# Effect of Company Income Tax on Economic Growth in Nigeria

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***Abstract***

*The study investigates the effect of company income tax revenue on economic growth of Nigeria using data from 1980 to 2022 covering a study period of 42 years. The study used the ex post facto research design. Data for the study is analysed using the multivariate regression technique. The study found that company income tax revenue has a significant effect on gross domestic product, foreign direct investment, and per capita income in Nigeria. Thus, it is recommended that, Nigerian government must improve expenditure on capital items so as to encourage production within the economy to burst both the GDP and provide avenue for the government to raise more company income tax revenue. Also, in a bid to improve per capita income in Nigeria, the government must spend more of the earned tax revenue on infrastructures and create avenue for manufacturing activities to be carried out. This will provide more jobs for citizens and increase the per capita income in Nigeria. Lastly, the current tax revenue has a significant effect on foreign direct investment because its reforms and administration are attractive to foreign investors. The government should make tax reform that is attractive to foreign investor through more tax allowance on capital goods and allocating more tax-free zones for companies.*

***Keywords:*** *Company Income Tax, Gross Domestic Product, Foreign Direct Investment, Per Capita Income*

## 1. Introduction

It is noteworthy that globally, there is a paradigm shift to tax revenue as a better alternative source of revenue generation and the need for African countries to generate adequate revenue from taxation has become a matter of urgency and importance (Afuberon and Okoye, 2014). At the moment, it appears Nigeria is yet to reap the benefits derivable from tax revenue either because of low level of revenue generation or its misapplication.

Tax revenue has become an essential tool in the hand of government for the promotion of economic growth through the provision of critical infrastructure and social amenities for the welfare of the citizenry. Tax revenues assist governments globally to discharge its core mandates of (a) protecting the society from violence and invasion of other independent societies through military forces (b) ensuring protection of every member of the society from injustice and oppression of every other member through administration of justices (c) establishing and maintaining public institutions and those public works, which cannot be expected that any

individual, or small number of individuals, should establish or maintain because of huge capital outlay required (Abiola and Asiweh, 2012; Appah and Eze, 2013). Developed countries globally have been found to have relatively felt the impact of tax revenues generated through efficient and effective tax system, the controversies notwithstanding (Joseph, Omeonu and Ngaonye, 2018).

The need for a paradigm shift to tax revenue as a better alternative source of revenue and the need for Nigeria as a country to strive to generate adequate revenue from taxation has become a matter of urgent importance (Afuberon & Okoye, 2014). Again the vulnerability to market forces and international politics of the revenues generated from crude oil and other unprocessed natural resources in Nigeria is a wake-up call Nigeria to gear effort towards alternative sources of revenue. One of these alternative sources of revenue is tax revenue and for this reason, its effect should be determined precisely.

A critical look at the huge benefits of tax revenue based on theoretical literatures, arouses the need to empirically ascertain its effect on economic growth of Nigeria.

The argument on the effect of tax revenue on economic growth is still raging because of divergent results based on various empirical studies by researchers. Many empirical studies show disaggregated and conflicting findings in relation to the effect of tax revenue on economic growth. Some empirical studies that show positive effect of tax revenue on economic growth are as stated below among others; Ugwunta and Ugwuanyi (2015) and Dasalegn (2014); Ihendinihu, Jones and Ibanichuka (2014); Eke, Ekwe and Ihendinihu (2018); Nwawuru, Nmesirionye and Ironkwe (2018); Nmesirionye, Nwawuru and Ekwuruke (2018); Babatunde, Ibukun and Oyeyemi (2017); Ogbonna and Ebimobowei (2012); Kaibel and Nwokah (2009); Babatunde *et al* (2017);

Some empirical studies that show negative effect of tax revenue on economic growth included but not limited to thus: Joseph, Azubike, Tapang & Dibia (2018); Kaibel and Nwokah (2009); Micah, Chukwumah and Umobong (2012); Edame (2014); Okoi and Lawrence (2015); Anne (2014); Yaya (2013); Lawrence (2015); Widmalm (2001); Angepoulos, Economides and Kammas (2006); Arnold (2008; 2011); Xing (2012); Santiago and Yoo (2012); Hakim, Karia and Bujang (2014); Gbato (2017); Saqib (2014); Tomljanocich (2014); Poulson and Kaplan (2009).

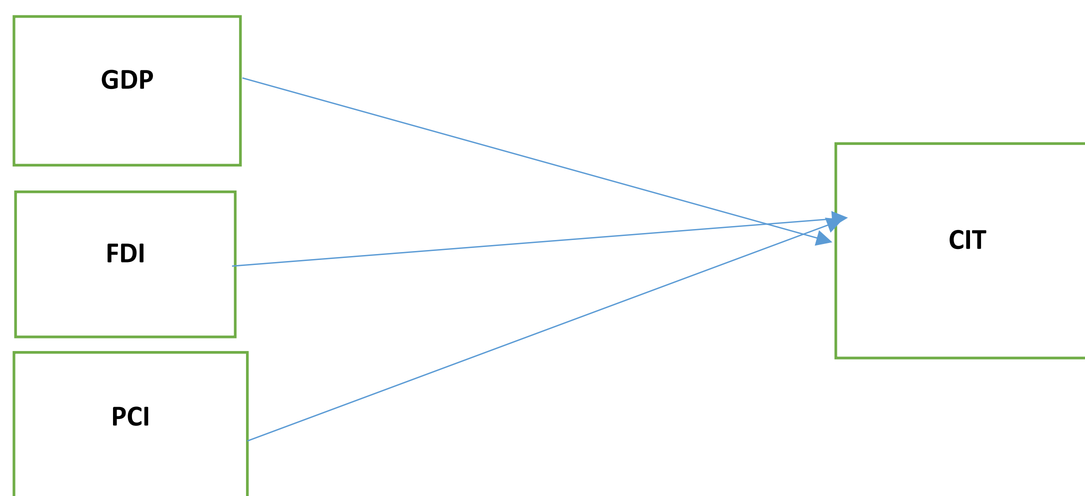
In consideration of the conflicting findings on the effect of tax revenue holistically on economic growth of Nigeria, this study is motivated and it seeks to advance investigation on the actual effect of company income tax (CIT) on economic growth Nigeria, thus would solve the problem of disaggregated and conflicting findings once and for all.

For these reasons, the study adopted gross domestic product (GDP), Per Capita Income (PCI) and Foreign Direct Investment (FDI) as the dependent or response variables for economic growth and independent or explanatory variable is Companies Income Tax (CIT). The study would examine the effect of Company Income Tax on economic growth of Nigeria with a view to identifying actual effect of CIT on economic growth in Nigeria. Based on the outcomes, policy makers in Nigeria would be advised on most suitable fiscal policy options. The study period is 42 years 1980 - 2022.

## 2 REVIEW OF RELATED LITERATURE

### 2.1.1 CONCEPTUAL MODEL

**Figure 1**
**Dependent Variables** **Independent Variable**




Ezejelue and Ihendinihu (2006) define taxation as the demand made by the government of a country for a compulsory payment of money by the citizens of the country with the objectives of raising revenue to finance government expenditures, satisfy collective wants of the people and regulate economic and social policies.

Lawrence (2000), identifies tax a compulsory levy imposed by the government of a state for effective management of the government activities. Adeyeye (2004) viewed tax as 'a liability on account hanging the on account of tax payers as contribution in some quantum measure to the fund available for use by government in providing necessary infrastructural facilities such as road and rail network, communication et cetera for her citizens'. Taxes are compulsory levy by the government through her chosen agent on the tax object- the tax payers. However, Miller and Oats (2006) defined tax as the statutorily obligatory determinable sum, demanded by a legal authority from the fruitful activities of a person or body corporate, to encourage the provision of general goods and services.

It must be pointed out that taxes is a compulsory obligation in monetary form imposed by the government to individual(s), corporate body(ies), a person or group of persons with view to providing infrastructural facilities and other basic amenities, taking care of the general welfare of the people, regulation of the economy and to enable government finance its public expenditure.

Payment of tax is very compulsory and a taxpayer saying no to this civic responsibility is viewed as an offender against the government with its attendant penalties. Perhaps to emphasize the premium placed on tax payment, Ogbonna and Ebimobowei, (2012) opined that payment of taxes is as unavoidable as death in America. They stated further that just as no one wants to die, similarly, many people do not want pay taxes thus leading to tax evasion and revenue loss. As observed by Owens (2006), only few people are zealous to pay taxes. Akintoye and Dada (2013) are of the view that, people avoid paying taxes because of grievances resulting

in a situation where the poor pay higher percentage of their earnings as taxes whereas the rich pay lower percentage of their earnings as taxes. Akintoye and Tashie (2013) asserted that tax evasion is prevalent in Nigeria because tax evaders are not penalized heavily by the system to discourage others from engaging in the practice.

Azubike (2009) stated that tax is a key source of government revenue globally. To enable government deliver its traditional functions which include the provision of public goods, maintenance of law and order, defending the nation against external aggression, regulation of trades, ensuring social and economic maintenance, government needs tax proceeds. Nwezeaku (2005) puts up argument that the scope of these functions is a function of the political and economic orientation of the people, their needs and aspirations including their willingness to remit tax liability to the government. Accordingly, a government ability to perform its operations to a reasonable degree depends on efficiency of a well-designed tax plans and administration, willingness and patriotism of the governed.

However, the use of tax as an instrument of fiscal policy cannot be achieved because of dwindling level of revenue generated as a result of inefficiency of government tax officers. The increasing cost of running government and dwindling revenue has left all levels of government with formulating strategies to improve their revenue base. Ola (2001) noted that tax is dynamic; therefore tax reforms are essential to achieve the required changes in the national economy of any nation. Azubike (2009) noted that tax reform should be progressive in nature; and tax administrators and policy makers ought to continually adopt tax systems to reflect changing economic, social and political circumstances in the economy. Advancement in Information Communication Technology resulting to globalization has even necessitated the need for speedy reforms within short intervals in a given economy to reflect the ever changing business environment in a global village.

**Economic Growth and Economic Development:** Economic growth specifically means an increase in the value of goods and services produced by a country over a period. Economists use an increase in nation's GDP to measure it. Therefore, it is possible to have economic growth without economic development in the short or even medium term (Hadjimichael, 2014). On the other hand, there could be an increase in GDP without any increase in standard of living of people in a state.

Furthermore, according to the United Nations report on Human Development Index (HDI) 'development goes beyond the expansion of income and wealth. It connotes a process of enlarging people's choices' (UNDP, 1990). It is a shift to a more holistic insight of development that had earlier focused more on per capita income. United Nation's Human Development released Human Development Index (HDI) first as part of her 1990 Report. The United Nations came up with Human Development Index (HDI) as a parameter for ranking countries' levels of social and economic development based on the following namely Health Index, Education Index, and Standard of Living Index. The health index is a representation of life expectancy (expected numbers of years) of a particular region or country under study. Human Index (HI) in a correct approach explains the degree to which life expectancy of the people in the area or country under study is above the minimum (least) life expectancy. United Nations (UN) report has it that the minimum and maximum life expectancy in the world is put at 25years and 85 years correspondingly (UNDP, 2014) in (Ofoegbu, Akwu and Oliver, 2016).

The Education Index (EI) indicates the literacy rate and enrolment rate of people, in a particular region or country under study. The Literacy rate indicates the percentage of people of 16 years of age and above who are literates (UNDP, 2014; Ofoegbu, Akwu and Oliver, 2016).

**Foreign Direct Investment:** An ownership stake in a foreign company or project is known as a foreign direct investment (FDI) and is made by a foreign investor, business, or government. Typically, the phrase refers to a corporate decision to buy a sizable portion of a foreign company or to buy it altogether in order to expand operations to a new area. The phrase is typically not used to refer to a stock purchase in a single overseas firm. FDI is a crucial component of global economic integration since it forges strong, lasting ties between nations' economies.

**Per Capita Income:** The amount of money each resident of a region earns is measured by their per capita income, which can be found in a nation, state, city, or other place. In a nation, a state, or a particular area, it establishes the typical income of a person. This aids in our evaluation of the living conditions and overall quality of life of the local populace.

## 2.2 Theoretical Framework

**The Neoclassical Growth Models of Public Policy:** This theory posits that national taxation has the capacity to substantially affect long run growth rates. Particularly, small open economies with substantial capital mobility, national taxation can result in 'development traps', a situation where such countries declines or regresses or results to 'growth miracles'; a state of affairs where countries shift from little growth to swift expansion (Robert and Sergio 1990). These endogenous growth models suggest that taxation can have a negative effect and a positive effect on growth rate. The positive effect is indirectly driven by tax-financed spending. Taxes used to finance investments in goods, especially goods generating positive externalities (infrastructure, education and public health), can influence economic growth rate positively. The negative effect of taxation on growth stems from the modification of individuals' decision in the direction of below optimality.

This theory stresses that effective fiscal policies can either lead to economic growth or retard economic growth. This theory therefore contains ingredients very vital to the study in question and therefore considered apt for this study. It takes its positions regarding how taxation can boost or impair economic growth depending on the tax administration and the application of revenue so generated.

## 2.3 Review of Empirical Studies

Worlu and Emeka (2012) studied the impact of tax revenue on the economic growth of Nigeria for the period 1980-2007 looking at its effect on infrastructural development. The study found out that tax revenue has both direct and indirect correlation with the infrastructural development and the gross domestic product respectively (GDP). The study argued that the means through which tax revenue influence economic growth in Nigeria are infrastructural development, Foreign Direct Investment and Gross Domestic Product (GDP). It stressed that availability of infrastructure speeds up investments that in turn brings about economic growth.

Some empirical studies that show negative impact of tax revenue on economic growth included but not limited to thus: Joseph, Azubike, Tapang, Dibia (2018); Kaibel and Nwokah (2009); Micah, Chukwumah and Umobong (2012); Edame (2014); Okoi and Lawrence (2015); Anne (2014); Yaya (2013); Lawrence (2015); Widmalm (2001); Angepoulos, Economides and Kammas (2006); Arnold (2008; 2011); Xing (2012); Santiago and Yoo (2012); Hakim, Karia and Bujang (2014); Gbato (2017); Saqib (2014); Tomljanocich (2014); Analogously, and Owens (2006); Poulson and Kaplan (2009).

Negative relation between corporate taxation and foreign direct investment (FDI) was confirmed by e.g. Schraztenstaller, Wagener and Kohler-Toglhofer (2005), or by Feld and

Heckemeyer (2008), whereas Brebler (2012) claims that lower taxation rate represents the factor stimulating the inflow of FDI.

## 3. Methodology

### 3.1 Research Design

*Ex-post facto* design is to be used in this study in obtaining secondary data for a period of 41 years covering 1980 to 2022. Data are to be obtained from the World Development Indicators, the World Bank, IMF World Economic Outlook database, OECD. Stat. Online Database and UNCTAD online, African Statistical Year Book, CBN and FIRS. This research design is adopted because it has been used in prior studies to investigate the impact of tax revenue on economic growth of some developing African countries as can be found in the works of Igbasan (2017) and Riba (2016). In relation to this study, secondary data is collected from reliable sources. The methods adopted regarding data collection in this research include archival retrieval method, document investigation/analysis, and extensive library search, internet and website surfing. The data to be used in this study will be collected based on the variables identified in the research objectives. The data for CIT was obtained from the CBN, FIRS and Tax Revenue Boards of various states in Nigeria. Data used for this study were obtained from secondary sources. African Statistical Year Book publication, CBN, FIRS, and Tax Revenue Boards of various states for a period of forty-one (41) years (1980-2022). These data obtained from secondary sources are adjudged appropriate for this study because of the following reasons: they are already authenticated by professionals and other regulatory bodies before they were published by the relevant bodies.

ii. Consistently, the secondary data have been used in previous related studies and have produced good results. For example, Igbasan (2017) and Riba (2016); Onakoya, Babatunde, Ibukun and Oyeyemi, (2017); Okafor (2012); Success**,** Success and Ifurueze (2012); Saheed, Abarshi and Ejide (2014) have used data from these sources for their various studies.

The data for Gross Domestic Product (GDP), Per Capita Income (PCI) and Foreign Direct Investment (FDI) were accordingly obtained. The independent variables proxy as tax components is Company Income Tax) is regressed against the dependent variables proxy as Gross Domestic Product (GDP), Per Capita Income (PCI) and Foreign Direct Investment (FDI). Simple Regression (Ordinary Least Square method) analysis would be used to test the significance of the independent variable on the dependent variable in the model. Then, a panel data analysis using multiple regression analysis would be performed on the data collected. Finally, the study would use pooled panel simple linear regression analysis to determine the effect of company income tax (CIT) on economic growth of Nigeria.

### 2.4 Model Specification

This study examines the effect of company income tax economic growth of Nigeria. In order to accomplish this, two variables were identified in the study and these are dependent and independent variables. The independent or predictor variables is Companies Income Tax (CIT). On the other hand, the dependent or response variables is Economic Growth (EG) proxied by Gross Domestic Product, PCI and FDI of Nigeria. The following models as used by Igbasan (2017) have been adopted for this research work with some modifications:

Where;

Y= Economic Growth (EG)

$y_1$= Gross Domestic Product (GDP)

$x_1$= Companies Income Tax (CIT) Revenue

**Functional Relationship**
GDP = f (CIT)
PCI = (CIT)
FDI = CIT)
**In Econometric form:**

GDP = $\alpha 1 + \beta 1$CIT ------------------------------------------------------------------ (i)
PCI =$\alpha 1+\beta 1$CIT-------------------------------------------------------------- (ii)
FDI = $\alpha 1+\beta 1$CIT ………………………………………………. (iii)
Where:
GDP = Gross Domestic Product
PCI = Per Capita Income
FDI = Foreign Direct Investment

$\mu_t$ is the error term which denotes other variables that are not captured in the model.Its introduction in the model is to accommodate the influences of the other factors that may affects economic growth which are not implicitly included in the models.

## 3 Data Presentation and Analysis

This section analyses the data presented with the aid of Stata 13. The analysis of data is presented in the subsequent sections:

### 3.2.1 Descriptive Statistics

The descriptive statistics for both the dependent and independent variables are presented in the table 1 below:

**Table 1: Descriptive Statistic Table**

| Variable | Obs | Mean | Std. Dev. | Min | Max | Sk. Prob |
|---|---|---|---|---|---|---|
| CIT | 43 | 800813.6 | 1719515 | 390 | 7683422 | 0.0124 |
| FDI | 43 | 3091.579 | 2461.974 | 453.45 | 8914.89 | 0.0038 |
| PCI | 43 | 1609.054 | 1398.592 | 270.224 | 6663.54 | 0.0543 |
| GDP | 43 | 1.91e+11 | 2.17e+11 | 1.58e+10 | 7.98e+11 | 0.0001 |

**Source:** ***Stata 13 output in appendix i***

Table 1 presents the descriptive statistics of all the variables. The number of observations (Obs.) for the study is 43. From the table above, the following information is distilled.
The result reveals that, Gross Domestic Product (GDP) reflects a mean of 1.91 trillion Naira with a deviation of 2.17 trillion Naira. GDP also reveal a maximum value of 7.98 trillion Naira and a minimum value of 158 billion Naira. Per Capita Income (PCI) reveals a mean of 1609 dollars with a deviation of 1398.6 dollars. PCI further reveals maximum and minimum values of 6663.54 dollars and 270.22 dollars respectively. Foreign Direct Investment (FDI) has a mean of 3091 dollars with a deviation of 2461.97 dollars. Furthermore, FDI records a maximum and minimum value of 8914.89 dollars and 453.45 dollars. Lastly, Company income tax (CIT) records a maximum and minimum value of 7683422 Naira and 390 Naira. CIT also reveal a mean of 800813 with a deviation of 1719515.
To test for normality of data, the probability of skewness statistics is used. For CIT, FDI, PCI, and GDP, the data set reveal a skewness values of 0.124, 0.0038, 0.0543, and 0.0001. This means the data values are not normally skewed. This fluctuation shown is as a result of economic

uncertainties, as well as change in government policies that is noted in the respective deviation values of the variables.

**3.2.2 Regression of the Estimated Model Summary**

This section presents the results produced by the multivariate regression model summaries for further analysis.

**Table 2: Multivariate regression**

| CIT Equation | DW | Const. | Coef. | "R-sq" | F | P |
|---|---|---|---|---|---|---|
| GDP | 0.16 | 9.262965 | .3599649 | 0.7515 | 124.0097 | 0.0000 |
| FDI | 0.55 | 2.133667 | .2561793 | 0.8146 | 180.1522 | 0.0000 |
| PCI | 0.16 | 2.186441 | .1853977 | 0.4578 | 34.61993 | 0.0000 |

***Source: Stata output in appendix ii***

The table 2 above shows the multivariate regression for the three simple regression models. The results are discussed below:

For the GDP model, the R-square value of 0.7515 shows that CIT cause GDP to fluctuate at approximately 75.2% and. This means that 24.8% fluctuation of Nigeria's GDP is caused by other factors not considered in this study. The constant value of 9.262965 for CIT in GDP model revealed that, given intercept only model, the GDP value of Nigeria will increase by 9.262965 units but a unit change (coef) in CIT will cause GDP to increase 35.9%. The Dublin Watson statistics of 0.16 shows that the model is free from autocorrelation issue.

For the FDI model, the R-square value of 0.8146 shows that CIT cause FDI to fluctuate at approximately 81.5%. This means that 18.5% fluctuation of Nigeria's FDI is caused by other factors not considered in this study. The constant value of 2.133667 for CIT in FDI model revealed that, given intercept only model, the FDI value of Nigeria will increase by 2.133667 units but a unit change (coef) in CIT will cause FDI to increase 25.6%. The Dublin Watson statistics of 0.55 shows that the model is free from autocorrelation issue.

For the third (PCI) model, the R-square value of 0.4578 shows that CIT cause PCI to fluctuate at approximately 45.78% and. This means that 54.2% fluctuation of Nigeria's PCI is caused by other factors not considered in this study. The constant value of 2.186441 for CIT in PCI model revealed that, given intercept only model, the PCI value of Nigeria will increase by 2.186441 units but a unit change (co-ef) in CIT will cause PCI to increase 18.5%. The Dublin Watson statistics of 0.16 shows that the model is free from autocorrelation issue.

**4.1 Test of hypotheses**

***$Ho_1$:** Company income tax revenue does not have significant effect on gross domestic product in Nigeria.*

To test the significance of the variables, the decision rule applies. Since the calculated probability (Prob) value for CIT against GDP (0.000) is less than the accepted probability value of 0.05. The null hypothesis is rejected and the alternative accepted. Thus, company income tax revenue has a significant effect on gross domestic product in Nigeria.

***$Ho_2$:** Company income tax revenue does not have significant effect on foreign direct investment in Nigeria.*

To test the significance of the variables, the decision rule applies. Since the calculated probability (Prob) value for CIT against FDI (0.000) is less than the accepted probability value of 0.05. The null hypothesis is rejected and the alternative accepted. Thus, company income tax revenue has a significant effect on foreign direct investment in Nigeria.

***$Ho_3$:** Company income tax revenue does not have significant effect on per capita income in Nigeria.*

To test the significance of the variables, the decision rule applies. Since the calculated probability (Prob) value for CIT against PCI (0.000) is less than the accepted probability value of 0.05. The null hypothesis is rejected and the alternative accepted. Thus, company income tax revenue has a significant effect on per capita income in Nigeria.

### 4.2 Discussion of Results

The study set to examine company income tax revenue and economic growth in Nigeria. For the three models specified, the objectives were to ascertain the effect of company income tax revenue on gross domestic product, per capita income, and foreign direct investment in Nigeria. The study hypotheses tested revealed that, company income tax revenue has significant effect on both gross domestic product, per capita income, and foreign direct investment in Nigeria. The study findings are in line with that of Bukie and Adejumo (2013) as quoted in Ofoegbu et al. (2016) who examined the effect of tax revenue on economic growth of Nigeria within the period 1970 to 2011, regressing indicators of economic growth (domestic investment, labour force and foreign direct investment) on tax revenue. They found that, the indicators all have a positive and significant relationship with economic growth in Nigeria.

## 5 Summary, Conclusion and Recommendation

### 5.1 Summary of Findings

The following are the summary of the major findings of this study arrived at through the test of the research hypotheses earlier formulated in this study. Company income tax revenue has a positive relationship with the gross domestic product in Nigeria. Also, company income tax revenue has a significant effect on gross domestic product in Nigeria. Company income tax revenue has a positive relationship with the foreign direct investment in Nigeria. Also, company income tax revenue has a significant effect on foreign direct investment in Nigeria. Company income tax revenue has a positive relationship with the per capita income in Nigeria. Also, company income tax revenue has a significant effect on per capita income in Nigeria.

### 5.2 Conclusions

Based on the findings of this study from the test of the three research hypotheses earlier formulated in the study, the researcher has therefore come to the following conclusions outlined in respect to each hypothesis: Company income tax revenue has a positive significant effect on gross domestic product in Nigeria. Company income tax revenue has a positive significant effect on foreign direct investment in Nigeria. Company income tax revenue has a positive significant effect on per capita income in Nigeria.

### 5.3 Recommendations

In consonance with this study's findings, the following recommendations become imperative: Nigerian government must improve expenditure on capital items so as to encourage production within the economy to boost the GDP and provide avenue for the government to raise more company income tax revenue. In a bid to improve per capita income in Nigeria, the government must spend more of the earned tax revenue on infrastructures and create avenue for manufacturing activities to be carried out. This will provide more jobs for citizens and increase the per capita income in Nigeria. The current tax revenue has significant effect on foreign direct investment because its reforms and administration are attractive to foreign investors. The government should make tax reform that is attractive to foreign investor through more tax allowance on capital goods and allocating more tax free zones for companies.

### 5.4 Area of Further Research

There is clearly enormous scope for more research that can inform an understanding of the company income tax revenue and economic growth in Nigeria. To develop specific policies and recommendations, this study suggests the following for further research:

i. Additional investigation is required to examine different tax reforms and how they affect economic growth of Nigeria using other data collection methods like survey to capture opinion of policy experts on to propagate a better company income tax regime.
ii. Another research area that could be explored is to examine the specific company income tax and tax policies that guide investment within Nigeria and that could encourage local foreign investment.

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