

Oil Tax Revenue and Economic Growth in Nigeria (2000-2019)

Dr. Abolade Francis Akintola

Department Finance, Babcock University, Ilishan-Remo Ogun-State, Nigeria

E-mail: akintolaa@babcock.edu.ng, GSM: 08023563670

Dr. Timothy Adisa Soetan

Department of Business Administration & Marketing, Babcock University, Ilishan –Remo, Ogun State, Nigeria.

E-mail: soetant@babcock.edu.ng GSM: 08141123780

Olubukunmi Adeboye Adesanya (PhD Candidate)

Department of Finance, Babcock University, Ilishan-Remo , Ogun-State, Nigeria

E-mail: boyebukunmi2012@gmail.com , GSM: 08028709401

Abstract

This study examined oil tax revenue and economic growth in Nigeria from 2000 to 2019. To achieve the objective of this study, data were collected from secondary source e.g Central Bank of Nigeria statistical bulletin and Federal Inland Revenue service annual reports. Ex-post facto research design was adopted in this study while regression analysis otherwise known as Ordinary Least Square (OLS) was used to analyze the secondary data obtained. Result from the study showed that oil tax revenue has positive and significant impact on economic growth in Nigeria. The study therefore recommended that Federal Government of Nigeria (FGN) should ensure that there is efficient tax system that will guarantee sustained economic growth for the country. In addition, oil tax revenue should be spent on projects that will increase the level of economic growth.

Keywords: Oil Tax Revenue, Economic Growth, Federal Inland Revenue Services and Gross Domestic Products

1.0 Introduction

Economic growth is measuring the size of national economics, the macro-economic indications especially the gross domestic product per capital, in an ascendant but not necessarily linear direction, with positive effects on the economic-social sector.

Economic growth is generally agreed to indicate development of an economy as it transforms a country from a lower level to a higher level. Thus, it is argued that for tax to contribute to economic growth and development in Nigeria, it must operate efficiently.

Tax is a compulsory levy imposed on a subject or upon his property by the government to provide security, social amenities and create conditions for the economic well-being of the society.

Bassey (2013) defined tax as compulsory payment made by individuals and organizations to the government in accordance with predetermined criteria for which no direct or specific benefit is received by the taxpayer. There is a consensus that for economic growth to be experienced in any country, the provision of basic infrastructure is necessary and fundamental in such a country. Provision of basic infrastructure and social services to the citizenry means that adequate tax revenue must be generated by the government to finance government expenditures.

Governments use tax proceeds to render their traditional functions such as the provision of public goods, maintenance of law and order, defence against external and internal aggression, regulation of trade and business to ensure social economic justice (Ogbonna & Appah, 2016). Musgrave and Musgrave (2004) also maintain that the economic effects of taxation include micro effect on the distribution of income and efficiency of resource use as well as macro effects on the level of capacity output, employment, prices and growth.

An optimal tax rate is one which comprises a synthesis between the state's revenue and its economic development. A higher tax rate deters savings and development, while a lower tax rate would lead to less to the government.

As an instrument of fiscal policy, Tosun and Abizadeh (2005) outlined five possible mechanisms by which taxes can affect economic growth. Firstly, taxes can inhibit investment rate through such taxes as corporate and personal income and capital gain taxes. Secondly, taxes can slow down growth in labour supply by disposing labour-leisure choice in favour of leisure.

Thirdly, tax policy can affect productivity growth through its discouraging effect on research and development expenditures.

Fourthly, taxes can lead to a flow of resources to other sectors that may have lower productivity.

Fifthly, high taxes on labour supply can distort the efficient use of human capital.

A question can be asked if the current economic growth in Nigeria is justified considering huge oil tax revenue generated by government(s). It is against this background this paper investigated oil tax revenue and economic growth in Nigeria from 2000 to 2019.

2.0 Literature Review

This section will concentrate on the literature related to this study by reviewing the conceptual, theoretical and empirical studies that may help this research.

2.1 Conceptual Framework

2.1.1 Concept of Tax

Taxation is a compulsory levy imposed on a subject or upon his property by the government to provide security, social amenities and create conditions for the economic well-being of the society (Ola, 2011). Nzotta (2017) defined tax as a compulsory levy contribution made by the citizens to the state or even an alien, subject to the jurisdiction of the government, for reasons of residence or property and this contribution is for general common use. Bhartia (2009) postulates some tax theories are built on the hypothesis that needless any connection between payment of tax by citizens and benefits accruable from the state while other theories are based on a link between rendering of service and payment of taxes.

In Nigeria, there are various taxes collected by government. All these taxes can be categorized into two: namely personal income tax and company income tax. Under company income tax we have company income tax (CIT), petroleum profit tax (PPT), value added tax, customer and excise duties, education tax to mention but few.

2.1.2 Concept of Economic Growth

Dandana and Nwele (2011) stated that economic growth is the increase in the inflation adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in the real gross domestic product (GDP). Of more importance is the growth of the ratio of GDP to population (GDP per capital which is also called per capital income). An increase in growth caused by more efficient use of inputs (such as physical capital, population or territory) is referred to as intensive growth. Economic development has remained a serial problem bedeviling the Nigerian state since independence as several efforts geared towards economic recovery have failed to yield meaningful results. There is still problem of poor health care services, lack of critical infrastructures. It is well known fact there can be no economic growth in any community without provision of basic infrastructures to

the inhabitants of such community. Provision of basic infrastructures and various social services to the people determine the level of economic growth of any society.

2.2 Theoretical Framework

The following theories of taxation are discussed in this study:

2.2.1 Equity: People should pay taxes according to their abilities to pay

2.2.2 Convenience: Those liable to be taxed must be easily located, their income accurately assessed and timing and method of tax collection must be convenient to tax payers.

2.2.3 Certainty: Tax payers must know how much they are expected to pay and the rate of tax applicable and the relevant tax authority to pay to.

2.2.4 Economic of Cost Collection: This must be relatively small compared to the amount of tax collected, otherwise, this may wipe out any benefits to be derived from tax revenue.

2.2.5 Benefit Received Theory: This theory dictates that the state should levy taxes on individuals according to the benefit they derived from government expenditure.

2.2.6 Political Legitimacy: Legitimacy means the belief or trust people have in the authorities, institutions and social arrangement to be appropriate, proper, just and work for the common good.

2.2.7 Voluntary Compliance: Voluntary compliance is a situation whereby an individual or tax payer voluntarily complies with the discharge of his obligation. The tax payer does not need to be coerced or forced into paying taxes and he does not see tax payment as a burden to him.

2.3 Empirical Review

Several studies have been conducted by some scholars on related studies which are discussed below:

Ogbonna and Appah (2012) in investigating the impact of tax reform on economic growth in Nigeria employed time series analysis for the period 1981-2007. The study revealed variations in all the income taxes having positive coefficient implying that tax reforms stimulate economic growth.

Ebiringa and Emeh (2012) in their paper: Analysis of tax formation and impact on economic growth in Nigeria examined the empirical form of tax on the economic growth in Nigeria. Secondary data for the period of 1985-2011 was used, using the simple linear regression technique with E-view econometric software. Their finding revealed that from the analysis of GDP estimate, company income tax and value added tax have direct relationship with GDP. This

implies that if company income tax and value added tax revenue increases, it leads to increase in GDP which is an indication of economic growth.

Acti and Abigail (2014) examined Nigeria tax system and economic growth. A time series analysis using a time series data.

Regression analysis was used to analyze the data. Their result revealed a linear relationship between economic growth and tax revenue. The study also shows that indirect tax contribute more to the economy than direct taxes which include personal income tax.

Ojong, Anthony and Arikpo (2016) examined impact of tax revenue on economic growth: evidence from Nigeria, considered as independent variables, petroleum profit tax (PPT), non oil revenue (NOR) and company income tax (CIT) while GDP as the dependent variable. The result of the study reported a significant and positive relationship between the independent variables under study and economic growth. Also, while PPT and CIT had positive impact on the economic performance, an increase in non oil revenue does not lead to a rise or improvement in economic growth.

Okwara and Amori (2017) examined effect of revenue from taxation on growth of Nigerian economy from 1994 to 2015. Gross Domestic Product (GDP) was used as a variable representing economic growth while value added tax (VAT) and non-oil income (tax) was used to measure tax revenue. The result showed non-oil income having substantial effect on gross domestic product but value added tax having adverse association and statistically insignificant for the review period.

Okeke, Mbonu and Ndubusi (2018) examined connection between tax revenue and economic development measured by labour force, infant mortality and fixed capital formation in Nigeria between the period 1994-2016. The study revealed that tax revenue has statistically important correlation between labour force, infant mortality and gross fixed capital formation. It recommended that government to increase tax revenue allocation to the critical sectors of the economy like agriculture and industry so as to improve on the well being of the citizenry.

3.0 Methodology

Ex-post facto research design was adopted in this study. Secondary data obtained from Central Bank of Nigeria Statistical Bulletin and Federal Inland Revenue Service from 2000 to 2019 were used for the study. The regression analysis based on the classical linear regression model otherwise known as Ordinary Least Square (OLS) technique was used in the analysis of the data

sourced for the study. The data regressed covered the period from 2000 to 2019, a period of 20 years econometric views (E-view) statistical software was used to run the multiple linear regression analysis.

3.1 Model Specification

$$GDP = OTR + \mu$$

$$GDP = f(OTR)$$

$$GDP = \beta_0 + \beta_1 OTR + \mu$$

Where:

GDP – Gross Domestic Product

β_0 – Intercept

β_1 – Coefficient of Oil Tax Revenue

μ - Stochastic variable to take care of variable not included in the model

4.0 Analysis and Discussion of Result

Table One

Regression of oil tax revenue on gross domestic product (economic growth)

R	R Square	Adjusted R Squared	Beta	T-value	Durbin Watson
0.486	0.236	0.188	0.488	2.224	0.355

Model Equation Oil Tax Revenue = 22202 + 5.094 GDP

The t-value 2.224 shows that it is significant and from the model equation, the coefficient of oil tax revenue for economic growth is 5.094, thus there is a positive significant impact of oil tax revenue on gross domestic product (economic growth) in Nigeria. The correlation coefficient (R) is 0.486 and the beta indicates that it has a positive correlation which means an increase in oil tax revenue for gross domestic product will lead to an increase in economic growth in Nigeria. The explained variable for this particular change in Nigeria economic growth is 23.6% as indicated by the coefficient of determination (R^2). The d-test statistic value is 0.355.

5.0 Conclusion and Recommendations

5.1 Conclusion

The study investigates relationship between oil tax revenue and economic growth in Nigeria from 2000 to 2019.

It was revealed from the study that oil tax revenue has positive significant impact on economic growth in Nigeria.

5.2 Recommendations

Based on the result obtained, we recommend the following:

- Government of Nigeria should ensure that there is efficient tax system that will guarantee sustained economic growth for the country.
- Federal Government of Nigeria (FGN) should ensure that oil tax revenue is spent on projects that will increase the level of economic growth rather than using the revenue on projects that are not beneficial to the people.
- Officers and managers in the Federal Inland Revenue Services in charge of administration of oil tax revenue should be well trained so that they can advise government on better way of getting more revenue from oil.
- There is need to create more incentives for taxation especially the petroleum profit tax by the Federal Government, this will help to boost the revenue base.

References

- Acti, I.M.S.K & Abigail, E.C. (2014). The Nigerian tax system and economic growth: A time series analysis. *International Journal of Economics and Empirical Research*, 2 (4), 163-169.
- Bassey, O.U (2013). *Personal Income Tax in Nigeria*, CIBN Press Limited, Lagos, Yaba, Lagos.
- Bhartia, H.L. (2009). *Public Finance* (14th ed) Vikas Publishing House PVT Ltd, New Delhi
- Dandana, A. & Nwele, J.O. (2011). The role of macro credit support to agricultural development in Nigeria. *Development and Managerial Review*, 6(1), 24-30.
- Ebiringa, O.T. & Emeh, Y. (2012). Analysis of tax formation and impact on economic growth in Nigeria. *International Journal of Accounting and Financial Reporting* 2(2), 18-31.
- Musgrave, R.A & Musgrave, P.B. (2004). *Public Finance in Theory and Practice*. New Delhi. Tata McGraw Hill.
- Nzotta, S.M. (2017) "Tax evasion problems in Nigeria: A critique" *The Nigerian Accountant*, 40 (2); 40-43
- Ogbonna, G.N. & Appah, E. (2016). Effect of tax administration and revenue on economic growth in Nigeria. *Research Journal of Finance and Accounting*, 7(13), 49-58.

Ojong, C.M., Anthony, O. & Arikpo, O.F. (2016). The impact of tax revenue on economic growth: Evidence from Nigeria. *Journal of Economic and Finance*, 7(1), 32-38

Okeke, M.N., Mbonu, C.M., & Ndubuisi, A.N. (2018). Tax revenue and economic development in Nigeria. A disaggregated analysis. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 8(2), 178-199.

Okwara, C.C. & Amori, O.M. (2017). Impact of tax revenue on economic growth in Nigeria. *International Journal of Advanced Scientific Research*, 2(2), 92-102.

Ola, C.S. (2001). *Income Tax Law and Practice in Nigeria*. Heinemann Educational Books (Nigeria) Plc, Ibadan.

Tosun, M.S. & Abizadeh, S. (2005). Economic growth and tax components: an analysis of tax changes in OECD. *Journal of Applied Economics*, 37, 2251-2263

Appendix

Table Two

Year	GDP (₦' Billion)	OTR (₦' Billion)
2000	6,897.48	1,591.68
2001	8,134.14	1,707.56
2002	11,332.25	1,230.85
2003	13,301.56	2,074.28
2004	17,321.30	3,354.80
2005	22,269.98	4,762.40
2006	28,662.47	5,287.57
2007	32,995.38	4,462.91
2008	39,157.88	6,530.60
2009	44,285.56	3,191.94
2010	54,612.26	5,396.09
2011	62,980.40	8,878.97
2012	71,713.94	8,025.97
2013	80,092.56	6,809.23
2014	89,043.62	6,793.82
2015	94,144.96	3,830.10
2016	101,489.49	2,693.90
2017	113,711.63	4,109.80
2018	127,762.55	5,545.80
2019	131,402.51	5,536.66

Source: Extracted from CBN Statistical Bulletin and Federal Inland Revenue Service Annual Report



GDP –Gross Domestic Product

OTR- Oil Tax Revenue