Effect of Indirect Taxes on Economic Growth in Nigeria

Celestine Anayo Egbuhuzor
Ignatius Ajuru University of Education,
Rivers State, Nigeria.

Adokiye Inembo Tomquin
Ignatius Ajuru University of Education,
Rivers State, Nigeria.

Abstract
This study examined the effect of indirect taxes on economic growth in Nigeria from 2003 to 2018. The ex-post facto research design was adopted for this study while secondary data were extracted from the central bank of Nigeria Statistical bulletin from 2003-2018. The descriptive statistics and multiple regression were used to test the postulated null hypotheses with the aid of EViews10 statistical software. Value-added tax and custom and excise duties were measures of Indirect taxes while gross domestic product and human development index were the measures for economic growth. The study revealed a negative and insignificant effect of value-added tax on gross domestic product. It also revealed a positive and significant effect of value-added tax on human development index. Also, it revealed a positive and insignificant effect of custom and excise duties on gross domestic product. Finally, the study revealed a positive and insignificant effect of custom and excise duties on human development index. The study therefore recommended that the government should put in place mechanism to close up the loopholes in the VAT collection system since its effect on gross domestic product is negative and insignificant. Furthermore, the government through its agency Nigerian custom service should computerize all its tax collection processes with adequate internal control system so as to boost revenue generated from custom and excise duties.

Keywords: *Indirect Taxes, Value-Added Tax, Custom and Excise Duties, Economic Growth, Gross Domestic Product, Human Development Index.*

1. Introduction

Functional nations worldwide are accessed and rated based on their economy. The economy plays a large part in any society and therefore touches upon a multitude of sectors within a country. So, one of the objectives of government involvement in the economy is the attainment of sustainable economic growth. The success of an economy results in economic growth. Economic growth as a concept is viewed differently by different scholars. Salami et al. (2015) sees economic growth as the sustained increase in per capita national output or net national product over a long period. According to them, economic growth occurs when a nation's production possibility frontier shifts outward. According to the Business Dictionary, economic growth is the increase in a country's productive capacity, as measured by comparing the gross national product in a year with that of the previous year. An increase in the capital stock, advances in technology, and improvement in the quality and level of literacy are considered to be the principal causes of economic growth.

In Nigeria, its economy is heavily dependent on oil revenues which contribute 2/3 of state revenues, oil only contributes about 9% to the GDP. Nigeria produces only about 2.7% of the world's oil supply, yet it remains a small part of the country's overall economy. In 2019, the economy expanded 2.27%, the most since 2015, and compared to 1.98% in 2018**.** The mono-

product status of the Nigerian economy has received a series of criticisms in recent times. The Nigerian economy has solely depend of the oil sector as its major source of revenue. The implication of this over-dependence on oil revenue is the boom-and burst nature of the economy (Akpokodge, 2000). Oil price volatility continues to influence Nigeria's growth performance. A good example of its non-oil economy for revenue generation is tax. The relevance of taxation as another source of revenue generation cannot be ignored. The Nigeria economy today is facing a series of challenges when it comes to optimizing taxation revenue for economic growth while aiming to reach development targets. The most glaring difficult challenge is how to find the optimal balance between a tax regime that is business and investment-friendly while at the same time leveraging revenue for public service delivery which in turn makes the economy more attractive to investors. Taxation is the act or process of being taxed. It is the primary source of governmental revenue. Specifically, it is an instrument for moving resources from the private hands to the public to achieve some of the country's economic and social goals (Ekine, 2011). For the Nigerian government to effectively carry out its primary function and other subsidiary functions, she requires adequate funding. Government responsibilities have continued to increase over time especially in developing countries like Nigeria due to the increasing nature and size of her population, and infrastructural deterioration.

Tax revenue is very important to the growth and development of any country as tax proceeds helps in rural and urban development as well as the provision of infrastructural development in the form of road constructions, provision of power supply, and portable drinking water, the building of hospitals, schools, and provision of other social amenities. Bonu and Pedro (2009) thought that tax policy does affect economic growth. To them, there is enough evidence linking tax revenue and output to growth. Countries that can mobilize tax resources through broad-based tax structures with efficient administration and enforcement will likely be in a position to enjoy faster growth rates than countries with lower overall tax collections assessed inefficiently. Therefore, the design of the tax system is likely to exert a modest, but cumulatively important influence on long-term growth rates.

The tax system in Nigeria has been faced with a lot of challenges which has led to its underutilization as the main source of income for economic growth. A major problem is poor tax administration. In this direction, Olashore (1999) asserted that the economy has stagnated as all macroeconomic indicators show that the economy is in urgent need of changes, balancing, and indeed radical reform. The most recent is the passing into law the finance bill 2020 that is intended to create more revenue from the tax for the government. Currently, VAT has been increased to 7.5%. Furthermore, the attitude of taxpayers in Nigerians is not encouraging, as many prefer not to pay tax thereby evading tax. This attitude of evading tax has a hampering effect on the economic growth of the country as huge revenue is lost, and if added back would have increased the growth of the economy. Also, the cost associated with collecting taxes has outweighed the tax being collected which contracts the initial purpose for tax revenue collection. So, an efficient and effective tax administration will increase the economic growth of Nigeria. Various studies have been carried out both in Nigeria and abroad to ascertain the influence of tax revenue on economic growth (Engen & Skinner, 1996; Babalola & Aminu, 2011; Abomaye-Nimenibo et al., 2018) while some other researchers focused on indirect taxes and economic growth (Akhor et al., 2016; Ikeokwu & Leyira, 2019; Ibadin & Oladipupo, 2015) in various countries abroad and Nigeria. These studies ended with mixed and diverse findings on the effect of indirect taxes on economic growth. Of these works done, to the best of my knowledge none has significantly ascertained the effect of indirect taxes on economic growth in Nigeria. Therefore, to fill the knowledge

gap, this study empirically ascertains the effect of indirect taxes on economic growth in Nigeria.

Operational Framework

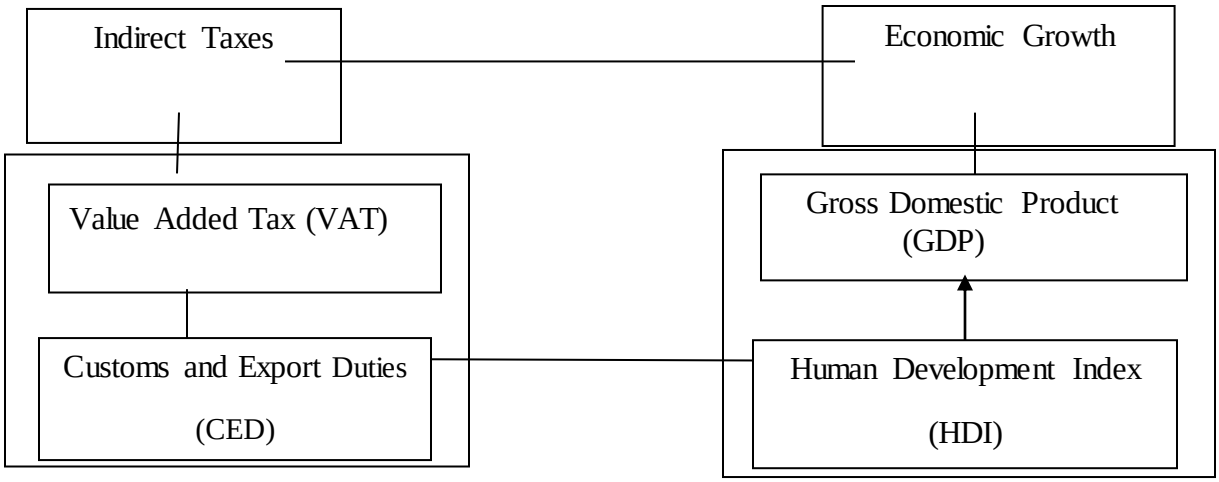

Figure 1: Conceptual framework of Indirect Taxes and Economic Growth.
Sources: Akhor et al. (2016) Ibadin & Oladipupo (2015), Ikeokwu &_Leyira (2019), Nmesirionye et al. (2019).

The following research hypotheses were formulated;
Ho_1: there is no significant effect of value-added tax on gross domestic product in Nigeria.
Ho_2 there is no significant effect of value-added tax on human development index in Nigeria.
Ho_3 there is no significant effect of custom and export duties on gross domestic product in Nigeria.
Ho_4 there is no significant effect of custom and export duties on human development index in Nigeria.

2. Literature Review

Concept of Indirect Taxes

These are taxes levied on persons or groups who are not intended to bear the burden or incidence but who will shift them to other people. They are normally levied on commodities or services in which incidence does not fall directly on the producer or first payer but the final payers and consumers. That is in most cases, consumers end up paying some or all of any indirect tax introduced into a market. The bulk of government income in developing countries like Nigeria is principally derived from indirect taxation, while in the developed countries like the USA, the bulk of government revenue is rather derived from direct taxation (Igweonyia, 2011). In this study, indirect taxes selected are value-added tax (VAT), and custom and excise duties.

Value Added Tax

VAT is the acronym for valued added tax. This tax which is in other words called consumption tax and is being defined as the amount charged by the government for every goods or service purchased from time to time. This means it can only be paid when there is a consumption of goods or services, and its burden is bored by the final consumer. VAT as an indirect tax is imposed on goods and services at each stage of production, starting from raw materials to the final product. This assertion is affirmed by the definition of Ajakaiye (2000) that VAT is a "multi-stage tax imposed on the value added to goods and services as they

proceed through various stages of production and distribution. VAT is adopted in virtually all countries of the world including Nigeria. It was introduced in Nigeria in 1993 by the General Ibrahim Babangida administration to replace sales tax which hitherto generated revenue for the state governments.

It was to be federally-collected and a uniform rate of 5 percent was fixed on all affected items while VAT proceeds are shared among the three tiers of government at an agreed proportion. Currently, with the passage of the new finance bill into law in January 2020, a new VAT rate of 7% took effect from February 2020. There are mixed reactions on how effective this new VAT rate will enhance the economy and brings about economic growth. To some it will impact positively on the economy whereas to others it will increase the hardship on Nigerians.

Custom and Excise Duties

Customs duty is a major source of revenue for the Federal Government which is payable by importers of specified goods. Custom duties also serve as protection to indigenous industries against foreign industries. Whereas, excise taxes are charges imposed by the government on specific commodities produced in a country at differing rates to raise revenue and to discourage the manufacturing and consumption of certain goods deemed harmful to people's health like tobacco and alcohol. In summary, custom duties are taxes levied on imported items while excise duties are taxes levied on the manufacture of domestic commodities. Adegbie and Falike (2010) in their study on the development and growth of the Nigerian economy stated that there is a strong relationship between customs and excise duties and the economic development of Nigeria; meaning that this is a source of income that Nigeria should rely on and develop. The Nigeria Customs Services is saddled with the responsibility of collecting customs duties, excise, fees, tariffs, and other levies so imposed by the Federal Government on imports, exports, and statutory rates.

Concept of Economic Growth

According to Salami et al. (2015), economic growth can be defined as the sustained increase in a country's productive capacity, and per capita national output or net national product over a while. These increases are the basic causes of economic growth. Fiscal policy is one of the most important tools that have a significant effect on all economic sectors and have a real effect on economic variables like the Gross national product, inflation, unemployment, etc. Taxes can be seen as a fiscal policy, macroeconomic, and internal revenue mobilization tool for the attainment of economic growth. Economic growth can be proxied, using different economic indicators, ranging from Gross National Product (GNP), Gross Domestic Product (GDP), Human Development Index, and Per Capita Income. But in this study, economic growth was measured with Gross Domestic Product (GDP), and Human Development Index.

Theoretical framework

This study beckon on the expediency theory. This theory explains an economy's effectiveness and efficiency in tax collection instrument for enhanced economic growth. This theory further asserts that every tax proposal must pass the test of practicality. Anyanfo (1996) and Bhartia (2009) explained that the expediency theory is based on a link between tax liability and state activities. It assumes that the state should charge the members of the society for the services provided by it. This reasoning justifies the imposition of taxes for financing state activities by inferences, which provides a basis, for apportioning the tax burden between members of the society. Accordingly, a tax system should not be designed to serve individual members of society but should be used to cure the ills of society as a whole. This theory is

appropriate for this study because it enable us to assess the extent to which indirect taxes have to enhance economic growth in Nigeria.

3. Empirical Review

Ikeokwu and Leyira (2019) examined the influence of indirect taxes on economic growth in Nigeria. Secondary data were extracted from the CBN statistical Bulletin database and FIRS. Ordinary Least Square (OLS) Multiple Regression was adopted to test the data gathered. The study revealed that indirect taxes have a significant influence on economic growth in Nigeria. In a related study, Enokela (2010) examined the relationship between value-added tax and the economic growth of Nigeria. Secondary data were extracted from CBN statistical Bulletin database while multiple regression was used to analyse the data gathered. From the analyses done, the study revealed that Gross Domestic Product (GDP) is positive and statistically significant to Value Added Tax, while Gross Domestic Product per Capita (GDPPC) is negative and statistically significant to Value Added Tax.

Owino (2019) carried out an empirical investigation on the relationship between value added tax and economic growth in Kenya from 1973 to 2010. Econometric exposition adopted while the ordinary least square technique was used to estimate the model. The study revealed a positive and insignificant relationship between value added tax and economic growth in Kenya. Also, Akwe (2014) used the OLS regression technique to explore the impact of non-oil tax revenue on economic growth in Nigeria from 1993 to 2012. The study revealed that non-oil tax revenue has a positive association with economic growth in Nigeria. Ebiringa and Emeh (2012) examined the impact of various taxes on the economic growth in Nigeria, using a period of 1985-2011. Results showed that customs and excise duties were negatively related to gross domestic product, implying that an inverse relationship existed between customs excise duties and economic growth in Nigeria.

In the same vein, Abomaye-Nimenibo et al. (2018) carried out a study on tax revenue and economic growth in Nigeria from 1980 to 2015. The ordinary Least Square (OLS) method was used to analyse the data gathered. The study revealed that there is no significant relationship between custom and excise duties and economic growth in Nigeria. Also, Nmesirionye et al. (2019) carried out an empirical investigation on the impact of indirect taxes on the economic performance of Nigeria for a period of 1994-2017. Secondary data were used and extracted from the central bank of Nigeria Statistical Bulletin and the National Bureau of Statistics. OLS multiple regression technique was used in the data retrieved. The study revealed that value-added tax has a positive and insignificant impact on the real gross domestic product of Nigeria while custom and excise duties have a positive and significant impact on the real gross domestic product of Nigeria.

In a related study, Akhor et al. (2016) examined the impact of indirect tax revenue on economic growth in Nigeria. Secondary data were collected from the Central Bank of Nigeria statistical bulletin from 1993 to 2013. Time series research design was used while the data collected were analysed through correlation, unit root test, cointegration test, and error correction model regression. The result revealed that value-added tax had a negative and significant impact on real gross domestic product. It also revealed that custom and excise duty had a negative and weakly significant impact on real gross domestic product. Also, Inyiama and Ubesie (2016) examined the effect of value added tax, customs and excise duties on Nigeria economic growth. Secondary data was extracted from the CBN statistical bulletin and analysed with the simple regression technique and correlation analysis. The study revealed that all the non-oil tax revenue affects Nigeria Gross Domestic Product.

Oladipupo and Ibadin (2015) examined the impact of indirect taxes on the economic growth of Nigeria. The study employed a time series data spanning a thirty-four-year period, from 1981 to 2014. The unit root test and the Error Correction Model were utilized in the study. The study revealed a positive and significant impact of VAT, PPT on the RGDP. In the same

vein, Stailova and Patonov (2012) examined the impact of taxes on economic growth from 1995-2010. Regression analysis was used to test the data gathered. The study revealed that the impact of direct taxes on economic growth is significant. Also, Ilaboya and Mgbame (2012) examined the relationship between indirect tax and economic growth in Nigeria. The study adopted a combination of cointegration and error correction mechanism to check the adequacy of the specified model. The study revealed a negative and insignificant relationship between indirect tax and economic growth in Nigeria.

4. Methodology

The ex post facto research design was adopted for this study with data gathered for the study from the Central Bank of Nigeria Statistical bulletin from 2003-2018. The descriptive statistics and multiple regression were used to test the postulated null hypotheses while the Pairwise Granger Causality tests were used to ascertain the causal relationship between the variables employed, all computed with the aid of EViews10 statistical software.

Model specification

EGW= f(VAT+ CED+ μ)……(3.1)
GDP= f(VAT+ CED+ μ)……(3.2)
HDI= f(VAT+ CED+ μ)……(3.3)
Therefore, the model is

$GDP_{it} = \alpha_0 + \alpha_1 VAT_{it} + \alpha_2 CED_{it} + \varepsilon_{it}$ ----------(3.4)

$HDI_{it} = \alpha_0 + \alpha_1 VAT_{it} + \alpha_2 CED_{it} + \varepsilon_{it}$ ----------(3.5)

5. Test of hypothesis and findings

Table 1: Descriptive Statistics

STATISTICS	VAT	CED	GDP	HDI
Mean	2.77E+11	3.79E+11	5.704463	0.497188
Median	2.97E+11	3.65E+11	6.474458	0.492500
Maximum	5.34E+11	7.06E+11	10.44200	0.534000
Minimum	6.59E+10	1.19E+11	-1.583065	0.452000
Std. Dev.	1.48E+11	1.83E+11	3.352473	0.027223
Skewness	0.013802	0.145296	-0.618099	-0.018607
Kurtosis	1.773532	1.725401	2.624310	1.666772
Jarque-Bera	1.003324	1.139365	1.112885	1.185922
Probability	0.605524	0.565705	0.573245	0.552688
Sum	4.44E+12	6.06E+12	91.27141	7.955000
Sum Sq. Dev.	3.29E+23	5.01E+23	168.5861	0.011116
Observations	16	16	16	16

Source: Output from EViews 10

Note: VAT= value-added tax, CED= custom and excise duties, GDP= gross domestic product, and HDI= human development index.

Table 1 shows the average mean for VAT, CED, GDP, and HDI as 2.77, 3.79, 5.71, and 0.49 respectively. It also revealed a standard deviation of 1.48, 1.83, 3.35, and 0.03 for VAT, CED, GDP, and HDI respectively. In the test of normality, VAT and CED revealed a normal skewness (0.01 and 0.15) with a distribution that is mesokurtic, and normal (1.77; 1.72).

While GDP and HDI showed a negative skewness (-0.62; -0.02) with a distribution that mesokurtic, and normal (2.62; 1.67). The table further revealed a Jarque-Bera probability that is not significant i.e. ≥0.05 for all the variables.

Ho_1: there is no significant effect of value-added tax on gross domestic product in Nigeria.

Ho_3 there is no significant effect of custom and export duties on gross domestic product in Nigeria.

Table 2: $GDP_{it} = \alpha_0 + \alpha_1 VAT_{it} + \alpha_2 CED_{it} + \varepsilon_{it}$

Dependent Variable: GDP
Method: Least Squares
Date: 10/24/20 Time: 23:51
Sample: 1 16
Included observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
VAT	-2.84E-11	1.78E-11	-1.595997	0.1345
CED	9.08E-12	1.44E-11	0.630697	0.5392
C	10.13757	1.389353	7.296613	0.0000

R-squared	0.605817	Mean dependent var	5.704463
Adjusted R-squared	0.545174	S.D. dependent var	3.352473
S.E. of regression	2.260934	Akaike info criterion	4.636794
Sum squared resid	66.45370	Schwarz criterion	4.781654
Log likelihood	-34.09435	Hannan-Quinn criter.	4.644212
F-statistic	9.989823	Durbin-Watson stat	1.215162
Prob(F-statistic)	0.002355		

Source: Output from EViews 10

Interpretation of Table 2: Table 2 revealed that the Model is fit i.e. Prob (F-statistic) = 0.00235. The independent variables explain the variation in economic growth by 61% approximately. Also, it reveals a negative and insignificant effect of value-added tax on gross domestic product (-2.84; 0.1345). This implies that a 1% increase in value-added tax will bring about a 2.84 % decrease in gross domestic product, all other variables held constant. This led to the acceptance of (**Ho1**) that there is no significant effect of value-added tax on gross domestic product in Nigeria.

Furthermore, the table reveals a positive and insignificant effect of custom and excise duties on gross domestic product (9.08; 0.5392). This implies that a 1% increase in custom and excise duties will bring about a 9.08% increase in gross domestic product, all other variables held constant. This led to the acceptance of (**Ho3)** that there is no significant effect of custom and export duties on gross domestic product in Nigeria.

Ho_2 there is no significant effect of value-added tax on human development index in Nigeria.

Ho_4 there is no significant effect of custom and export duties on human development index in Nigeria.

Table 3: $HDI_{it} = \alpha_0 + \alpha_1 VAT_{it} + \alpha_2 CED_{it} + \varepsilon_{it}$

Dependent Variable: HDI
Method: Least Squares
Date: 10/24/20 Time: 23:53
Sample: 1 16
Included observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
VAT	1.68E-13	6.30E-14	2.664954	0.0195
CED	7.51E-15	5.10E-14	0.147277	0.8852
C	0.447804	0.004918	91.04705	0.0000

R-squared	0.925084	Mean dependent var	0.497188
Adjusted R-squared	0.913559	S.D. dependent var	0.027223
S.E. of regression	0.008004	Akaike info criterion	-6.650432
Sum squared resid	0.000833	Schwarz criterion	-6.505572
Log likelihood	56.20346	Hannan-Quinn criter.	-6.643014
F-statistic	80.26404	Durbin-Watson stat	0.787933
Prob(F-statistic)	0.000000		

Source: Output from EViews 10.

Interpretation of Table 3:
Table 2 showed that the Model exhibits an excellent fit for the study i.e. Prob (F-statistic) = 0.000000. It revealed that the independent variables explained the variation in economic growth by 93% approximately. Also, it reveals a positive and significant effect of value-added tax on human development index (1.68; 0.0195). This implies that a 1% increase in value-added tax will bring about a 1.68 % increase in human development index, all other variables held constant. This led to the rejection of the null hypotheses (**Ho2**). We, therefore, conclude that there is a significant effect of value-added tax on human development index in Nigeria.
Furthermore, the table reveals a positive and insignificant effect of custom and excise duties on human development index (7.51; 0.8852). This implies that a 1% increase in custom and excise duties will bring about a 7.51% increase in human development index, all other variables are held constant. This led to the acceptance of (**Ho4)** that there is no significant effect of custom and export duties on human development index in Nigeria.

6. Discussion of findings

The study revealed from test of hypotheses one, a negative and insignificant effect of value-added tax on gross domestic product. This finding is in line with the findings of Nmesirionye et al. (2019) and Ilaboya and Mgbame (2012) that revealed a negative and insignificant relationship between value-added tax and economic growth. This finding is in contrast with the finding of Enokela (2010) that revealed that Value-added tax is positive and statistically significant to Gross Domestic Product (GDP). The implication of this finding is that the VAT so far generated in the economy is not sufficient to drive economic growth in the country as most amount of VAT has not been accounted for.
Also, the study revealed from test of hypotheses two, a positive and significant effect of value-added tax on human development index. This finding is as a result of the fact that the value added tax is regarded as a major factor for economic growth in Nigeria. This finding is in line with finding of Ikeokwu and Leyira (2019); Akhor et al. (2016) that indirect taxes have a significant influence on economic growth in Nigeria. This finding is further corroborated by

the finding of Stailova and Patonov (2012) but it is in contrast with the finding of Owino (2019) that revealed a positive and insignificant relationship exist between values added tax and economic growth.

Furthermore, the third hypotheses revealed a positive and insignificant effect of custom and excise duties on gross domestic product. This study is consistent with the finding of Abomaye-Nimenibo et al. (2018) that revealed insignificant relationship between custom and excise duties and economic growth in Nigeria. This finding is in contrast with finding of Nmesirionye et al. (2019) that revealed a positive and significant impact of custom and excise duties on the real gross domestic product of Nigeria.

Finally, the study revealed a positive and insignificant effect of custom and excise duties on human development index. This finding is in line with the finding of Olasupo and Oseni (2017) that revealed a negatively but insignificant relationship between non-oil revenue and economic growth. This finding contradicts the finding of Ebiringa and Emeh (2012) that revealed that customs and excise duties were negatively related to economic growth in Nigeria.

7. Conclusion

In conclusion, value-added tax has a significant effect on economic growth whereas custom and excise duties have an insignificant effect on economic growth.

8. Recommendations

The following recommendations were made in respect to the findings of the study.

- **i.** The government should put in place mechanism to close up the loopholes in the VAT collection system since its effect on gross domestic product is negative and insignificant.
- **ii.** The government through its agency Nigerian custom service should computerize all its tax collection processes with adequate internal control system so as to boost revenue generated from custom and excise duties.

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