Empirical Analysis of the Effects of Taxes on Economic Growth in Nigeria

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Abstract
The Main Thrust Of This Study Is To Monitor The Relationship Between Economic Growth And The Major Taxes Within The Legislative Jurisdiction Of The Federal Government. These Taxes Are Value Added Tax (Vat), Petroleum Profit Tax (Ppt), Custom and Excise Taxes (Cex), And the Company Income Tax (Cit). The Present Economic Status In Nigeria Demands That All And Sundry Should Be Concerned About The Gross Domestic Product (Gdp) Growth Which Was Negative For Two Consecutive Quarters In This 2016. The Economists Summarily Referred To This As A Recession. The Determinants Of Economic Growth Among The Taxes Are Vat And Ppt That Are Significant At 1% And 5% Respectively. It Has Been Recommended That Efforts Should Be Geared Towards Vat And Ppt For Economic Recovery.

Keywords: *Economic Growth, Gross Domestic Product, Economic Recession.*

1. Introduction

Uncertainty And Pessimism Have Dominated The Economic And Business Horizon In Nigeria In Recent Times. Volatility in Oil Prices, Not On Nigerian Economy Alone but Also In the World Market. Apart From Oil, There Are Many Other Various Challenges Presently Facing The Global Economy. The Fallout Of These Crises Is The Nigerian Economy Reeling From A Fall In Crude Oil Prices, Coupled With The Terrorist Activities. In Addition To These Are the Endogenous Centrifugal Forces in Form of High Level Of Corruption, Economic Saboteurs, Devastating Stance Of The Militants Especially In Petroleum Pipeline Destruction

These Crisis Have Inflicted So Much Harm On The Nigerian Economy By Resulting In Reduction In Foreign Investment, A Fall In The Value Of The Naira And Decline In Government Revenues Lawrence And Cookey, 2010), Economic Growth In The Last Quarter Of 2015 Was 2.1% While Total Growth In The Year Was 2.8%, The Slowest Since 1999 To Date(Nbs, 2016). This Statistics Seems To Toe The Line Of The Global Gdp Growth Projection Of 2.5% Which Is 0.3% Point Less Than November 2015 General Economic Outlook In (Geo) 2016. Some Months Ago, .The Chairman Of The Governors' Economic Summit (Ges), Rose Up To Declare That Allocation Could Not Even Pay Salaries, Blaming The Precarious Situation Of The States' Finances On The Dwindling Revenue From Oil Sales. The Efforts Of The Niger Delta Militants Can Also Be Added To A Package Of Fall In International Market Crude Oil Prices. The Gdp Is Very Important In A Nation's Economy, As It Is The Most Crucial Determinant Of Its Currency's Value (Adebayo, 2016). The Dynamic Significance Of Gdp Influences The Overall Development Of The Country's Economies. This Forces To Constantly Analyse Facilitators And Obstacles To Economic Growth.

1.1.Objective of The Study

This Study Is Specifically Aimed At Understanding The Roles Played By The Major Taxes In Nigeria On Economic Growth; Which Of The Taxes Requires More Attention And How To Expand The Tax Bases Of The Taxes That Exert Some Significant Influence On The Gdp.

2. Review of Related Literature

2.1. The Nigerian Tax System

The Nigerian Tax System Is Characterized By Evasion, Narrow Tax Revenue Base(S), Corruption And Poor Tax Administration As A Result Of Neglect Due To Over Reliance On Oil Revenue. Tax System Deals With The Structure, Classification, Types Of Taxes, Tax Bases And Tax Policies.

A Good Tax System Is Capable Of Financing The Necessary Level Of Public Spending In The Most Efficient And Equitable Way Possible. It Should Also (1) Raise Enough Revenue To Finance Essential Expenditures Without Recourse To Excessive Public Sector Borrowing (2) Raise The Revenue In Ways That Are Equitable That Minimize Its Disincentive Effects On Economic Activities (3) Do So In Ways That Do Not Deviate Substantially From International Norms (Tanzi And Zee, 2000)

Some Selected Taxes at The Federal, State And Local Governments.

- **Federal Government**
1. Company Income Tax
2. Petroleum Profit Tax
3. Value Added Tax
4. Education Tax
5. Capital Gains Tax (Applies To Corporate Bodies And Ftc Residents And Non-Resident Individuals)
6. Stamp Duties (Applies To Corporate Bodies And Fct)
7. Personal Income Tax (Applies To Personnel Of The Armed Forces, P0lice, External Affair Ministry, And Residents Of Fct And Non-Resident Individuals)
8. *Custom And Excise Duties (Are Taxes Authorized Under Different Tax Laws)
- **State Government (Some Selected Taxes)**
1. Personal Income Tax (Applies To Residents Of The State).
2. With Holding Tax (Individuals Only)
3. Capital Gains Tax (Individuals Only)
4. Stamp Duties (Applies To Instruments Executed By Individuals Only)
5. Road Taxes (E.G. Vehicle Licences)
6. Tax On Pool Bets, Lottery And Casino Wins
7. Business Premises And Registration Fees In Urban And Rural Areas
8. Street Name Registration Fees (State Capital Only)
9. Fees For Rights Occupancy On Urban Land Owned By The State Government
10. Market Taxes And Levies Where State Finance Is Involved
- **Local Government (Some Selected Taxes ,Except Those Of Federal And State Governments)**
1. Tenancy Rate
2. Shops And Kiosk Rates
3. Fees For Butcher Slabs
4. Fees For Marriage, Birth And Death Registrations

5. Fees For Street Name
6. Motor Park Fees
7. Market Taxes And Levies
8. Fees For Domestic Animal Licenses
9. Fees For Bicycle, Trucks Etc.
10. Fees For Right Of Occupancy On Land In Areas.
11. Cattle Tax, Applies To Cattle Farmers Only
12. Entertainments And Road Closed Fees
13. Fees For Radio And Television Licenses
14. Vehicle Parking Fees
15. Fees For Religious Establishments
16. Fees For Permit Of Signboard
17. Customary Ground Permit Fees

Sources: Odusola (2006 :5): Institute Of Chartered Accountants Of Nigeria (Ican, 2009a: 11-12) And Micah Et Al (2012:1)

2.2 Current Gdp Status In Nigeria

Economic Growth In The Last Quarter Of 2015 Was 2.1% While Total Growth In The Year Was 2.8%, The Slowest Since 1999 To Date (Nbs, 2016). This Statistics Seems To Toe The Line Of The Global Gdp Growth Projection Of 2.5% Which Is 0.3% Point Less Than November 2015. The Gdp Was Down By April 2016, So To Say, To August 2016, (Showing A Negative Growth Of -2.06% In Quarter Ii) And All Efforts Are Being Put In Place To Diversify, Especially To Agriculture And At The Same Time Divert From Crude Oil. The Dollar-Naira Exchange Rates And Other Economic Indicators- Inflation Rate Of 17.6%, Unemployment Rate Of 13.3%, Underemployment Rate Of 19.3% - Have Not Been In Our Favour Either.(Adebayo, 2016). The N6078billion Budget Is Being Implemented At About 40% Debt Financing. Nigeria Is In Economic Recession Presently. There Was A Brief Recession In 1991 After A Previous Prolonged Recession Of 1982-1984 In The Country. The Challenges Militating Against The Gdp Are Numerous.

2.3. Challenges

Apart From The General Downturn In The Global Economy, There Are Various Other Forces Against Nigerian Economy. These Are In Addition To Normal Economic Challenges Faced By Developing Countries Like Nigeria. Empirical Studies Have Tested Various Variables That Can Potentially Attract Or Repel Both Domestic And Foreign Direct Investment With The Cumulative Effects On Economic Growth. Such Variables Include Market-Driven Variables Such As Rate Of Return, Labor Cost; And Structural Variables, Such As Cost Of Doing Business E.G. Corruption (Suriya Etal, 2014), The Status Of National Security Especially Religious Conflict And Terrorism (Omole, 2016), Militancy (Ewokor, 2016; Risk Int 2016) And Political Stability; Policy Variables Such As Macroeconomic Policies Targeted At Economic Growth, Price Stability And Taxation (Goodspeed, 2006). The Crude Oil Sales Which Accounted For At Least 70% Of Government Revenue Are Now A Mirage.

2.4 Research Hypothesis

The Following Hypothesis Is Formulated At The Significant Level Of 5 Percent.

Hypothesis One: H_0 = There Will Be No Significant Effects Of The Nigerian Taxes On Economic Growth.

3. Methodology
3.1 Data Collection
The Time Series Data for the Dependent and Independent Variables Are From The Cbn Statistical Bulletin (2014) And Previous Issues And Cbn Annual Reports (2014) And Previous Issues. The Gross Domestic Product (Gdp At Current Basic Prices) Is The Independent Variable And Value Added Tax (Vat), Petroleum Profit Tax (Ppt), Custom And Excise Tax (Cex), And Company Income Tax (Cit) Are The Independent (Or Explanatory) Variables.

Year	Gdp	Vat	Ppt	Cex	Cit
1994.00	946.00	7.30	43.00	18.30	12.30
1995.00	2009.00	20.80	43.00	57.40	21.80
1996.00	2799.00	31.00	76.70	55.00	22.00
1997.00	2907.00	34.00	68.60	63.00	26.00
1998.00	2816.00	37.00	68.00	58.00	33.00
1999.00	3312.00	47.00	164.00	88.00	46.00
2000.00	4717.00	58.50	525.00	101.50	51.00
2001.00	4910.00	91.80	639.00	171.00	69.00
2002.00	7128.00	108.60	392.00	181.40	89.00
2003.00	8743.00	136.40	683.00	196.00	115.00
2004.00	11674.00	159.50	1183.00	217.00	113.00
2005.00	14735.00	178.10	1905.00	233.00	140.00
2006.00	18710.00	230.40	2038.00	178.00	245.00
2007.00	20941.00	301.70	1601.00	241.00	275.00
2008.00	24665.00	404.50	2150.00	281.30	417.00
2009.00	25256.00	468.40	1256.50	297.50	568.10
2010.00	34495.00	562.90	1944.70	309.20	657.60
2011.00	38017.00	649.50	3976.30	438.30	701.00
2012.00	41177.80	709.80	4365.40	474.90	700.50
2013.00	44133.00	715.80	3719.00	433.60	985.50
2014.00	45400.00	794.20	3439.60	566.20	1207.30

3.2 Model Specification
The Econometric Model For This Study Is Of The Type:
Yi = A + Bxi + Ei
Where **Yi** Represent The Dependent Variable (Gdp) And **Xi** Is A Vector Of Independent Variables (Vat, Ppt, Cex And Cit), **B** Is A Vector Of Parameter To Be Estimated And **A** Is An Intercept. The Symbol **E_i** Is The Stochastic Error Term. This Is Translated To :

$$Gdp = B_0 + B_1 vat + B_2 ppt + B_3 cex + B_4 cit + E_i$$

Where

$_{Gdp}$ = The Gross Domestic Product And A Proxy For Economic Growth As The Dependent Variable.

Vat = The Value Added Tax Which Is Presently Charged At 5% Rate On All Vatable Goods And Services.

Ppt = The Petroleum Profit Tax With Its Revenue Accounting For 70% Of Government Revenue In Nigeria.

Cex = The Custom And Excise Taxes (Or, Say Levies) On Imports And In Discouraging The Production Of Goods Supposed To Be Harmful For Normal Human Consumption But Could Not Be Legally Stopped. An Example Is Tobacco.

Cit = The Company Income Tax Chargeable On Assessable Profit Of Corporate Entities At The Current Rate Of 30%.

Ei = The Error Term.

B_0 = The Intercept

B_1 - B_4 = The Coefficients To Be Estimated.

4. Results and Discussion

4.1 A Priori
All The Coefficients Of The Independent Variables Are Expected To Be Positive. All The Independent Variables Have Positive Coefficients Except Cex. Something Is Wrong With Cex Probably Smuggling And Other Sharp Practices By Importers And Custom Officers To The Extent Of Negatively Affecting Economic Growth.

4.2 First Order Econometric Criteria
1. Table A-3 . The Adjusted R-Square (Ar^2). This Is 99.1% Implying That The Model Was Able To Explain 99.1 Percent Of The Variation In The Gdp.
2. Table A-4. The F-Statistics Is   (Prob=0000) Showing That The Model Is Well Fit
3. Table A-5. The T-Statistics Shows The Significance Or Otherwise Of The Independent Variables With The Dependent Variable. Vat And Ppt Are Positively Significant At 1% And 5% Respectively.

4.3 Second Order Econometric Criteria
1 . Autocorrelation. The Durbin-Watson Statistics Of 1.461 In Table A-3 Tested By The Lm.Test Of Table A-7 Did Not Hypothesize Autocorrelation.

2. Heteroscedasticity. The Extract In Table A-8 Narrowly Escapes The Hypothesis Of The Presence Of Heteroscedasticity With 0.0509.

3. Multicollinearity. The Observation Of The Standard Errors Of The Independent Variables In Table A-5 Do Not Demonstrate Multicollinearity.

5. Conclusion and Recommendation
The Study Has Visited The Current Relationship Between Economic Growth And The Major Taxes In Nigeria. The Value Added Tax And The Petroleum Profit Tax Are The Determinants Of Of Economic Growth In Nigeria It Is Recommended That More Efforts Should Be Focussed On Value Added Tax And Petroleum Profit Tax To Improve The Present State Of The Country's Economy.

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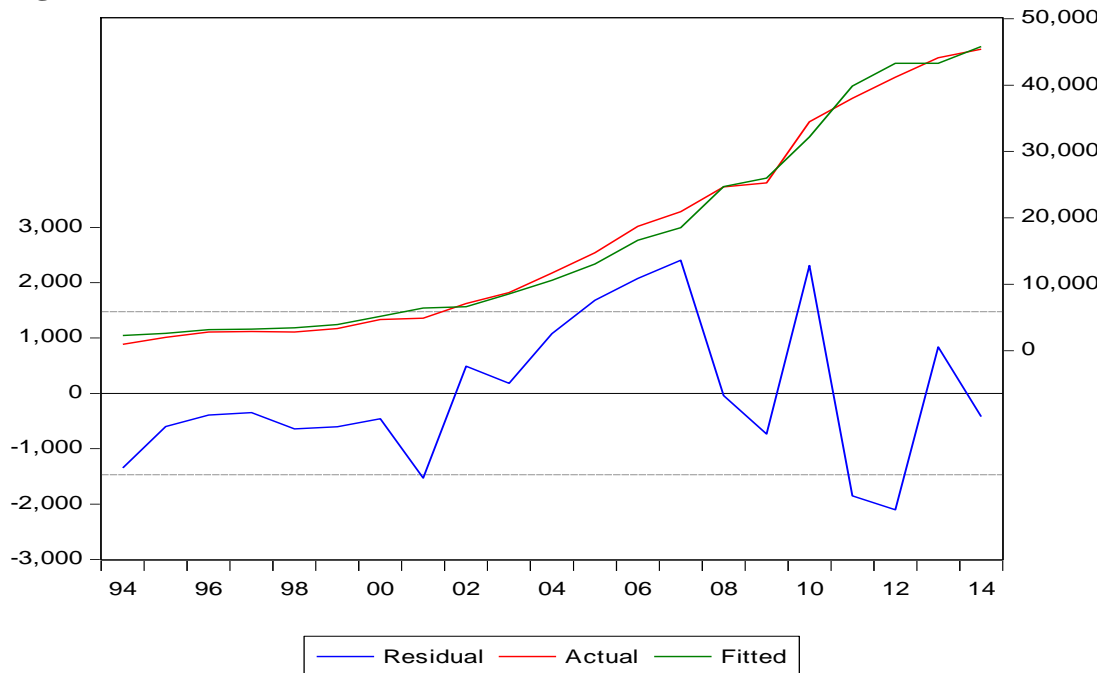
Appendix
Figure 1

Table A-1 Descriptive Statistics

	Mean	Std. Deviation	N
Gdp	17118.6095	15471.98968	21
Vat	273.6762	268.83910	21
Ppt	1441.9429	1413.23246	21
Cex	221.8857	154.80796	21
Cit	309.2905	355.85075	21

A. Dependent Variable: Gdp
B. All Requested Variables Entered.

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	Cit, Ppt, Cex, Vat[b]	.	Enter

A. Dependent Variable: Gdp
B. All Requested Variables Entered.

Table A-3 . Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error Of The Estimate	Durbin-Watson
1	.996[a]	.993	.991	1473.58346	1.462

A. Predictors: (Constant), Cit, Ppt, Cex, Vat

B. Dependent Variable: Gdp

Table A-4 Anova[a]

Model		Sum Of Squares	Df	Mean Square	F	Sig.
1	Regression	4752906123.660	4	1188226530.915	547.205	.000[b]
	Residual	34743171.579	16	2171448.224		
	Total	4787649295.238	20			

A. Dependent Variable: Gdp

B. Predictors: (Constant), Cit, Ppt, Cex, Vat

Table A-5 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1979.654	791.134		2.502	.024
	Vat	47.369	8.989	.823	5.270	.000
	Ppt	2.275	.784	.208	2.900	.010
	Cex	-9.031	8.822	-.090	-1.024	.321
	Cit	2.907	4.866	.067	.598	.559

Spss21 Output

A.Dependent Variable: Gdp

Output A-1[††]

Estimation Command:
=========================
Ls Gdp C Vat Ppt Cex Cit

Estimation Equation:
=========================
Gdp = C(1) + C(2)*Vat + C(3)*Ppt + C(4)*Cex + C(5)*Cit

Substituted Coefficients:
=========================

Gdp = 1979.65442814 + 47.3685823682*Vat + 2.27459961343*Ppt - 9.03070858676*Cex + 2.90744317704*Cit

Auto Correlation Test

Table A-6 (Extract) Breusch-Godfrey Serial Correlation Lm Test:

F-Statistic	0.505726	Prob. F(2,14)	0.6137
Obs*R-Squared	1.414952	Prob. Chi-Square(2)	0.4929

Test Equation:
Dependent Variable: Resid
Method: Least Squares
Date: 11/08/16 Time: 23:39
Sample: 1994 2014
Included Observations: 21
Presample Missing Value Lagged Residuals Set To Zero.

Heteroscedasticity Test

Table A-7 (Extract) Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-Statistic	3.270034	Prob. F(4,16)	0.0386
Obs*R-Squared	9.445721	Prob. Chi-Square(4)	0.0509
Scaled Explained Ss	3.519926	Prob. Chi-Square(4)	0.4749

Test Equation:
Dependent Variable: Resid^2
Method: Least Squares
Date: 11/09/16 Time: 00:44
Sample: 1994 2014
Included Observations: 21

Ħ E-View 7 Output
No Multi-Collinearity
The Observation Of The Standard Errors Of The Independent Variables In Table Xx Is Not Disproportionately High. This Is A Rule Of Thumb On The Absence Of Multicollinearity.