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OPTIMIZING TAX REVENUE TO PROMOTE ECONOMIC GROWTH IN NIGERIA.

BY

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Abstract
This study examined the strategies for optimizing tax revenue to promote economic growth in Nigeria. Tax revenue is proxied by custom and excise duties, company income tax, value added tax and capital gained tax while gross domestic product (GPD) was used to proxied economic growth using ex post facto research design. Ability to pay theory, benefit theory and resource dependence theory were employed. Findings showed that the only two source of revenue that enhance economic growth in Nigeria significantly are value added tax and custom excise duty while company income tax and capital gain tax do not show any effect. The study concluded that optimizing tax revenue using tax can be achieved when there is a strong political will as it is shown from the study that tax revenues lead to positive effect on economic growth. The paper thereafter recommended that government should redesign and improve the existing tax policies and strengthen the link between payment of taxes and the benefit derive from it. Government is also advised to desist from frequent changes in the tax structure and broadened the tax base

Key words: Revenue, Tax revenue, Economic growth, Tax.

INTRODUCTION

The fall in the price of crude oil at the international market had negatively affected the revenue accruing to the Nigeria economy in recent times (Sayi and Lambe, 2019). This persistent dwindling revenue especially in the oil sector accounted for why government decided to give attention to taxsector with the aim of harnessing its benefits by increasing revenue generation and broadening the tax base of the Nigeria economy especially as tax is adjudged to be one of the most reliable sources of revenue available to government. However, revenue generated from tax has remained very low in Nigeria (Oyedele, 2017), despite many reforms to ensure that economic growth is achieved through nonoil revenue.

Although Sayi and Lambe (2019) opine that Nigeria government has created opportunity for voluntary tax compliance scheme for quite some time, but studies revealed that non-compliance is alarming. Nigeria with a population of about 186 million people in 2015 has 77 million employed and only 10 million people out of those employed registered for personal income tax across the 36 states and the Federal Capital Territory (Ade, 2018). This explains the reason for the dwindling government revenue and the demotivational effect it has on the few taxpayers who are carrying the burden of the rest eligible taxpayer. Also, when compared with South Africa in year 2016 with a population of 55.6m, 21.8M Labour force and registered individual taxpayers of 19M compared to Nigeria with a population of 182.2M, Labour force of 79.9M and registered individual taxpayers was only 14M. In another report from World Bank Nigeria was ranked 182nd out 190 countries in the world for ease of paying taxes ranking while South Africa was 51st Oyedele, (2017).

With this reality coupled with the fluctuations in the oil market, the need to look at taxsector of the economy becomes indispensable to ensure the economy attains its desired growth.

Taxes have been identified as one of the most important sources of revenue to every economy. Taxes according to Nwauzor (2021) could be used as an influential tool for economic growth as it contributes immensely to the Gross Domestic Product. James and Nobes (1992) opined that taxation is an obligatory tariff by a public authority that nothing is gotten directly as a pay back. This definition is not significantly different from the one given by

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Adebile and Amusan (2011) which describe tax as an unavoidable contribution, imposed by government. While taxpayers may not collect recognizable item in return for their support, they nonetheless have the value of living in a relatively educated, healthy, and safe society. Tax in the opinion of Nwauzor (2021) is the price paid by citizen to facilitate delivery of community goods, rearrangement of revenue including wealth, advancement of societal and monetary welfare, financial stability as well as harmonization. It is a compulsory level by any administration on the income, proceeds, property, treasure, and ingesting of persons and business entities to enable government obtain needed resources to provide core amenities, provide safety, and cater for well-being of the people.

The importance of an efficient tax system, a tax system that enables the taxpayer to pay exactly what is due to the government, cannot be over-emphasized to the socio-economic, technological, and political well-being of any country. Overpayment of taxes places an undue burden to the taxpayer and underpayment reduces the amount of fund available to fund government expenditure. South Africa and Kenya are considered the most efficient tax collectors countries in sub-Saharan Africa (Maradze, Nyoni, and Nyoni, 2020). Because of the significant of tax to governments, countries have set up dedicated institutions for tax collection purposes. Besides, various Acts which provides a road map on how to administer tax efficiently are put in place. In spite the presence of governing Acts and administrative structures for tax collections purposes, tax avoidance and evasion continue to cripple Governments' efforts in gathering enough financial resources for the betterment of their respective nations.

Tax avoidance and tax evasion are part of the major problems bedeviling tax administration in Nigeria as studies revealed noticeable gap exists between actual and potential tax collections (Bako, 2021). Although this challenge is not limited to Nigeria but according to Nwachukwu and Okongwu (2019), the impact it has in Nigeria appears to be unique in the sense that, there is no robust tax evasion and avoidance legislation, like we have in countries like Britain, to control tax evasion coupled with the lack of qualified administrative tax staff and, consequently our tax authorities.

The federal government of Nigeria has at different fora repeatedly complained of the widespread incidence of tax evasion and avoidance in the country with companies and other taxable persons using all kinds of tax loopholes to escape or significantly reduced their taxes. This is besides the deliberate fraudulent ways of evading tax altogether, sometimes with the connivance of the revenue personnel (Nwachukwu and Okongwu, 2019). It is the responsibility of the government through relevant tax authorities to ensure that revenue leakages are reduced where outright blockage seems unattainable. Consequently, a proper legal evaluation of the issue of tax evasion and avoidance in Nigeria and an appreciation of the difference between 'tax evasion' and 'tax avoidance' is a prerequisite because the concepts are often used interchangeably in tax literature.

Objectives of Study

Efforts aimed at examining the impact of tax tax revenue on economic growth are also in myriad of numbers. Most of the studies that examined the impact of taxtax revenue on economic growth linked each nontax revenue (Value Added Tax, Capital Gains Tax, Company Income Tax, and excise duty) to economic growth. Therefore, the objective of this paper was to examine optimizing tax revenue proxied by value-added tax, companies' income tax, customs and excise duties, and capital gains tax to promote economic growth in Nigeria.

Statement of Problems

The federal government of Nigeria has many avenue of generating revenue with the most reliable being income from tax (Nwachukwu, 2019). However, scholars have revealed that a lot of challenges, besides the increasing social and public spending needed in stimulating economic growth in the country, make tax less likely to be effective (Onoh, Okafor, Efanga, Okon and Ikwuagwu, 2021). One of the challenges is how to strike a nexus between taxes and levies that will generate enough revenue to the government for public service delivery while upholding the qualities of a good tax system and enhance economic growth. Besides, poor tax administration which hinder economic growth, the prevalence of tax evasion and avoidance among Nigerians, and leakages that compound falsification of accounting records has in no small ways affected the attainment of reliable economic growth.

The concealment of imported vatable good in different cartons to portrait them as non-vatable and also evade custom duties, the falsification of financial statements to reflect what taxpayers felt they want to declare sometimes in connivance with those saddles with revenue collection and pay as tax thereby diminishing the value of vatable items declared so that custom duties and other payables will reduce considerably. The study therefore empirically examined strategies for optimizing tax revenue to promote economic growth in Nigeria

CONCEPTUAL REVIEW

The Concept of Tax

Tax can be defined as a monetary levy imposed by the government of a country, on individuals or entities. Dike (2014) defined a tax as a compulsory exaction from a taxpayer, either remitted in cash or in kind to the government to provide for the public services of common interest without particular regard to a defined benefit received by the taxpayer. In other words, the remittance is done individually but the outcome of the services provided is enjoyed by all citizen rather than giving specific benefits to a taxpayer. Tax is a demand from individuals or business entities, by the government in order to raise the revenue required for economic or social duties for the benefit of the entire populace. Riedl (2017) posits that the tax system of any country is a major determinant of other macroeconomic indicators; hence there is a relationship between tax revenue and economic growth.

Tax Revenue and Oil Tax Revenue

Tax revenue accruing to economy, such as Nigeria, can be divided into two main categories, which are; Taxtax revenue and oil tax revenue. Taxtax revenue is revenues from direct and indirect taxes

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paid by other sectors of the economy other than the oil sector. The direct taxes are personal income tax (PIT), company income tax (CIT), capital gain tax, withholding tax, and education tax, while the indirect taxes are value-added tax (VAT), and custom and excise duties. On the other hand, oil tax revenue includes revenues from petroleum profit tax (PPT), royalty, and gas tax

The Concept of Custom and Excise Duty.

Customs and excise duty introduces in 1860 as import duties is adjudged one of the oldest forms of modern taxation (Ekeocha, Ekeocha, Malaolu & Oduh, 2012) and it is an example of tax indirect tax with enormous contributions to the growth of Nigeria Economy (Adegbie, Nwaobia and Osinowo, 2020). Adeusi, Uniamikogbo, Erah, and Aggreh (2020) opined that customs and excise duties have remained the major revenue source before and after the discovering of oil in Nigeria and have over the years contributed significantly to national development. Custom duty can be divided into import and export duty. While import duty is a tax paid on goods or services produced or rendered abroad but brought into the Nigeria, export duty is a tax levied on good or service produced or rendered in Nigeria but taken to other countries. Excise duties are taxes paid on good produced or services rendered and consumed or enjoyed in Nigeria. Custom duty is one of the tools use in import substitution and export promotion. Although the amount reported to have been collected under custom and excise is marred by corruption (Abomaye-Nimenibo, Michael and Friday, 2018), Adegbie (2011) is still of the opinion that its contribution towards the development and growth of the Nigerian economy is so strong and reliable. In attempt to regulate and grow the economy, custom and excise duties are adjusted accordingly. An upward review of custom duty will increase the cost of the item which will be passed to buyers in form of higher prices subject to the elasticity of the demand for the product or service. This according to Ekeocha, et al., (2012) will shift demand to local products with multiplier effect on employment and ultimately bring about economic growth. It is the responsibility of the Nigeria Custom Services to collect customs and excise duties, fees, tariffs, and other levies so imposed by the Federal Government on imports, exports, and other statutory rates.

The Concept of Company Income Tax

Companies Income Tax (CIT) is a form of direct tax levied on the profits of companies. It is computed and paid from the taxable profits of incorporated entities under the Companies and Allied Matters Act, 1990 as amended. CIT which is currently charged at 30% is payable on declared profits of any corporate entity accruing in, derived from, brought into, or received in Nigeria in respect of any trade or business that may have been carried out (Onoja and Ibrahim, 2019). The only exemption to the payment of 30% CIT is any company engaged in Petroleum exploration activities (Adegbite, 2015). However, Section 23(2) and (3) of the CITA empowers the president to exempt any company or class of companies from all or any of the provisions of the Act, or from tax, on any ground which appears to him sufficient. As companies engage in business activities to make profit, it is also expected that they try as much as possible to be socially responsible to their stakeholders including government as they pay certain percentage of their profit as tax. Government in turns is expected to provide amenities such as electricity, good road network, efficient and effective telecommunication system, among others. This symbotic relationship according to Adegbite (2015) will foster a less hostile business environment to the benefit of the stakeholders. CIT is administered by the Federal Inland Revenue Service (FIRS). Adegbie, et all (2020) opine that in spite the non-compliance occasioned by weak controls put in place by the government, CIT has been making significant impact on the revenue accruing to the government of Nigeria thereby enhancing its growth. It should be noted that profits that are non-crude oil-related generated by petroleum companies are liable to company income tax (Onyi-Ogelle and Ekundayo, 2020.

The Concept of Value-added Tax (VAT)

VAT has gained relevance in virtually all countries of the world including Nigeria (Agbo and Nwadialor, 2020). It was first adopted by France in 1954 to replace the turnover tax as members of European Economic Council (EEC) have since 1967 adopted VAT as a kind of tax that generates revenue. VAT is an indirect tax levied on the value additions at different stages of production and forms part of the prices paid for the good or service consumed (Abomaye-Nimenibo, et all 2018).

Izedonmi and Jonathan (2014); and Lawrence (2015) defined Value Added Tax (VAT) as a consumption tax with the primary objective of boosting government revenue base as well as to make funds available for developmental purposes with a view to accelerating economic growth (Umeora, 2013). In Nigeria, VAT was introduced to replace the sales tax in 1993. Nigeria, a more consuming nation with an estimated population of over 200m stand a chance to harness more revenue for economic growth if attention is paid to VAT especially now that it has moved from 5% to 7.5%. Nwanakwere (2019) opined that VAT is directly proportional to GDP and the consumers are the ultimate payers because as most of them pay without without taking cognisance of it. Besides, it is easy to administer and collect as cases of avoidance and evasion are very low. VAT which is federally collected indirect tax with a uniform rate of 7.5% was designed to be paid on imported goods, as well as on locally manufactured goods, hotel service, bank transaction while its proceeds are shared 50%, 35% and 15% between State, local and federal government respectively. However, the finance Act 2021 has recommended 85 and 12 sharing formular between state and federal government respectively.

The Concept of Capital Gain Tax.

In Nigeria, Capital Gains Tax is regulated by the Capital Gain Tax Act CAP 42 LFN 1990. Capital Gains Tax is a tax imposed when a chargeable asset is sold at a price higher than the cost of the asset (Daniel, 2014). In order to give clear description of assets on which CGT is chargeable, Joyson (2011) identified those assets liable for CGT to include; Land, Building not being used at principal place of residence or only private place of residence, machineries, Foreign currencies and stocks/Shares. According to Daniel (2014), Capital Gains (or losses) generally refer to the price of an asset when it is sold compared to its original purchase price or cost of the assets. A capital gain occurs if the value of the asset at the time

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of sale is higher than the initial cost or purchased price. Adegbie, et al (2020) opine that is on the reported gains that CGT is charged. The rate of CGT in Nigeria is 10% and it is computed on actual year basis.

Concept of Economic Growth

Economic growth can be described to mean an increase in the total value of goods and services produced by a country over a period of time usually a year; as growth rate of a country is measured by the size of her Gross Domestic Product (GDP) (Appah, 2010). Tax revenue plays significant role and presents opportunities for promoting economic growth especially if its revenues are invested in projects that have a lasting positive effect on the well-being of the citizen. However, this great opportunity of revenue generation has not been fully tapped by most governments around the world (Akintoye and Dada, 2013) especially the developing nations in the sub-Saharan Africa, like Nigeria owing to taxation system; tax laws; tax administration and policy challenges; overdependence on other revenue sources such as grants and aids from the foreign nations and systemic corruption. All these challenges limits economic growth. Adegbie, et al (2020) opine that economic growth will only be noticeable in any nation if the rate of increase in total output is greater than the rate of population growth while Akwe (2014) added that only creative and productive nation grow her gross domestic product (GDP) by ensuring full employment, reduced interest rate and improved output in the industrial sector. When economy is fully engaged with total control of economic variables, there is high tendencies of improving the size of its gross domestic product GDP which will ultimately transform the economic growth positively (David & Anyiwe, 2013).

EMPIRICAL REVIEW.

Adeusi et al. 2020 found that Custom & Excise Duties have more significant positive effect on the Nigerian economic growth in their study titled Tax Revenue and Economic Growth in Nigeria. The study which drew its sample from the entire population using the census sampling approach adopted secondary source of data collection method as data were retrieved from the Federal Inland Revenue Service Statistical bulletin of 2018 and the National Bureau of Statistics of 2019 for the period 1994-2018. The four specific variables proxy for tax revenue are Value Added Tax, Companies Income Tax, Personal Income Tax, and Custom & Excise Duties while Gross Domestic Product was used to represent economic growth in Nigeria. The study thereafter recommended simple and transparent tax laws be enacted to regulate the tax regimes in Nigeria. Onoh, Okafor, Efanga, and Ikwuagwu (2021) examined tax policies and its impact on economic growth in Nigeria between 1981 and 2019 using data extracted from World Bank Data Base: World Developmental Indicators of 2019 and Federal Inland Revenue quarterly publications. The study employed gross fixed capital formation as proxy for economic development in Nigeria, while company income tax, petroleum profit tax, and custom and excise duties were adopted as explanatory variables. Findings revealed that customs and excise duties recorded a negative significant impact on economic growth in Nigeria. Thereafter, the study recommended a better workable plan on the part of Nigeria government in the administration and collection of taxes. The increase in global emphasis on enhancing tax revenues in relation to Gross Domestic Product (GDP) and diversifying the revenue sources of nation's economics necessitated. Etim, Austine, Nsima, and Asogwa (2020) to empirically analize the relationship between tax revenue components and economic growth in Nigeria from 1980 to 2018. Data on GDP and tax revenue were extracted from Central Bank of Nigeria (CBN) statistical Bulletin and Annual Reports of Federal Inland Revenue Service (FIRS) and analysed using descriptive and inferential statistics. The study found a positive and significant relationship between economic growth (GDP) and Personal Income Tax, Petroleum Profit Tax, and Company Income Tax while Education Tax, Customs, and Excise Duties were not statistically significant. The study thereafter concluded that tax revenue components play vital role in economic growth in Nigeria and recommended that government intervening to boost economic growth through taxation. Also, the study of Nchege, Aduku, Idika, and Nwosu (2019) revealed that customs and excise duties had a negative impact on economic growth when they examined tax revenue, wage employment, and economic growth in Nigeria.

Although the Relationship between Value-Added Tax and Economic Growth has been empirically explored, but the inconsistencies in the various studies have made the gap to remain for further studies. Ajakaiye (1999) advance argument that the dominance of informal sector resulted in the negative relationship when he assessed the influence of value-added tax on the economic growth of Nigeria, using the equitable general equilibrum approach. The result of the study conducted by Ugochukwu and Azubike (2016) shows a negative relationship between value-added tax and economic development. Examining the economy of Kenya, Njogu (2015) researched the relationship between value-added tax and economic growth and found a negative and statistically significant relationship between value-added tax and the Kenyan economic growth.

Onwuzulumba and Okpata (2021) study covered the disaggregated effect of tax structure on economic growth in Nigeria using time series data from 1986 to 2019 and adopted Ex-post facto research design. The study which found that value-added tax has significant effects on economic growth in Nigeria recommended that tax administrative loopholes should be plugged for tax revenue to contribute immensely to the development of the economy since main components of tax revenue studies had a significant impact on economic growth. Value Added Tax (VAT) and Economic Growth in Nigeria was investigated by Areem, Arije, and Avovome (2020) with the objectives of examining the impact of value-added tax and economic growth and to determine the causal relationship between value-added tax and economic growth in Nigeria using secondary data from Central Bank of Nigeria. The study which revealed that value-added tax positively and significantly impacted on economic growth of Nigeria both in the long run recommended that government should increase the VAT rate and eliminate every VAT revenue leakage since it was found to have positive effect on economic growth in Nigeria.

An empirical study of China's perspective on Value Added Tax and Economic Growth was researched in China by Ayoub and

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Mukherjee (2019) using time series of the period from 1985-2016. The test result indicated to have a positive relationship between the GDP and independent variables value-added tax in both in the long and short run. This result is also validated by Bank-ola (2021).

The effect of tax reforms on the economic growth of Nigeria from 1994 to 2009 was researched by Ogbonna and Appah (2016). The study found a significant relationship between company income tax revenue and gross domestic product. The effect of taxation on economic growth from 2007 to 2017 was examined by Ngwoke (2019) using secondary data obtained from the Central Bank of Nigeria Statistical Bulletins. The study found out that CIT has significant effect on the economic growth proxied by gross domestic product of Nigeria. Ogar and Oka (2016) studied the impact of tax revenue on economic growth in Nigeria using ordinary least square and company income tax was found to have no statistically significant impact on economic growth. Also, Yahaya and Kabir (2019) examined the impact of tax tax revenue on economic growth in Nigeria adopting ex-post facto research design. The result of the study revealed that CIT had a positive significant relationship with economic growth.

Okerekeoti (2022) worked on value-added tax and capital gain tax to ascertain the extent tax structure affects Gross Domestic Product in Nigeria using Ex Post Facto research design in the journal titled Tax Structure and Economic Growth: an empirical study in Nigeria. The study extracted its data from the Central Bank of Nigeria Statistical Bulletin from 2000 to 2020 using statistical regression statistics via E-view version 9.0 statistical software package. The study revealed that capital gain tax has a negative insignificant effect on economic growth in Nigeria. The study advised that the use of a capital gain tax rate drop, which is a channel for recruiting investors or economic activity by raising disposable income, is strongly advised based on the findings of this study. The fact that an unfair tax system deters investors and immediately impacts the distribution of disposable income is a lesson for tax authorities

THEORETICAL REVIEW

Ability to Pay Theory

Ability to pay theory of taxation was propounded by Adams Smith 1776. In his book titled 'the wealth of a nation' and further popularized and amplified by Author Cicil Pigou 1877 and the theory is adjudged one of the most renown and generally accepted theory of taxation is that which allows citizens to pay tax to the government in accordance to the ability of individual tax payers (Otu & Theophilus, 2012). According to Jones and Rhoades (2011), the theory is said to have originated by the Swiss philosopher Jean Jacques Rousseau between 1712 and 1778 in the 16th century and was scientifically extended by a number of scholars. Since the introduction of the theory, it has dominated several literatures with a view to explaining basis upon which good tax system should operate (Lawrence, 2015). This theory holds that tax should be levied progressively to the income of taxpayers where those who earn more are made to pay more tax than those on lower income. Ability to pay theory of taxation is adjudged most reasonable and fair theory of taxation owing to the fact that it takes into account the disparities income among various taxpayers (Jones & Rhoades, 2011). Ability to pay theory has also been challenged by scholars on ground that it has no concrete approach for measuring the equity of sacrifice in absolute, proportional, and marginal terms (Komal, 2013).

The Benefit Theory of Taxation

No sooner the ability to pay theory came to stay before this theory. It was precisely, developed by Thomas Hobbes (1588-1679), John Locke (1632-1704) both of whom are English philosophers, and Hugo Grotius (1583-1645) a Dutch jurist in the seventeenth century (Otu & Theophilus, 2011). The assumption of the theory is that individuals should be subjected to tax in proportion to the benefits to be received from the governments in public services and that the burden of taxes should be felt more by those people who receive the direct benefit of the government programs and social services (Akwe, 2014). Also, according to Thomas (2010), there is basically mutual relationship between the state and the taxpayers. While the taxpayers perform their civic responsibility by paying their taxes, government is the chief administrator of funds contributed by taxpayers and hence, must use taxpayers' money for the benefit of the payers. The state must provide some specific social goods and services to the members of the society and who in turn contribute to the cost of these supplies in proportion to the benefits received. Those who receive more benefits from the social services financed by taxpayers should also be subjected to more tax.

Resource Dependence Theory

Resource dependence theory was introduced by Pfeffer and Salancik (1978) to clarify how an organization's strategy, structure, and survival depend on its resources and dependency relationships with external institutions. Pfeffer and Salancik succinctly noted that the key to organizational survival is the ability to acquire and maintain resources. The theory stresses the impact of external forces on how organizations operate and proposes two broad tenets: one, organizations are constrained by and depend on, other organizations that control critical resources, and to maintain autonomy, organizations attempt to manage their dependencies on external groups (Greening & Gray, 1994). The degree of dependence experienced by an organization, according to a resource-dependence view, is determined by the importance and concentration of its resources (Froelich, 1999). From the perspective of taxation revenue and economic growth and development, the major resources available to the government in executing its civic responsibility, that is provision of infrastructural facilities and other necessary activities for the betterment of the citizens rely solely on its ability to effectively and efficiently utilize the resource at hand (taxation revenue) irrespective of the categorization of the beneficiaries (citizens).

METHODOLOGY

The model used in the study conducted by (Etim et al. 2020) and where economic growth proxy by GDP was the dependent variable while personal income tax, petroleum profit tax, and company income tax while education tax, customs, and excise duties are the independent variables was adapted in this study. In the current

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study, the tax revenue was used as the independent variable while the gross domestic product (GDP) a proxy for economic growth serves as the dependent variable in the model. The tax revenue was captured by *custom and excise duties (CES), company income tax (CIT), value-added tax (VAT), and capital gained tax (CGT)* all of which are essential in optimizing the potential of tax revenue were included in the model. The model for the strategies of optimizing tax revenue is presented as follows: $= \beta_0 + \beta_1 CES_t + \beta_2 CIT + \beta_3 VAT_t + \beta_4 CGT_t + \mu_t$ (1)

In economic theory, tax and any of its forms or types are treated as leakages or withdrawal from the circular flow of income which is why reduction in tax was advocated for an economy to escape from recession (Thanh and Canh, 2020). Thus, tax can either have a positive or negative effect on growth. When the tax rate is appropriate, its effect on economic growth will be positive but in the case of an inappropriate tax rate, growth will be adversely affected. The expected relationship between and among the dependent and various explanatory variables are express as follows:

$\frac{\partial GDP}{\partial CES}$ ><0; $\frac{\partial GDP}{\partial CIT}$ ><0; $\frac{\partial GDP}{\partial VAT}$><0; and $\frac{\partial GDP}{\partial CGT}$ ><0

This study covers the period of 26 years from 1995 to 2020. The choice of the period selected was informed partly by data availability on the various components of tax in Nigeria. The data was collected from World Bank Development Indicator, 2021 and Annual Reports of Federal Inland Revenue Service (FIRS). In the measurement of variables, economic growth was measured via gross domestic product (GDP), and tax revenue was measured via four variables comprising of *custom and excise duties (CES), company income tax (CIT), value-added tax (VAT), and capital gained tax (CGT)*. The measurement of variables is display as follows:

Table 1: Data Sources and Measurement

SN	Variables	Symbol	Measurement	Source
1	Economic Growth	GDP	GDP in million USD	World Bank Development Indicator, 2021
2	Value added tax	VAT	Value-added tax revenue in million USD	World Bank Development Indicator, 2021
3	Custom and excise duties	CES	Final consumption in million USD as a ratio of GDP	
4	Company income tax	CIT	Gross capital formation in million USD	
5	Capital gained tax	CGT	Total government expenditure in million USD	

Source: Authors Compilation, 2022

In the study, the statistical and econometric properties of the variables in the model formulated was assess via descriptive statistics, correlation analysis. In line with the goal of the study, the Fully Modified Ordinary Least Squares (FMOLS) estimation technique was used to analyze the effect of tax revenue on economic growth.

***Apriori* Expectation.**

Variables	Symbol	*A priori* Expectation
Value added tax	∂VAT	+ive
Custom and excise duties	∂CES	+ive
Company income tax	∂CIT	+ive
Capital gained tax	∂CGT	+iv

4. Results

In this section, the result of the data analysis and the interpretation are presented. It covers pre-estimation analysis, empirical analysis, and post-estimation analysis

4.1. Pre-Estimation

4.1.1. Descriptive Analysis

The major statistics here are mean, minimum, and maximum value, Skewness and kurtosis, and Jarque-Bera statistics (JB).

Table 4.1: Descriptive Statistics

	GDP	VAT	CES	CIT	CGT
Mean	2.277104	0.401994	6071.421	3171.129	18.17500
Median	1.953792	0.357732	145.3800	408.3250	8.985000
Maximum	11.43818	0.824673	63000.00	26000.00	99.40000
Minimum	-5.716683	0.000000	5.900000	33.30000	2.650000
Std. Dev.	4.113383	0.247131	17241.93	7458.470	29.11867

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Skewness	0.351621	0.167309	2.605502	2.423835	2.476623
Kurtosis	2.886631	2.011020	8.106709	7.005296	7.507593
Jarque-Bera	0.549685	1.180887	57.66912	42.83749	18.68876
Probability	0.759692	0.554081	0.000000	0.000000	0.000087
Sum	59.20471	10.45185	157857.0	82449.35	181.7500
Sum Sq. Dev.	422.9980	1.526845	7.43E+09	1.39E+09	7631.072
Observations	26	26	26	26	10

Source: Authors' 2022

The Jarquebera probability value for economic growth (0.549685) and value-added tax (0.554081) are greater than 0.05, implying that economic growth and value-added tax are normally distributed. For custom excise duty, company income tax, and capital gain tax, the Jarquebera probability value which are 0.000000, 0.000000 and 0.000087 respectively are less than 0.005 implying that the variable are not normally distributed. This result suggest that economic growth and value-added tax are normally distributed while custom excise duty, company income tax, and capital gain tax are not normally distributed.

4.1.1. Correlation Analysis

Table 4.2: Correlation Matrix

	GDP	VAT	CES	CIT	CGT
GDP	1.000000				
VAT	-0.362131	1.000000			
CES	-0.107698	0.230087	1.000000		
CIT	-0.538499	0.760526	0.281043	1.000000	
CGT	0.018586	0.160046	-0.219479	-0.275495	1.000000

Source: Authors' 2022

As displayed in Table 4.2 the correlation coefficient shows that value-added tax, custom excise duty, company income tax are all negative associated with economic growth (-0.137424) is negative, which implies that there is a negative association between the two variables. Also, the result as reported in Table 4.3 shows that there is absence of the issue of multicollinearity between and among any pair of variables in the model since none of the correlation coefficients is close to the 0.85 rule of thumb for the presence of multicollinearity in a model

4.1. Regression Results

In the empirical analysis of the model, the study used the Fully Modified Ordinary Least Squares (FMOLS) estimation technique to achive the goal. The result of the FMOLS estimation is presented in Table 4.3

Table 4.3: FMOLS Estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(VAT)	8.388610	1.618571	5.182727	0.0066
LOG(CES)	3.395400	0.802242	4.232387	0.0133
DLOG(CIT)	5.188978	3.405709	1.523612	0.2023
LOG(CGT)	1.554561	0.740817	2.098440	0.1038
C	-13.59155	3.925116	-3.462712	0.0258
R-squared	0.775076			
Adjusted R-squared	0.550153			
Long-run variance	0.696668			

Source: Authors' 2022

The result presented in Table 3 shows that in line with a priori expectation where the tax rate is appropriate, the coefficient of value-added tax (β = 8.388610, t = 5.182727, p<0.05), and custom excise duty (β = 3.395400, t = 4.232387, p<0.05) are positive and significant implying that value added tax and custom excise duty

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have a significant positive effect on economic growth in Nigeria. That is, as value-added tax and custom excise duty increase by 1%, economic growth increase by about 518% and 340% respectively, and vice versa. Meanwhile, the coefficient of company income tax ($\beta = 1.275846$, $t = 2.025387$, $p>0.05$), and capital gain tax ($\beta = -2.790253$, $t = -0.882453$, $p<0.05$) were found to be insignificant implying that company income tax and capital gain tax do not have effect on economic growth in Nigeria.

To sum up, it was evident from the estimation that the only two source of tax revenue that enhance economic growth in Nigeria significantly are value-added tax and custom excise duty while company income tax and capital gain tax do not show any effect. Thus, this result is a pointer to the efficiency of value-added tax and custom excise duty administration in Nigeria.

CONCLUSION AND RECOMMENDATIONS

From the empirical analysis of the study shows that the only two source of tax revenue that enhance economic growth in Nigeria significantly are value-added tax and custom excise duty while company income tax and capital gain tax do not show any effect. This outcome is particularly important since it highlights the importance of focusing on tax revenues in particular. It also shows that there is need to set up strong institutional settings that tend to critically examine tax components more stringently to note the growth-enhancing patterns. This shows that aggregate tax compositions in Nigeria do not effectively promote growth in the economy. Rather, it is the focus on individual tax patterns that exert significant short-term effects on growth.

This result also strongly corroborates other studies. For instance, Ojong, Anthony, and Arikpo (2016) also showed the effectiveness of production taxes in the economy. Indeed, taxation on production affect the location of business, alter the ways in which production takes place, changes the form in which business. Perhaps the importance of this tax structure rests on the fact that production tax is easy to administer and less expensive to collect. Tax issues constitute strong consideration for businesses in Nigeria, especially in the era of increased drive for more revenue by government. There is often a dilemma for the government in terms of allowing small businesses to grow and develop and the collection of taxes. Reducing the compliance burden of small business taxpayers may necessitate reducing complexity of the different tax laws or introducing the types of simplification measures discussed above. It also relates to ensuring that more formal regulations, such as the procedures regarding filing, record-keeping requirements, procedures for appeal, or payment delays, are not unnecessarily complex.

The mobilization of revenue is an important policy objective. Governments can do little or nothing to alter structural determinants of the tax revenue (such as composition of value added), however, they have the powers to change other factors such as economic policies, the level of corruption, and the quality of tax administration, which are internal to that influence tax revenue. The wide divergence between the taxes payable and what is actually paid in Nigeria indicates that there is scope for raising tax revenue without increasing tax rates by enforcing tax and customs administrations, reducing tax exemptions (especially in the areas of manufacturing), and fighting fraud and corruption. Nevertheless, one must be realistic in terms of improvement in revenue ratios that can be reasonably expected to be achieved in Nigeria, given the low level of development and the heavily agricultural and informed character of the economy. Indeed, optimizing tax revenue using tax and carrying out reforms can be achieved when there is a strong political will and leadership to adopt the necessary measures. In line with the research findings, the following recommendations were offered;

i. The government should redesign and improve the existing policies to optimize the growth of taxsector with special focus on taxation. This will provide alternative source of government revenue and opportunity to withstand fluctuations of oil price shocks in the future.
ii. The perceived links between paying tax and enjoying the benefits of public spending should be strengthened. Increasing awareness of this relationship can clearly be constructive for the economy as a whole.
iii. Simple and transparent tax laws should be enacted to regulate the tax regimes in Nigeria with a view to eliminating the problems of implementation of good tax reforms policies.
iv. The tax base in Nigeria should be as broad as possible since this can minimise tax distortions and revenue In particular, attention should be carefully given to taxes on production since the study shows that VAT and Custom and Excise Duty has positive impacts on economic growth in Nigeria.
v. Frequent changes made in the tax structure by relevant tax authorities by way of tax policies should either be avoided or minimized, since it increases enforcement, compliance, and efficiency costs, thereby affecting production and business decisions.

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