tax proceeds to render their traditional functions, such as the provision of public goods, maintenance of law and order, defence against external aggression, regulation of trade and business to ensure social and economic maintenance. Azubike (2009) noted that tax reform is an on-going process with tax policy makers and tax administrators continually adopting the tax systems to reflect changing economic, social and political circumstances in the economy. Policy of taxation in Nigeria is directed towards achieving some specific objectives which include amongst others revenue generation and upholding economic growth (David Umoru & Anyiwe (2013). Recently, the Nigerian government introduced the National Tax Policy (NTP). This is a policy geared towards shifting from direct to indirect taxation in Nigeria.

For development and growth of any society, the provision of basic infrastructure is quite necessary. This perhaps explains why the government shows great concern for a medium through which funds can be made available to achieve their set goals for the society (Fagbemi Uadiale & Noah, 2010). Governments need money to be able to execute its social obligations to the public and these social obligations include but not limited to the provision of infrastructure and social services. Tax is a major source of government revenue all over the world. Government use tax proceeds to render their traditional functions, such as the provision of public goods, maintenance of law and

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order, defence against external aggression, regulation of trade and business to ensure social and economic maintenance (Azubike, 2009 & Edame, 2008).
According to Ogbona and Ebimobowei (2012), the political, economic and social development of any country depends on the amount of revenue generated for the provision of infrastructure of a given country. According to Azubike (2009), tax is a major player in every society of the world. The tax system is an opportunity for government to collect additional revenue needed in discharging its pressing obligations. A tax system offers itself as one of the most effective means of mobilizing a nation's internal resources and it lend itself to creating an environment conducive to the promotion of economic growth.
Odusola (2006) states that in Nigeria, the government's fiscal power is divided into three-tiered tax structure between the federal, state and local governments, each of which has different tax jurisdictions. It is on the account of this lopsided revenue structure that tax experts and scholars stated in clear terms that the Nigerian tax system is need to be reformed to achieve long term economic growth and development. 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 (Appah, 2004; Appah & Oyandonghan, 2011). Anyanfo (1996) & Anyanwu (1997) state that tax are imposed to regulate the production of certain goods and services, protection of infant industries, control business and curb inflation, reduce income inequalities etc. Tosun and Abizadeh (2005) say taxes are used as proxy for fiscal policy. They outlined five possible mechanisms by which taxes can affect economic growth. First, taxes can inhibit investment rate through such taxes as corporate and personal income, capital gain taxes. Second, taxes can slow down growth in labour supply by disposing labour leisure choice in favour of leisure. Third, tax policy can affect productivity growth through its discouraging effect
On research and development expenditures. Fourth, taxes can lead to a flow of resources to other sectors that may have lower productivity. Finally, high taxes on labour supply can distort the efficient use of human capital high tax burdens even though they have high social productivity. Tax is a major source of government revenue all over the world. Government use tax proceeds to render their traditional functions, such as the provision of public goods, maintenance of law and order, defense against external aggression, regulation of trade and business to ensure social and economic maintenance (Azubike, 2009). Musgrave and Musgrave (2004) also stated that the economic effects of tax include micro effects on the distribution of income and efficiency of resource use as well as macro effect on the level of capacity output, employment, prices, and growth. However, the use of tax as an instrument of fiscal policy cannot be achieved because of dwindling level of revenue generated as a result of ineffectiveness of government officials. Kiabel & Nwokah (2009) argue that the increasing cost of running government coupled with the dwindling revenue has left all tiers of government in Nigeria with formulating strategies to improve the revenue base. Tax is dynamic, so reforms are necessary to effect the required changes in the national economy (Ola, 2001). Azubike (2009) notes that tax reform is an ongoing process with tax policy makers and tax administrators continually adopting

the tax systems to reflect changing economic, social and political circumstances in the economy.

Objectives of the Study

The broad objective of this study is to examine the role of taxation on economic growth and development of the Nigeria economy. From the broad objective above, the specific objectives of this study are as follows:

To examine the relationship between taxation and economic growth in Nigeria.

To examine the differences between various taxes and their impact on the Nigeria economy.

Significance of the Study

The study is expected to be of benefit to revenue officials who are saddled with the responsibility of ensuring that tax payers are not negligent in paying their taxes. It will also assist in knowing if taxes are evaded. The outcome of this research will enable them to have a better understanding to why tax payers evade taxes. Therefore, when these reasons are adequately appraised, it is expected that it will in turn translate to the provision of necessary infrastructure for the society when the resources are judiciously utilized.

The research is also expected to be of benefit to researchers and students hence, it serves as reference point for future researchers and blue print for policy makers. Chimuya (2006) notes that curling tax evasion is one of the most complex activities in tax administration. This is often attributed to the fact that tax evasion takes many forms and facets. Thus, one of the major keys to successfully reduce tax evasion activities is to first and foremost understand the behaviour of taxpayers and the reasons that cause such specific behaviour. This study therefore addresses these issues.

Scope of the Study

The study focuses on the impact of taxation on economic growth in Nigeria. The work covered the period of 1981 to 2012. This period was chosen to incorporate the impact of taxes on economic growth and also to accommodate data availability.

LITERATURE REVIEW

The achievement of macroeconomic objectives of full employment, stability of price level, high and sustainable economic growth and external balance, from time immemorial, has been a policy priority of every economy whether developed or emerging given the susceptibility variables to fluctuations in the economy. The achievements of these objectives undoubtly is not automatic but requires policy guidance. According to Olawunmi and Ayinla (2007), this policy guidance represents the objective of economic policy. Therefore, fiscal and monetary policy instruments are the main instruments of achieving these goals. The main fiscal policy instruments are taxation and public expenditure while monetary policy instruments are reserve requirements, discount rates and open market operations. This study examines the effect of taxation on economic growth in Nigeria.

Taxation as defined by Ogundele (1999) is the process or machinery by which communities or groups of persons are made to contribute in some agreed quantum and method for the purpose of the administration and development of the society. It

can be inferred that the payment of tax will in turn be beneficial to the entire citizenry. This view is similar to the definition of Soyode and Kajola (2006) who defined tax as a compulsory exaction of money by a public authority for public purposes. Nightingale (1997) describes tax as a compulsory contribution imposed by the government. These various authors concluded that it is possible for tax payers not to receive anything identifiable for their contribution but that they have the benefit of living in a relatively educated, healthy and safe society. However, the infrastructure which tax payers are supposed to enjoy is in a deplorable condition Fafunwa, (2005), educational system is in disarray Obaji, (2005) and the health system is in a worrisome condition Lambo, (2005).The World Bank (2000) notes that taxes are a compulsory transfer of resources to the government from the rest of the economy. They may be levied in cash or in-kind (for example, involving mandatory labour), and they can be explicit or implicit. Other classifications of taxes are direct or indirect,classification by incidence and proportional, progressive and regressive, classification by burden of distribution. Adeyeye (2004) described tax as a liability on account of the fact that the tax payer has an income of a minimum amount and from certain specified source(s) or that he owns certain tangible or intangible property or that he is engaged in certain economic activities which have been chosen for taxation. Therefore, the individual contributes in some quantum measure to the fund available for use by government in providing necessary infrastructure for her citizens. (The World Bank, 2000; Adeyeye, 2004:18; Soyode & Kajola, 2006).

Tax, according to Black's Law Dictionary is a financial charge or other levy imposed on an individual or a legal entity by a State or a functional equivalent of a State (for example, secessionist movements or revolutionary movements). Taxes are also imposed by many sub-national entities. Taxes consist of direct tax or indirect tax, and may be paid in money or as its labour equivalent (often but not always unpaid). In essence, tax is seen as pecuniary burden put upon individuals or property to support the government in its oversight activities of a nation and exacted by legislative authority (Fagbemi et al, 2010).

In Nigeria, the taxation system dates back to 1904 when the personal income tax was introduced in northern Nigeria before the unification of the country by the colonial masters. It was later implemented through the Native Revenue Ordinances to the western and eastern regions in 1917 and 1928, respectively. Among other amendments in the 1930s, it was later incorporated into Direct Taxation Ordinance No. 4 of 1940 (Library of Congress, 2008). In essence, the Nigerian tax system has been based on 1948 British tax laws and has been undergoing a lot of changes. Since then, different governments have continued to improve on Nigeria's taxation system. A vital aspect of the improvement on the nation's tax system is the recent Federal Inland Revenue Service (Establishment) Act, 2007, Companies Income Tax (Amendment) Act, 2007 and the Draft National Tax Policy pending before the National Assembly (Soyode & Kajola, 2006). On the other hand, Kay, (1980) opined that tax avoidance takes place when facts of the transaction are admitted but they have been arranged or presented in such a way that the resulting tax treatment differs from that intended by the relevant legislation. In essence, tax evasion is illegal while tax avoidance is not illegal under the ambience of the law (Soyode & Kajola, 2006:

60; Kay, 1980: 142-145

Meaning of Taxation

Taxation is a simple language; it is a compulsory non-quid –pro-quo withdrawal of resources from the private sector of the economy (Nwosu, 2000). Anyanwu (1993) and Nwezeaku (2005) stated that taxation is the compulsory transfer or payment for occasionally of goods and services) from private individuals, institutions or groups to the government. Similarly Jhingan (2004b), Nzotta (2007), Ola (2001), Oseigbu et al (2010), Bhartia (2009), Anyanfo (1996) and Musgrave and Musgrave (2004), define taxation as follows:"a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the taxpayers in return". "A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all, without references to special benefits conferred". This definition points towards three characteristics of taxation: It is a common contribution imposed by the government on the people residing in the country. A tax is payment made by the taxpayers which is used by the government for the benefit of all the citizens. The state use the revenue collected from taxes for providing hospitals, schools, public utility services, etc. which benefits all people. A tax is not levied in return for any specific service rendered by the government to the taxpayer. An individual cannot ask for any special benefits from the state in return for the tax paid by him. Anybody that refuses to pay tax is liable to punishment. But a tax is to be paid only by those who come under its jurisdiction.

THEORETICAL ISSUES

Taxation Theory

A taxation theory may be derived on the assumption that there need not be any relationship between tax paid and benefits received from state activities. There are several theories namely,

Benefit received theory

Cost-of-service theory

The final theory of taxation is the ability to pay theory.

Also, a taxation theory may be based on a link between tax liability and state activities. This reasoning justifies the imposition of taxes for financing state activities and also providing a basis for apportioning the tax burden between members of the society. This reasoning yield the benefit received theory a on cost of service theory. There is also the faculty theory of taxation.

Socio Political Theory

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 .should be looked at in its social and political context and an appropriate solution found thereof. The society consisted of individuals, but was more tan sum total of its individual members. It had an existence and entity of its own which needed preservation and taking care of. Accordingly, a tax system should not be designed to serve individual members of the society, but it should be used to cure the ills of society as a whole. Wagner, in other words, was advocating a modern welfare approach in evolving and adopting a tax

policy. He was specifically in favor of using taxation for reducing income inequalities.

He maintained that private property and inheritance were the results of state policies and not because of any God-given rights. The state, therefore, had the right to control the ownership of property and its inheritance in the interests of the society as a whole. Wagner's ideas, though much criticized at that time, are now the hall-mark of fiscal policies of modern state.

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 as also the effects of a tax system should be treated irrelevant (Bhartia, 2009). 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 promote 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. Taxation 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 Benefit Received Theory: This theory proceeds on the assumption that there is basically an exchange relationship between tax-payers and state. The state provides certain goods and services to the member spy the society and they contribute to the cost of these supplies in proportion to the benefits received (Bhartia, 2009). Anyanfo (1996) argues that taxes should be allocated on the basis of benefits received from government expenditure. In this quid pro quo set up, there is no place for issues like equitable distribution of income and wealth. Instead, the benefits received are taken to represent the basis for distributing the tax burden in a specific manner. These theories overlook the possible use of the tax policy for bringing about economic growth or economic stabilization in the country.

Cost of Service Theory

This theory is similar to the benefits received theory. It emphasizes the semi commercial relationship between the state and the citizens to a greater extent. In this theory, the state is being asked to give up basic protective and welfare functions. It is to scrupulously recover the cost of the services and therefore this theory implies a balanced budget policy. In the process, the state is not to be concerned with problem of income distribution. No effort is to be made to improve income distribution; and no notice is to be taken if the policy of levying taxes according to the cost of service principles deteriorates it further.

Faculty Theory

According to Anyanfo (1996), this theory states that one should be taxed according to the ability to pay. It is simply an attempt to maximize an explicit value judgment about the distributive effects of taxes. Bhartia (2009) argues that a citizen is to pay taxes just because he can, and his relative share in the total tax burden is to be determined by his relative paying capacity.

Ability to Pay Theory

This approach considers tax liability in its true form. Compulsory payment to the state without *quid pro quo*. It does not assume any commercial or semi-commercial relationship between the state and the citizens. According to this theory, a citizen is to pay taxes just because he can and its relative share in the total tax burden is to determine by his relative paying capacity. This doctrine has been in vogue for at least as long as the benefits theory. A good account of its history is found in Seligman. This theory was bound to be supported by socialist thinkers because of its conformity with the ideas and concepts of justice and equity. However the doctrine an equally strong support from non-socialist thinkers also and became a part of the theory of welfare economics.

The basic tenet of the theory is that the burden of taxation should be shared by the member of society on the principles of justice and equity and these principles necessitates that this tax burden is apportioned according to their relative ability to pay.

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 a tax is imposed on a commodity by state, it passes on to consumers automatically. Every individual bears burden of tax according to his ability to bear it. For instance, a specific tax is imposed on say, cloth. Manufacturer raises prices of commodity by the amount of tax. Consumers buy commodity according to their capacity and thus share burden of 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 various sections of community. Advocates of this theory assume perfect competition in the market but in world of reality, it is imperfect competition which prevails. If tax gets automatically diffused through the community, then most of worries of finance minister will be over. He will simply impose tax and collect money from people without worrying about final resting place of a tax. In actual practice we find that taxes do not get distributed equally. Some taxes remain where they are imposed first and some are partly or wholly shifted on to me consumers. Diffusion theory of taxation has however been criticized. The diffusion theory of taxation has never gained any importance in the world of reality. It has never been seen that a tax gets automatically equitably distributed among people. It is true that in some taxes, diffusion or absorption does take place but that too is not throughout the community. Accordingly, another criticism of the theory of taxation is that there are few taxes like income tax, inheritance tax, toll tax in which there is no absorption at all.

Tax Reforms in Nigeria

The dependence on oil revenue by all tiers of government in Nigeria has made the federal government to reform the existing tax laws. According to Alli (2009), the

objectives of tax reforms in Nigeria include: to bridge the gap between the National. Development needs and the funding of the needs; to ensure taxation, as a fiscal policy instrument, to achieving improved service delivery to the public; to improve on the level of tax derivable from non-oil activities, vis-à-vis revenue from oil activities; efforts at constantly reviewing the tax laws to reduce/ manage tax evasion and avoidance; and to improve the tax administration to make it more responsive, reliable, skilful and taxpayers friendly and to achieve other fiscal objectives.

The Nigerian tax reform has experienced series of reforms since 1904 to date. The effects of the various reforms in the country is as follows: introduction of income tax in Nigeria between 1904 and 1926; grant of autonomy to the Nigerian Inland Revenue in 1945; the Raisman Fiscal Commission of 1957; formation of the Inland Revenue Board in 1958; the promulgation of the Petroleum Profit Tax Ordinance No. 15 of 1959; the promulgation of Income Tax Management Act 1961; establishment of the Lagos State Inland Revenue Department; the promulgation of the Companies Income Tax Act (CITA) 1979; establishment of the Federal Board of Inland Revenue under CITA 1979; establishment of the Federal Inland Revenue Service Between 1991 and 1992; and tax policy and administration reforms amendment 2001 and 2004.

The government embarked upon the latest tax reform process by instituting Study Group on the Nigerian Tax System, consisting of individuals from business, academia, and the government to study the present tax laws and recommend the appropriate reform in general and their impact to the overall economy. As a result of the reform, nine (9) bills on tax reforms were approved by the Federal Executive Council for the consideration of the National Assembly and subsequently passed as Act. The Acts, are as enumerated as follows: Federal Inland Revenue Service Act 2004; Companies Income Tax Act 2004; Petroleum Profit Tax Act 2004; Personal Income Tax Act 2004; Value Added Tax Act 2004; Education Tax Act 2004; Customs, Excise Tariffs, etc. (Consolidation Act 2004); National Sugar Development Act 2004; and National Automotive Council Act 2004.

The Chartered Institute of Taxation of Nigeria (CITN), established in 1982 and Chartered by Act No. 76 of 1992 to regulate tax practice and administration in the, and to this extent a major stakeholder in the Nigerian tax system submitted a memorandum on the proposed 2004 amendment. Their memorandum objectives include: to strengthen the powers of the Accountant General of the Federation to monitor the revenue being generated by ministries, extra-ministerial departments and parastatals; to enforce remittance of the revenues collected to the consolidated revenue fund or federation account; to strengthen the oversight functions of the National Assembly in monitoring the revenue generated by ministries, and others; to increase the penalty for under declaration of revenue generated from three to five years.

Economic Growth

According to Dwivedi (2004), economic growth is a sustained increase in per capita national output or net national product over a long period of time. It implies that the rate on increase in total output must be greater than the rate of population growth.

Another quantification of economic growth is that national output should be composed of such goods and services which satisfy the maximum want of the maximum number of people. Economic growth can be determined by four important determinants namely, human resources, national resources, capital formation and technological development. The theories of economic growth can be examined under the Harrod-Domar theory of growth, Kaldor model of distribution, Pasinetti model of profit and growth, Joan Robinson's model of capital accumulation, Meade's Neo Classical model of economic growth and the slow model of long run growth. All this models of economic growth the various views of scholars on the most suitable explanation of growth.

EMPIRICAL ISSUES

There is an extensive literature examining the relationship between government expenditures and economic growth. Many of these studies tend to find a negative relationship between size of government, typically measured as total government or government consumption expenditures, and economic growth,for example, Barro (1991), Fölster and Henrekson (2001), (2006), Romero-Avila and Strauch (2008), Bergh and Karlsson (2010)), while others dispute this negative relationship. For example, Ram (1986), Devaranjan et al. (1996), and Agell et al. (2006)) or are unable to demonstrate a statistically significant correlation (Kormendi & Meguire, 1985 Levine & Renelt, 1992, and Easterly & Rebelo, 1993). The lack of consensus here may not be surprising as the overall size of the government has two contrasting effects. A larger size means higher taxes that impose larger distortions in the economy, but higher levels of public spending may also boost economic growth as part of the spending is growth enhancing.

Countries have very different philosophies about taxation, and very different methods of collecting there revenue. During the past several decades, some countries have increased taxation quite dramatically, while in other countries tax rates have remained roughly the same. Some countries have incorporated value-added taxation in the 1960s (France and Britain) while others shifted away from corporate taxation (the United States). Dowrick (1992) also found a strong a negative effect of personal income taxation, but no impact of corporate taxes, on output growth in a sample of Organisation of Economic Cooperation and Development (OECD) countries between 1960 and 1985. Easterly and Robelo (1993) found some measures of tax distortion (such as an imputed measure of marginal tax rates) to be correlated negatively with output growth, although other measures of the tax distortion were insignificant in the growth equations.

Most empirical studies of taxation are "reduced form" estimates in that they specify a linear model of output growth rates, with tax rates, labor resource growth, and investment rates on the right-hand side of the equation. Several empirical studies have been conducted on the impact of taxes on economic growth. The empirical studies of Anyanwu (1997), Engen and Skinner (1996), Tosun and Abizadeh (2005) and Arnold (2011) provided different explanations of taxes on economic growth. Engen and Skinner (1996), in their study of taxation and economic growth of U.S economy, large sample of countries and use of evidence from micro level studies of

labour supply, investment demand, and productivity growth. Their result suggests modest effects on the order of 0.2 to 0.3 percentage points' differences in growth rates in response to a major tax reform. They stated that such small effects can have a large cumulative impact on living standards. Tosun and Abizadeh (2005) in their study of economic growth of tax changes in OECD countries from 1980 to 1999 reveal that economic growth measured by gross domestic product(GDP) per capita has a significant effect on the tax mix of GDP per capita. It is shown that while the shares of personal and property taxes have responded positively on economic growth, shares of the payroll and goods and services taxes have shown a relative decline. Arnold (2011) in their study found that short term recovery requires increase in demand while long run growth requires increase in supply. As short term concessions can be hard to reverse, this implies that policies to alleviate this crisis could compromise long run growth.

Several empirical studies have been conducted on the impact of taxes on economic growth. Anyanwu (1997) in a study of the effects of taxes on Nigeria's GDP/Economic Growth (1981-1996) reveals that companies' income tax positively and significantly affects GDP just as do customs and excise duties. However, petroleum profit tax is positively and insignificantly affects Nigeria's GDP. The same is true of other direct taxes (capital gains and stamp duties). However, all direct taxes positively and significantly affect Nigeria's GDP. Engen and Skinner (1996) in their study of taxation and economic growth of U.S economy, large sample of countries and the use of evidence from micro level studies of labour supply, investment demand and productivity growth. Their result suggests modest effects, on the order of 0.2 to 0.3% points' differences in growth rates in response to a major tax reform. They stated that such small effects can have a large cumulative impact on living standards. Tosun and Abizadeh (2005) in their study of economic growth of tax changes in OECD countries from 1980 to 1999 reveal that economic growth measured by GDP per capita has a significant effect on the tax mix of the OECD countries. The analysis reveals that different taxes respond to the growth of the GDP per capita. It is shown that while the shares of personal and property taxes have responded positively to economic growth, shares of the payroll and goods and services taxes have shown a relative decline. Arnold *et al.* (2011) in their study entitled "Tax policy for Economic Recovery and Growth" found that short term recovery requires increase in demand while long term growth requires increase in supply. As short term tax concessions can be hard to reverse, this implies that policies to alleviate the crisis could compromise long run growth.

Studies on taxes and growth may suffer from several statistical problems. One of them is the endogeneity problem. Tax rates may both influence economic growth and be influenced by economic growth. High taxes may cause lower growth rates, but periods of low growth rates may require raised tax rates in order to finance increased expenses on, for example, higher unemployment rates. To mitigate this problem 4-year averages for per capital GDP growth and the other explanatory variables were used. The tax rate variables take on the initial values in each 4-year period however. In addition, an instrument variable technique was also used. Lee & Gordon (2005) followed and used weighted tax rates in the other countries in the sample as

instruments. The weights are the inverse of the distance between the countries in Question and all other countries in the sample.
Over the past six decades. According to Gravelle and Marples (2014), periods of higher average top tax rates appear on the surface to be related to periods of lower rates of growth in real gross domestic product (GDP) and real net fixed investment. As seen in Table1, the full 60-year time period can be broken into three shorter time periods (1950-1970, 1971-1986, and 1987-2010) that correspond to periods of relatively high, moderate, and low taxes on labor income (and moderate, high, and low taxes on capital gains). The data show that real GDP growth and real growth in net fixed investment have each declined over the time period, suggesting that periods of lower taxes are not associated with higher rates of economic growth or increases in investment. It was related to the USA economy.
One concern when using a long historical view for economy-wide analysis is that the choice of time periods may lead to misleading conclusions, as the size and composition of the economy today differs in many ways from the economy in the 1950s. To examine whether this lack of an apparent clear relationship between top tax rates and the rate of economic growth is due to changes in the economy over time, a shorter time period can be used.
Table 1.2 decomposes the most recent time period from Table 1.1 into three shorter time periods (1987-1992, 1993-2002, and 2003-2007) that correspond to periods of relatively low, high, and moderate income tax rates. Note that the average top marginal income tax rates in Table 1.2 are more tightly clustered than the tax rates in Table 1.1 and the time period used ends before the recent recession. Again the data do not appear to support a clear relationship between lower taxes and higher economic growth; if anything, they suggest the opposite (although it is believed that the relationship is not causal, in light of other evidence presented in the following section).

RESEARCH METHOD

Type and Sources of Data

In the study, secondary data were used and were collected from Central Bank of Nigeria Statistical Bulletin. In all cases, the data were annual time series data which cover the period of 1981 to 2012.

Model Specification

GDP = F (CIT, VAT, CED) .... (1)
Equation (1) is the functional form of the expression,
where
GDP = Gross domestic product
CIT = Companies income tax
VAT = Value added tax
CED = Custom and excise duties
The operational form of (1) is:
GDP = a + bCIT + cVAT + dCED e.. (2)

Apriori, b, c> 0; d < 0.

Since the data to be used for the analysis were time series, we employed stationary test to avoid spurious regression. The first step would be a diagnostic test of each of the variables for stationarity. If any of the series is found to be integrated, then a co integration test will be used in order to determine if there exists a long run relationship between dependent and independent variables. If the series are cointegrated, then they will be most efficiently represented by an Error Correction Method which is used to tie the short run behavior to its long run value (Wooldridge, 2006; Asterious and Hall,2007; Gujarati & Porter, 2009). We also perform Granger Causality test between the dependent and independent variables. Granger casualty test is to ascertain the direction of causality between 1980 and 2010. Other econometric test such as unit root test, co-integration test and vector error correction mechanism were also performed

The test procedure is illustrated below:

Unit Root Test

Time series data are prone to spurious results, a way out of this is to test for the stationary property of the variables using the unit root test. There exist a few types of unit root tests but for this study we adopted the Augmented Dickey-Fuller and it is presented below

Critical value 1%, 5% and 10% -3.711457 -2.981038 -2-629906

Table 1.4: The unit root test of Augmented Dickey-Fuller

Variables	ADF at levels	ADF at first difference	ADF at second difference	Order of integration
GDP	-3.111375	-7.856789	-8.503014	I(1)
CIT	-0.536873	-5.548902	-6.806847	I(1)
VAT	0.5479405	-3.929096	-7.879108	I(1)
CED	-1.636091	-4.666518	-5.870400	I(1)

Source: Oke and Oke's computation

Interpretation of the stationary Test

From the above result, the unit root test was performed on all four variables using Augmented Dickey-Fuller (ADF) statistic. The null hypothesis of a unit root was rejected at 1percent level of significance for all the variables at the levels. However all the variables were integrated after their first difference, each of these variables become I (1) after first differencing, showing that these variables at first difference are stationary. It implies that there exists a short-run equilibrium relationship between monetary variable (GDP, CIT, VAT, and CED).

Method of data analysis

The data gathered were estimated using the simple linear regression technique. With E-Views 7.0 econometric software to authenticate and take decision on the outcome of the results obtained. Various statistical tests such as the F-statistic were used to test

the overall significance of the regression equation. The t-test was adopted to test the significance of each variable. The Durbin-Watson test was also used to test the presence or absence of autocorrelation among the explanatory variables in the model.

PRESENTATION AND ANALYSIS OF RESULT

This section concentrates primarily on the presentation and analysis of the computed results derived from the equation specified in the previous section. The results of our regression are as shown below:

Table 1.3 Ordinary Least Squares Regression Result

Dependent Variable: GDP				
Method: Least Squares				
Date: 07/02/14 Time: 22:24				
Sample: 1981 2012				
Included observations: 32				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
DC	2.359368	0.261940	6.851430	0.0003
DCIT	0.430878	0.035023	2.227053	0.2302
DVAT	0.242019.	0.414608	1.816479	0.0798
DCED	-0.344608	0.073351	-3.52194	1.4250
R-squared	0.970684	Mean dependent var		1.367402
Adjusted R-squared	0.635400	S.D. dependent var		0.120177
S.E. of regression	0.046844	Akaike info criterion		-3.309544
Sum squared resid	1.168415	Schwarz criterion		-4.492266
Log likelihood	44.95131	Hannan-Quinn criter.		-1.370617
F-statistic	119.0082	Durbin-Watson stat		1.619581
Prob(F-statistic)	0.000000			

Econometric Source: Econometric Views7.0

Interpretation of Result

The model specification used in the regression analysis contained the following variables; Gross Domestic Product as dependent variable, Company Income Tax(CIT) Value Added Tax (VAT),Custom and Excise Duty (CED) as regressors.

From our regression result, GDP variable has a positive 0.430878 relationship with the level of CIT. This implies that an increase in the amount of GDP received will lead to an increase in the level of company income tax.

From the same result VAT variable has a positive 0.242019 relationship with the level of GDP.

Also, custom and excise duty (CED) variable has a negative relationship to GDP.

This means that Company Income Tax and Value added tax conform to our positive apriori expectations and custom and Excise duty conforms to our negative apriori expectations.

Test of significance of parameter estimates

The T-statistics

Reported in the parenthesis are the t-statistics of the explanatory variables. Going by

the rule of thumb that gives significance of t-statistics greater than 2, it explains that each variable belongs to the model.

R^2 (Coefficient of Determinant)

The value of the R^2 must lie between 0 and 1. The value of the R^2 0.970684 is which is very close to 1; this implies that the variables of the parameters are significant in the model.

The Adjusted R-Squared ($\bar{R}^2$)

The value of the $\bar{R}^2$ must lie between 0.5 and 0.99. The higher the $\bar{R}^2$, the greater is the percentage of variation. The closer the $\bar{R}^2$ is to 1, the more significant it is. The value of the adjusted R^2 for the model is 0.635400.This implies that all the variables explained about 64% systematic variation on economic growth in Nigeria during the given period while the remaining 3% is explained by the other variable that are exogenous to the model.

The F-statistics

This is used to test for stability in the regression parameter coefficient when sample sizes increase, as well as the overall significance of the estimated regression model. The value of the f-statistic is 119.0082 which explains that our independent variable have significant impact on domestic product.

Standard Error of Regression

It is another test of the goodness of fit and also the reliability in the prediction. It is calculated by dividing the S.E.R by Mean Dependent variable. The value got is 0.03425 which is low. This shows that the equation has a great predictive power.

Durbin Watson Statistic

The calculated Durbin Watson statistic was given as 1.619581 and the tabulated DW values of du=1.83 and d_L=1.07. There is inconclusive evidence to suggest presence of serial correlation since the DW_c fall between the DW_t.

SUMMARY

The study examined the impact of taxation from 1981 to 2012. The data which were sourced from the Central Bank of Nigeria Statistical Bulletin and other relevant government agencies. Secondary data on Gross Domestic Product (GDP), Value Added Tax (VAT), Company Income Tax (CIT), and Custom Excise Duties (CED) were used for the estimation of the models. The result therefore derived was therefore present to show the relationship that exists between the endogenous and the exogenous variables. The data collected were analyzed using the Augmented Dickey Fuller (ADF) and the unit root test. The result gotten from the test shows that taxation has a positive impact and it is significant for economic growth. On the basis of the findings it shows that taxation improves the revenue generating machinery of government to undertake socially desirable expenditure that will translate to economic growth in real output and per capita basis.

From the analysis, we conclude that changes in the existing tax will go a long way in protecting our nascent democracy. Company income tax, value added tax and custom and exercise duties are have significantly affected the rate of economic growth in the country. The investigation on what form of tax system can influence growth in Nigeria, Custom and exercises duties among all other forms of tax can influence GDP

in the short run.

RECOMMENDATIONS

The empirical findings of this research have some implication for policy formulation and implementation for the Nigeria economy and listed as follows:

Firstly, one thing that has emerged clear with the coming into force of the 1999 constitution is that the fate of the Education Trust Fund cannot be different from that of the petroleum (special trust fund). By extension education tax revenue is now part of the federation Account Revenue and should be paid into that account. The VAT Pool Account should be abolished and merged with the federation Account for simplicity and transparency as well as in conformity with the constitutional provisions.

Secondly, the Federal government through the Revenue mobilization, allocation and Fiscal Commission (RMAFC) should establish a good and accepted statistical base for the purpose of revenue collection and sharing across the sub-national governments. This is in terms of derivation, industries population and geographic area. This should also, be reviewed at regular intervals through independent surveys.

Thirdly, the company income tax system should be generally restructured to bring about more yielded revenue results capable of contributing more significantly to the Nigerian economic as it is done in the advanced countries of the world.

Finally, political climate of Nigeria must be improved upon with strict adherence to the rule of law so as to stimulate economic growth. As observed, the custom exercise duties tax has reflected negatively to GDP. Custom service operations and revenue generations in the border is not practically reflected in the economy due to no accountability, transparency and leakages in the system.

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APPENDIX I

Table 1.1: Average Top Tax Rates on the Growth Rate of Real GDP and Real Net Fixed Investment, by Time Period 1950-2010.

Year	Average Top Marginal Income Tax Rate on Labour Income	Average Top Marginal Tax Rate on Capital Gains Income	Rate of Growth in Real GDP	Rate of Growth in Real Net Fixed Investment.
1950-1970	84.8%	25.6%	3.86%	0.93%
1971-1986	51.8%	30.2%	2.94%	0.32%
1987-2010	36.4%	23.0%	2.85%	0.23%

Sources: Bureau of Economic Analysis (BEA) and the Urban-Brookings Tax Policy Center, (USA).

APPENDIX II

Table 1.2: Average Top Tax Rates and the Growth Rate of Real GDP

Year	Average Top Marginal Income Tax Rate	Rate of Growth in Real GDP
1987-1992	33.3%	2.31%
1993-2002	39.5%	3.68%
2003-2007	35.0%	2.79%

Source: Bureau of Economic Analysis (BEA), (USA)