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Impact of Taxation on Economic Growth of Nigeria from (1994 - 2022)

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ABSTRACT

The study ascertained the impact of taxation on economic growth of Nigeria from (2001 - 2012) based on availability of data. To achieve the objective of the study, relevant secondary data were collected from the Central Bank of Nigeria (CBN) Statistical Bulletin, Federal Inland Revenue Service (FIRS). The data collected were analyzed using relevant econometric models such as Augmented Dickey Fuller Test, Johansen Co-integration test and error correction model. The result indicates that value added tax (VAT) has a positive and significant effect on gross domestic product (GDP) [β_1 = 3.770208, S(b_1) = 0.33084, t_1 = 11.3960]. Company income tax (CIT) has a negative effect on gross domestic product (GDP) and the effect is statistically significant [β_2 = -0.849829, S(b_2) = 0.20206, t_2 = -4.20579]. petroleum profit tax (PPT) has a positive and significant effect on gross domestic product [β_3 = 0.516294, S(b_3) = 0.12858, t_3 = 4.01538] and is in line with our a priori expectation. education tax (EDT) indicate that education tax has a positive effect on gross domestic product [β_4 = 0.131208, S(b_4) = 0.27384, t_4 = 0.47914], and the effect is not statistically significant. The error-correction parameters E_{t-1} has the expected negative sign. The negative sign (-0.771387) of the error term implies that the system corrected its previous disequilibrium period due to negative shocks in one period at an adjustment speed of 77.14 percent annually. It was concluded that the value-added tax, the petroleum profit tax, and the education tax all have a beneficial impact on economic growth over the long term. It was recommended among others that to experience a positive and significant effect of company income tax on economic growth, the tax regulations and processes should be simplified and streamlined to make compliance easier for companies. Complex tax laws and procedures often discourage businesses and hinder economic growth.

Keywords: Tax, Economic Growth, Petroleum Profit Tax, Error Correction Model, Nigeria

1.0 Introduction

One of the major functions of any government, especially developing countries like Nigeria is the provision of infrastructural services such as electricity, pipe-born water, hospitals, schools and access roads to ensure a rise in per capita income and poverty alleviation among others (Ahmed, 2006). The increasing cost of running government coupled with dwindling revenue has left various tiers of governments in Nigeria to formulating strategies in order to improve their revenue base. Hardest hit are the governments all of whom have experienced unusual reduction in their share of the national revenue from the federation account (Ajakaiye, 2000). Despite the numerous sources of revenue available to the various tiers of government as specified in the Nigerian 1999 Constitution, since the 1970s till now, over 80% of the annual revenue of the three tiers of government come from petroleum. The need for the tiers of governments to generate adequate revenue from internal sources has, therefore, become a matter of extreme urgency and importance (Cheibub, 1998).

Tax is one of the internal sources most patronized by all tiers of government. It is a compulsory payment made on different basis and rates by citizens (corporate bodies and individuals) to government, non-negotiable but obligatorily. This payment is not on the basis of direct exchange for the payment for goods and services. It is non-negotiable because none of the citizens have any direct contribution to the composition of the basis and rates of payment. The usefulness (effectiveness and/or efficiency) of taxes can be measured by several parameters, some of which are its revenue generating capacity and its impact on the consumption and savings patterns in the economy. Even if the totality of tax system cannot be comprehensively measured, the various types of tax can be subjected to this measurement (Naiyeju, 1996).

The first need of any modern government is to generate enough revenue which is indeed the breath of its nostril. Thus taxation is by far the most significant source of revenue for the government (Ojo, 2003). The fund raised from taxation are intended to be used in financing the provision of goods and services to satisfy the needs of the citizens (Yamane, 2002). Economic growth is viewed as an increase in the amount of goods and services produced by the economy over time. A major problem which needs to be resolved is whether a relationship exists between tax raised in the economy and economic growth. The main objective of this study is to assess the impact of taxation on economic growth in Nigeria. The specific objectives are to ascertain; the impact of Value Added Tax on economic growth, the impact of company income tax on economic growth, the impact of Petroleum Profit Tax on economic growth and the impact of Education Tax on economic growth. The hypotheses of the study were formulated in line with the specific objectives of the study.

2.0 Literature Review

Conceptual Framework

The following concepts are discussed in this study; Taxation and Economic growth.

Taxation

Most governments collect funds from different sources to provide public services or to finance transfer payments. Of all the methods of raising funds, taxation constitutes the most important one in mixed economies. In Nigeria, tax finance accounts for a little less than 46% of the total revenue of the government (Appah, 2010). As such, an analysis of

the principles of taxation deserves consideration. Anyanwu (2000) defines taxation as the compulsory transfer or payment (or occasionally of goods and services) from private individuals, institutions or groups to the government. The main purpose of tax is to raise revenue to meet government expenditure and to redistribute wealth and management of the economy (Ola, 2001). Anyanfo (1996) defines the principles of taxation to mean the appropriate criteria to be applied in the development and evaluation of the tax structure. Such principles are essentially an application of some concepts derived from welfare economists. In order to achieve the broader objectives of social justice, the tax system of a country should be based on sound principles.

Tax Laws and Acts

1. **Company Income Tax**

This regulates the assessment and collection procedures for all corporate bodies other than those in the production of crude oil or gas. These categories of corporate bodies are taxed under the Petroleum Profit Tax Act (PPTA) of 1959. Company income tax is a significant source of revenue the government of Nigeria. It is a direct tax levied on the profit of companies in Nigeria government but also is important tool for economic development there is therefore, need to have in place a strong and a vibrant tax administration not only at the federal level but also at state level so as to ensure that the objectives of tax system are achieved.

2. Petroleum Profit Tax

This Acts regulates the income tax on the oil producing companies including the Nigerian National Petroleum Corporation (NNPC). The oil producing companies are in joint venture with NNPC to produce crude oil for sale. The crude oil jointly produced is then sold at price officially approved by the government through the NNPC. The sale of crude oil less the cost of sales and overhead cost, less allowance provided by this act represents what is regulated as chargeable profit. The oil companies also pay rent and royalties based on the concessional rights granted to them and the amount of oil produced. It is essential to note that the government derives its revenue mainly through taxation and the revenue from oil.

3. Value Added Tax (VAT)

This act regulates the imposition of tax on some selected goods and services manufactured in or imported into the country. The decree repealed sales tax in the country. Value Added Tax is the type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale, it is most often used in European Union. It is a multiple stage tax which has grown as a hybrid of turnover tax and retail level sales tax. It is imposed at stage of production and distribution; it helps to minimize many problems related with tax evasion. Therefore, tax is more productive and less destructive than retail sales tax.

4. Education Tax

This law regulates the imposition of 2% tax on the accessible profits of companies registered in Nigeria and who are liable to pay tax in accordance with the requirements of Company Income Tax Act (CITA) and Petroleum Profit Tax Act (PPTA). The progress of country directly relates with progress of its citizens. Education is the base of progress of

each person. To progress correctly, the person should get sufficient education. All these facilities need fund and to raised fund for it, government has started to levy education tax in order to raised adequate revenue.

Economic Growth

Economic growth is the increase in the amount of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product. Growth is usually calculated in real terms, i.e. inflation-adjusted terms, in order to net out the effect of inflation on the price of the goods and services produced. 'Economic growth' or 'economic growth theory' typically refers to growth of potential output, i.e., production at 'full employment,' which is caused by growth in aggregate demand or observed output (Nzotta, 2007). Dwivedi (2004) states that, 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.

Theoretical Framework

a) Benefit received theory

This theory proceeds on the assumption that there is basically an exchange relationship between tax-payers and the state. The state provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received (Bhartia, 2009). This is in line with Anyanfo (1996) assertion that taxes should be allocated on the basis of benefits received from government expenditure. This theory is important to the study because it helps the government to realize their responsibility of providing infrastructural facilities such as road, electricity, pipe borne water and school.

b) Economic Base Theory

This is one of economic development theories, which viewed economic development as equivalent to the rate of local economic growth measured in terms of changes in local levels of output, income or employment. The essential focus of the theory is the reaction of the key sector to external demand for local exports, which, in turn, stimulates local growth. The theory's major strengths are its popularity as a basis for understanding economic development in North America; and its simplicity as a theory or tool for prediction (Malizia & Feser, 1999). Its major weakness is its inadequacy as a theory for understanding economic development, especially in the long term. Economic based theory strongly supports attracting industry through recruitment.

Empirical Review

Several empirical studies have been conducted on the impact of taxes on economic growth. Engen and Skinner (1996) in their study of taxation and economic growth of U.S. economy, used 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 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 Organization for Economic Cooperation and Development (OECD) countries from 1980

to 1999, show that growth measured by GDP per capita has a significant effect on the tax mix of GDP per capita. The study reveals that while the shares of personal and property taxes have responded positively on economic growth, shares of the payroll/goods and services taxes have shown a relative decline.

Ergete, Ferede and Bev (2006) examine the impact of the Canadian provincial governments' tax rates on economic growth using panel data covering the period 1977–2006. They discussed that a higher provincial statutory corporate income tax rate is associated with lower private investment and slower economic growth. They suggest that a 1 percentage point cut in the corporate tax rate is related to a 0.1–0.2 percentage point increase in the annual growth rate. It resulted that switching from a retail sales tax to a sales tax that is harmonized with the federal value-added sales tax boosts provincial investment and growth.

Ogbonna and Appah (2012) examine the impact of tax reforms on the economic growth of Nigeria from 1994 to 2009. The results from the various test shows that tax reforms is positively and significantly related to economic growth and that tax reforms granger cause economic growth. On the basis of the findings, the study concluded that tax reforms 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.

Onaolapo, Abdul-Rahamoh, Fasina and Adegbite (2013) examine the effect of petroleum profit tax (PPT) on Nigeria economy, found to have significant effects on the Economics Growth with the Adjusted R2 of 86.3%. Following the outcome of this study, it is therefore concluded that the abundance of petroleum and its associated income has been beneficial to the Nigerian economy for the period 1970 to 2010. Income from a nation's natural resource has a positive influence on economic growth.

Adegbie and Fakile (2011) worked on company income tax and Nigeria's economic development. They used the GDP to capture the Nigerian economy and Petroleum Profit Tax (PPT), Company Income Tax (CIT), Customs and Excise Duties and VAT to measure Company Income Tax. Their findings revealed that there is a significant relationship between company income tax and Nigerian economic development and that tax evasion and avoidance are the major hindrances to revenue generation.

Owolabi and Okwu (2011) empirically evaluated the contribution of VAT to the development of Lagos state economy. Development aspects considered included infrastructural development, environmental management, education sector development, youth and social development, agricultural sector development, health sector development and transportation sector development. Their result showed that VAT revenue contributed positively to the development of the respective sectors. However, the positive contribution was statistically significant only in agricultural sector development.

3.0 Research Methodology

Research Design

An ex-post-facto research design was adopted. The ex-post-facto (or casual comparative) research design attempts to explore causes that affect relationship where causes already exist and looks backwards to explain why. Ex-post-facto research design involves ascertaining the impact of past factor(s) on the present happenings or event. The ex-post-facto research design is a quasi-experimental study examining how independent variables, present prior to the study, affect dependent variables.

Population and Sample size

The population covers all the taxes collected in Nigeria. Purposive sampling was used due to the availability of secondary data to select the following taxes: Value Added Tax (VAT), Company Income Tax (CIT), Petroleum Profit Tax (PPT), and Education Tax (EDT). The sample period is 12 years from 2001-2012. The choice of 2001 - 2012 is for convenience while the 10 year period is considered ideal for use of regression model for data analyses. The taxes are selected based on interest and also due to the large nature of taxes in Nigeria.

Definition of Variables

Dependent Variable

GDP- This is a measure of the total value of goods and services produced within a country's borders over a specific period of time. It is commonly used as an indicator of the economic health of a country, as well as to gauge a country's standard of living.

Independent variables

Value Added Tax (VAT) - This tax is imposed on some selected goods and services manufactured in or imported into the country.

Companies Income Tax (CIT) - It is levied on the net profit of companies; this regulates the assessment and collection procedures for all corporate bodies other than those in the production of crude oil or gas.

Petroleum Profit Tax (PPT) - This is the income tax on the oil producing companies including the Nigerian National Petroleum Corporation (NNPC). The oil producing companies are in joint venture with NNPC to produce crude oil for sale. The crude oil jointly produced is then sold at price officially approved by the government through the NNPC. The sale of crude oil less the cost of sales and overhead cost, less allowance provided by this act represents what is regulated as chargeable profit.

Education Tax (EDT) - This was introduced in Nigeria to fund the deteriorating educational system. Assessment of educational tax goes together with the company income tax. Defaulters are to pay 5% plus interest at commercial rate for non - compliance. Its administration was purely the responsibility of the Federal Inland Revenue Services (FIRS).

Table 1: Variable Measurement and Abbreviation

Variables	Measurement	Abb.
Value Added Tax	Total Value Added Tax collected in the year.	VAT
Companies income Tax	Total tax received from taxation of companies in the year.	CIT
Petroleum profit Tax	Total Petroleum Profit Tax realised in the year.	PPT
Education Tax	Total Education Tax collected in the year.	EDT

Gross Domestic Product	Total Value of goods and service produced within a country's borders over specified period of time	GDP

Source: Field Survey, 2023

Sources of Data

The research study makes use of secondary data. The data used are obtained from the Central Bank of Nigeria (CBN) statistical bulletin, National Bureau of Statistics (NBS) online publication, statistics from office of accountant general of the federation and federal Inland Revenue service.

Model Specification

The functional relationship between the variables of the study is modeled by the implicit and the explicit functions as shown in equation 1 and 2:

$GDP = f(VAT, CIT, PPT, EDT)$ …….. (1)

Where,

GDP= Gross Domestic Product
VAT=Value Added Tax
CIT=Companies Income Tax
PPT= Petroleum Profit Tax
EDT= Educational Tax

$GDP=\beta_O+ \beta_1 VAT + \beta_2 CIT + \beta_3 PPT + \beta_4 EDT + E$ …… (2)

Where,

β_0 =Intercept of the line with Y- axis or the value of y when x is zero.
E=Error term
β_1, β_2, β_3, β_4 =The regression coefficients

***A Priori* expectation**

$\beta_1>0$, $\beta_2>0$, $\beta_3>0$, $\beta_4>0$

Data Analysis techniques

This study examined the casual relationship between taxation and economic growth in Nigeria. Several data analytical techniques were deployed. Diagnostics tests such as normality test, test for heteroscedasticity, autocorrelation, Ransom rest test among others were carried out to ensure that the estimates are not spurious. Other tests such as the augmented Dickey Fuller Test, Johansen Co-integration test, and Error Correction Estimation techniques were used to establish the nexus between the variables of the study. All these analyses are within the main framework of multiple linear regression analysis.

4.0 Results and Discussion

Graphical trend analysis of the variables of the study

This section presents the trend on the variations of each of the research variables during the period under study.

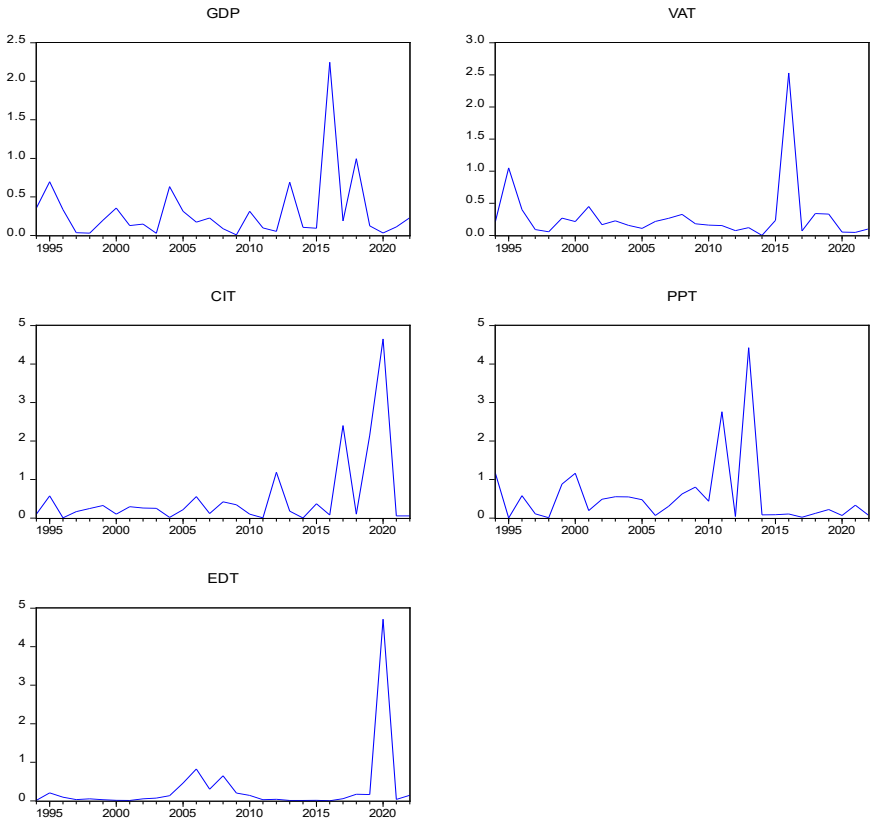
Table 2: Summary Statistics

	GDP	VAT	CIT	PPT	EDT
Mean	0.311360	0.297626	0.529652	0.577668	0.299472
Maximum	2.245721	2.528676	4.649849	4.422413	4.712963
Minimum	0.007457	0.000350	0.000271	0.001284	0.000144
Std. Dev.	0.441780	0.471274	0.981237	0.925459	0.871163
Skewness	3.160668	3.959021	3.062974	3.020700	4.717831
Jarque-Bera	192.1253	379.0845	149.9150	146.7818	659.8902
Probability	0.526725	0.081056	0.189030	0.096162	0.427216
Observations	29	29	29	29	29

E-views 10.0 result computation, 2023.

Descriptive data for the independent and dependent variables are shown in Table 2. The independent variable GDP averages 0.311360, with its maximum and minimum values, respectively, being 2.245721 and 0.007457. The variable VAT has a mean of 0.297626, a maximum value of 2.528676, a minimum value of 0.000350, and a standard deviation from the mean of 0.471274, according to the summary data. The maximum and minimum values of CIT are 4.649849 and 0.000271, respectively, with an average value of 0.529652 and a standard deviation of 0.981237. PPT & EDT averages 0.577668 and 0.299472 respectively with maximum values at 4.422413 and 4.712963. The probability value of the Jarque Bera statistics was used to measure the normality or otherwise of a time series data and assesses the model biasness for the variables of the study. The probability value of the Jarque-Bera test values are greater than 0.05 critical level (GDP = 0.526725, VAT = 0.081056, CIT 0.189030, PPT = 0.096162 & EDT = 0.427216). This implies that the dataset used for the study is normally distributed and can be used for modeling an empirically meaningful relationship.

Figure 1: Graphical Trend Analysis



E-views 10.0 result computation, 2023.

The trend analysis for GDP, VAT, CIT, PPT & EDT follows similar patterns of fluctuation with a declined movement at the start point of 1994 and with the highest increase between the year 2015 for GDP, VAT, CIT & EDT while, PPT had its highest rise from 2010 and ended in 2014. These trend is an indication of economic forces at play including government policies which leads to the cascading movement of the variables.

Testing for Unit Root (ADF-Test).

Table 3: Augmented Dickey-Fuller Test (ADF) at Levels and 1st Difference

Variables	ADF	5%Critical Value	Order of Integration
At levels			
GDP	-5.715856	-2.971853	I (1)
VAT	-5.337597	-2.971853	I (1)
CIT	-0.592196	-2.981038	I (1)
PPT	-2.573388	-2.976263	I (0)
EDT	-5.242715	-2.971853	I (1)
1st Difference			
GDP	-6.368838	-2.981038	I (1)
VAT	-6.030857	-2.981038	I (1)
CIT	-8.320288	-2.981038	I (1)
PPT	-12.58491	-2.976263	I (1)
EDT	-6.022914	-2.981038	I (1)

E-views 10.0 result computation, 2023.

ADF at Levels and First Difference

The unit root test using ADF shows results for both levels and first difference. As shown in Table 3, Gross Domestic Product (GDP), Value Added Tax (VAT), Company Income Tax (CIT) and Education Tax (EDT) were stationary at levels and integrated of order one [I (1)]. Only Petroleum Profit Tax (PPT) was not stationary at levels and integrated of order [I (0)]. This implies that the null hypothesis of non-stationary for all the variables is rejected for GDP, VAT CIT & EDT and not for PPT. Hence we will proceed to further difference the data at first difference. The ADF test at first difference above shows that all the variables namely; GDP, VAT, CIT, PPT and EDT are now integrated of order one [I(1)]. This also implies that the null hypothesis of non-stationarity of the variables is now rejected for all the variables.

Johansen co-integration test

This establishes whether there is a long run co-integrating relationship among the variables. This method is known as Johansen Full information maximum likelihood method. The unrestricted co-integration Rank Test (Trace) and the unrestricted Co-integration Rank Test (Maximum Eigen value) statistics results of the Johansen Co-integration test are presented in the following tables:

Table 4: Unrestricted Co-integration Rank Test (Trace & Maximum Eigenvalue)
Trace

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.823681	97.66645	69.81889	0.0001
At most 1 *	0.660524	50.80904	47.85613	0.0257
At most 2	0.347766	21.63957	29.79707	0.3190
At most 3	0.208385	10.10107	15.49471	0.2730
At most 4	0.131019	3.791710	3.841466	0.0515

Maximum Eigenvalue

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.823681	46.85741	33.87687	0.0009
At most 1 *	0.660524	29.16947	27.58434	0.0311
At most 2	0.347766	11.53850	21.13162	0.5935
At most 3	0.208385	6.309360	14.26460	0.5738
At most 4	0.131019	3.791710	3.841466	0.0515

E-views 10.0 result computation, 2023

The result of the trace and maximum Eigen value test as shown in Table 4 indicate that there is a co-integration equation in the system. This is indicated by the number of

cointegrating equation found in the system (*). This implies that the null hypothesis is of no co-integration is rejected. This further means that at 0.05 level of significance, they exists a long run relationship among the variables, as the result, trace statistics, and the maximum Eigen values converges to 3.791710 table 4.

Estimation of long run and short run relationship

The long run relationship between Gross Domestic Product (GDP) and other variables of the study can be obtained by the ECM longrun and shortrun estimates as shown in Tables 5 and 6.

Table 5: Vector Error Correction Estimates

Cointegrating Eq:	CointEq1
GDP(-1)	1.000000
VAT(-1)	-3.770208 (0.33084) [-11.3960]
CIT(-1)	0.849829 (0.20206) [4.20579]
PPT(-1)	-0.516294 (0.12858) [-4.01538]
EDT(-1)	-0.131208 (0.27384) [-0.47914]
C	0.627020

Source: E-views 10.0 Result computation, 2023

The error correction model exhibits an inverse matrix which means that a negative effect is inverted to a positive effect and vice versa. The long-run relationship between the dependent variable and the independent variables shows that in the long run, Value Added Tax (VAT) has a positive and significant effect on Gross Domestic Product (GDP) [β_1 = 3.770208, S(b_1) = 0.33084, t_1 = 11.3960]. This result is in line with the work of Ergete, Ferede and Bev Dahlby (2006) and Owolabi & Okwu (2011). It further means government should explore all possible ways in which they could ensure effective mobilization and collection of value added tax as it has been shown to impact significantly on economic growth proxied by the gross domestic product. Company Income Tax (CIT) has a negative effect on Gross Domestic Product (GDP) and the effect is statistically significant [β_2 = -0.849829, S(b_2) = 0.20206, t_2 = -4.20579]. This is not in line with our economic and theoretical *a priori* expectation. This means that in the long run, indiscriminate high taxation of the company will lead to a very drastic decrease in the Gross Domestic Product. This will have an adverse effect on the economy. This result is contrary with those of Adegbie and Fakile (2011) who also found a negative impact of Company Income Tax on economic growth. In other words, the tax levied to companies by the government does not have any significant impact on Economic Growth.

Petroleum Profit Tax (PPT) has a positive and significant effect on Gross Domestic Product [$\beta_3 = 0.516294$, $S(b_3) = 0.12858$, $t_3 = 4.01538$] and is in line with our *a priori* expectation. This means that a unit increases in the PPT will increase Gross Domestic Product (GDP) by 0.516294. This result is in line with known fact and *a* priori expectation. Petroleum is the main source of revenue by the government and this revenue is obtained through tax and royalties. It is not surprising that Petroleum Profit Tax should have a positive and high impact on the economic growth. This result is in line with Onalapo, Abdul-Rahamoh, and Fasina (2012) and Adegbie and Fakile (2011) who also found a positive impact of Petroleum Profit Tax on economic growth. Petroleum forms the major export earnings for government, an effective tax if well utilized will have a significant impact on economic growth. Education Tax (EDT) indicate that education tax has a positive effect on Gross Domestic Product [$\beta_4 = 0.131208$, $S(b_4) = 0.27384$, $t_4 = 0.47914$], and the effect is not statistically significant. This implies that a unit increases in Education tax will result to a corresponding increase in the Gross Domestic Product (GDP) by 0.131208. This finding is in line with those of Enger & Skinner (1996) which indicate a positive impact on economy. Nigeria has a very viable educational sector, an effective education tax if well utilized will have a significant impact on economic growth. These findings mean that any policy geared towards VAT, PPT & EDT will have a significant effect on economic growth on the longrun while any policy geared towards improvement in CIT have a negative impact economic growth. The coefficient of determination R^2 for the study is 0.7714 or 77.14%. This indicates that 77.14% of the variations in the model can be explained by the explanatory variables of the model while 22.86% can be attributed to unexplained variation captured by the error term (E).

The Error Correction Model

Table 6: The error correction model estimates

Variable	Coefficient	Std. Error	t-statistic
C	-0.771387	0.47586	[-1.62103
D(GDP-1)	-1.087582	0.55397	-1.96325
D(VAT-1)	1.026254	0.62257	1.64841
D(CIT-1)	0.059240	0.43215	0.13708
D(PPT-1)	-0.607539	0.22109	-2.74791
D(EDT-1)	-0.668073	0.45923	-1.45475

Source: E-views 10.0 Result computation, 2023

The error correction term E_{t-1} is represented by the C in Table 6. It is an error correction term that guides the variables (VAT, CIT, PPT, EDT) of the system to restore equilibrium or correct disequilibrium. The sign before or the sign of the error correction term was found negative after estimation and the coefficient informed us of the rate at which it corrected the previous period disequilibrium of the system. Error Correction Models (ECMs) directly estimate the speed at which a dependent variable Y- returns to equilibrium after a change in an independent variable X. The error-correction parameters E_{t-1} has the expected negative sign. The negative sign (-0.771387) of the error term implies that the system corrected its previous disequilibrium period due to negative shocks in one period at an adjustment speed of 77.14 percent annually. In other words, the short run dynamics represented by the coefficient of the error correction estimates shows how the research variables adjust at equilibrium to correct for any shortrun defect in the system.

The coefficients of VAT_1 & CIT_1 have the expected positive sign. This means that any policy that is made to improve on these taxes will have a positive impact on the economic growth in the short run. However, a negative relationship exists between PPT_1 & EDT_1 with GDP in the short-run. The hypothesized short run equilibrium relationship captured a negative relationship between Petroleum Profit Tax and Education Tax on Economic Growth in the short run.

Conclusion and Recommendation

Conclusion

The process of taxation has, in fact, mapped out a route that would lead to the Nigerian economy achieving international importance. This is because the process is designed to create sufficient money for the government so that it may carry out socially desirable expenditures, which, in turn, will translate into economic growth in terms of real output and on a per capita basis. According to the findings of the study, taxation is a tool that has the potential to be utilized in the process of enhancing the performance of the national economy. This is due to the fact that income from taxes has had a major impact on the expansion of the economy through time. When all of these taxes are correctly harnessed, it will bring about the growth that is so much needed, which would help the growth of all different areas of the Nigerian economy. This is because the value-added tax, the petroleum profit tax, and the education tax all have a beneficial impact on economic growth over the long term.

Recommendations

The desired revenue cannot be generated from taxation in Nigeria except the following will be taken into consideration;

1. To deter VAT evasion and ensure compliance, the government should strengthen VAT audits and enforcement activities. This includes training and equipping tax auditors with the necessary skills and resources to conduct thorough audits. Additionally, the government should impose penalties and sanctions for non-compliance to create a culture of VAT compliance among businesses.

2. **To experience a positive and significant effect of company income tax on economic growth, t**he tax regulations and processes should be simplified and streamlined to make compliance easier for companies. Complex tax laws and procedures often discourage businesses and hinder economic growth. The government should consider consolidating and clarifying tax laws, reducing administrative burdens, and providing user-friendly guidance to help companies meet their tax obligations efficiently.
3. Collaboration and information sharing foster cooperation between relevant stakeholders, including the Nigerian National Petroleum Corporation (NNPC), the Federal Inland Revenue Service (FIRS), and international oil companies (IOCs). This collaboration can enable the sharing of data and insights, enhancing the accuracy of tax assessments and reducing opportunities for tax evasion.

4. To increase the revenue generated from education tax, it is crucial to expand the tax base. This can be achieved by reducing tax exemptions and incentivizing more individuals and corporations to contribute to the education tax fund. The government should consider introducing measures that encourage voluntary compliance, such as

tax credits or recognition for companies that exceed their education tax obligations. This will improve tax revenue in both the long and short run.

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