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Effect that Taxation has on Economy Development: Agencies Role

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Abstract **– This paper focuses on Taxation in the Nigerian economy; we analyzed the postulated hypotheses which dwelt on the relationship that exist between taxation and revenue generated by tax. The main objective of the study is to assess the effect that taxation has towards the development of Nigerian economy and two other specific objectives were stated for this paper. Questionnaires were used to get data from respondents. It was discovered that taxation has a positive relationship with the economy and development in Nigeria. The researcher then recommends a well defined policy for inter governmental collaboration, cooperation and coordination between different tiers and agencies of government, awareness on the tax payers on the role of taxation in the economy and development in Nigeria should be created. Efforts should also be made by the government to ensure they channel revenue from taxation towards economy activities that will benefit the tax payers.**

Keywords **– Taxation, Agencies, Government, Categories of Tax, Tax payer.**

I. Introduction

Taxation is a financial charge on income levied by the Government on citizen, corporate entities, businesses or possessions that yield revenue. Similarly it is mean by the compulsory proportional donations from individuals and property possession, imposed by the Government by the virtue of its power for the funding of Government administration and general public necessities (FIRS, 2012).

One of the major functions of the government especially developing countries such as Nigeria is the provision of infrastructural services such as electricity, schools, hospitals, pipe-borne water, good roads and as well as ensure a rise in per-capital income, poverty alleviation to mention a few. For these services to be adequately provided, government should have enough revenue to finance them. The task of financing these enormous responsibilities is one of the major problems facing the government. Based on the limited resources of government, there is need to carry the citizens (governed) along hence the imposition of tax on all taxable individuals and companies/organizations to augment government financial position is essential.

According to Udabah (2000), “the fundamental challenge facing counties like Nigeria is in the transformation of their economic or economic structures from an underdeveloped to a developed status”. This entails the development of their economic wealth for the well-being of their citizens and the formation of social structures in a manner which improves their capacity to fulfill their aspirations.

To this end, government have always enacted various tax laws and reformed existing ones to stand the taste of time. These laws include: Income Tax Management Act (ITMA), Companies Income Tax Decree (CITD) etc. All these are aimed at ensuring adherence to tax payment and discouraging tax evasion and avoidance. For the purpose of this study, the researchers would be concerned with the impact of taxation on Nigeria economy.

Ejiofor (2018), stated that the existence of government is a necessity that cannot continue without financial means to pay its expenses as there are certain services which the government must provide to its citizens because of their essential nature. Government does this to ensure that the supply of such goods and services are evenly distributed in any given society so that the rich and poor alike may benefit.

One may ask how does government get such huge amounts to finance the supply of such essential goods and services to her citizens. It is true that government mints money but there are other important economic factors that should be considered so that excessive money is not, in circulation in any economic.

According to Ene (2011), Taxation is regarded as a Compulsory charge imposed by the public authority (Federal, State and Local Government) for the general purposes of government. It is also defined as the act of laying a tax or imposing taxes on the subjects of a state by government or on the members of a Corporation or Company by the proper Authority. It is levy regularly imposed and regarded as contribution to the general pool from which government expenditure are made.

Ukaejiofor (2019) defined taxation as "a compulsory contribution from individuals and or business organizations for the purpose of financing government expenditure" According to him, government of almost every country engages in a number of activities which requires the expenditure of funds. In order for the government to be able to undertake most of these activities, it raises funds through Taxation.

According to Orjih (2011) Taxation plays a crucial role in promoting economic, social activities and growth though taxation, government ensures that resources are channeled towards important projects in the society while giving succor to the weak. He also added that taxation is useful in raising revenue, controlling the consumption of certain commodities, controlling monopoly, reducing income inequalities, improving the balance of payments as well as protecting infant industries.

Categorization of Tax

A. *Direct Taxes*

These are taxes levied directly on the income and property of individuals and Companies. Their burden is borne directly by the tax payer and may take these forms (Rabius, 2016).

1. *Personal Income Tax:*

This is levied on an individuals income which he earned during a specified period of time usually one fiscal year. It varies with the size and sources of the tax payers income and some other factors contained in the personal income tax Act. 104 of 1993.

2. *Company Income Tax:*

This is levied on the net profits of companies. The gross income of companies are adjusted by deducting all allowable expenses before taxation is imposed on the net profit.

3. *Expenditure Tax:*

It is levied on that part of a persons income he is actually left with after deduction of savings.

4. *Capital Gains Tax:*

A capital gain accrues when the value of capital assets goes up and is realized when the asset is sold. Capital gains are unearned increments brought about by market and development forces. Capital gains tax is levied with references to its realization and it rates are progressive.

5. *Petroleum Profit Tax:*

Nigeria law by virtue of the petroleum profits tax act requires all companies engaged in the extraction and transportation of petroleum to pay tax. The taxable income of a petroleum company is subject to tax at 85% but this percentage is lowered to 65.75% during the first 5 years of operation.

B. *Indirect Taxes:*

These are 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 hence their incidence does not fall directly on the final payers (Safe, 2011, Tabani, 2014). They include:

1. *Export Duties:*

These are taxes levied on goods which are exported or sold to other countries by the home country.

2. *Import Duties:*

These are taxes levied on goods coming into a country from abroad. The duty is collected from the importer at the point the goods enter the country.

3. *Excise Duties:*

These are levied on goods produced or manufactured locally.

4. *Sales Tax:*

These are taxes on selected transactions but applied at only one stage of business activity. Usually, it is collected either at the wholesale level or at the retail level. Sellers charge the sales tax on their sales and deposit the proceeds with the authorities.

5. *Value Added Tax (VAT):*

This is not a tax on the total value of the goods being sold but only on the value added (the difference between the value of factor services and materials that the firm purchased as input and the value of the output) it requires a taxable person upon registering with the federal board of inland revenue to charge and collect VAT at a flat rate of 5% of all invoiced amounts of taxable goods and services.

In essence, taxation is a core pillar of any developing country such as Nigeria to develop its regulatory framework on in the area of investment and growth, this also features prominently in investment decision making motivated by profit maximization while also spurring local enterprise development but this can only happen when taxation and its administration are properly designed.

II. Statement of the Problem

Nigeria and other African Countries at large are facing a series of challenges when it comes to optimizing taxation for economic and social growth while aiming to reach development targets. Perhaps the most inherently 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 enough revenue for public service delivery which in turn makes econ-

-omics more attractive to investors.

In the view of Oni (2018), it was stated that the taxation system in Nigeria has not been fully tapped and maximized and its role in promoting economic and social activities and growth is not felt because of its poor administration, likewise, the economy has remained in deep slumber as all macroeconomic indicators show an economy in dire need of rejuvenation, balancing and indeed radical reform.

Identifying the impact of taxation on economic development in Nigeria is a research work born at the right time as there is an urgent need to dig deep and look into the situation of tax evasion and the likes which are punishable by law and also to look into measures required to meet challenges. This will not only guarantee improved revenue base for the country but also position the country properly to take full advantage offered by the new millennium global tax reform system. This research work shall examine the impact of taxation on economic and social development in Nigeria by analysing the tax gap in the system over the years thereby revealing the critical challenges that need to be tackled even when computer is being used these days. It is good to note that no taxation succeeds without the tax payers co-operation and inclusion in the process of formulation of the policy with implementation.

III. Objectives of the Study

The main objective of the study is to assess the effect that taxation has towards the development of Nigerian economy. Other specific objective of the study includes:

i. To examine the extent government has been using revenue generated by tax.

ii. To determine the reaction of people towards tax payment.

The above led to the set of research questions:

i. To what extent has government been using tax generated revenue?

ii. How do people react towards tax payment?

The hypotheses are stated below:

i. There is no significant relationship between development and generated revenue collected.

ii. There is no significant relationship between development and amount people pays.

IV. Methodology

Research Design

Basically, this study is an Econometrics research and involves the use of time series data likewise questionnaire were used. According to Gujarati (2003), Econometric research has to do with measuring parameters of economic relationships and making forecasts or predictions of values of such variables Time series data on Nigerian Tax revenue, Gross Domestic product, Inflation rates and Unemployment rates from 2014 to 2019 will be used in order to effectively analyze the impact of taxation on the economic development in Nigeria.

Population

The population for this study was made up of different categories of taxations in Nigeria. The population to be surveyed is made up of different personal, workers and owners business. Unfortunately; accurate statistics were based on the workers and owners involved is not available because of the non record keeping, therefore the researcher used the information available only.

Sample Design and Sample Size

The sample size used in this study is 67 out of a population size of 80 using the formula for the determination of the sample size from the population of the workers. To get the sample size Taro Yamani method was used.

Reliability of the Instrument

There is need to examine and sensitize the completeness and appropriateness of the questionnaire before administering them globally to the respondents such that when eventually released the questionnaire will meet its target and generate authentic reliable response. The above simple means that the questionnaire must be complete and appropriate for the respondents to provide needed valve information to use for evaluation of it. The questionnaire must be able to meet the target for which its been used and the respondents must be happy to respond to it when given.

Validity of the Instrument

The instrument used in this work is questionnaire. The drafted instrument for data collections was validated using face validity method. According to Kola Wole (2004) used by Onwumere (2015), the deals with experts opinion on the face value of the instruments. The designed instrument was shown to the experts for necessary corrections. Test-retest reliability was used to establish the reliability of the instrument. The questionnaire was administered to different respondents in the sample selected for the study.

V. DATA COLLECTION

Tabular Presentation of Overall Regression

Results				
Variable	**Coefficient**	**Standard Error**	**t-statistics**	**Prob**
Tax figures	0.00966	0.000926	1.04385	0.3156
GDP	13.06653	0.052625	248.297	0.0000
Inflation	2.0068	0.031068	2.5464	0.02244 **
Unemployment	3.0713	0.000837	1.03257	0.13040
R-Square	0.385544	F-statistics	4.0785	
Adjusted R-square	0.291012	Prob. (F-statistics)	0.047188	
Durbin Watson statistic	0.545918			

Source: Eviews Results (2020).

Note: figures with ** indicates the points of statistical significance between the dependent variable and the explanatory variables.

Hypothesis One

H0 1: There is no significant relationship between taxation and economic development in Nigeria.

Table 1a. Regression coefficient.

Model	Unstandardized Coefficients		Standardized Coefficients	T Sig.	
	B	**Std. Error**	**Beta**		
	.234	.061		4.041	.000
	.916	.035	.921	75.359	.000

Source: Researcher (SSPS) (2020).

Table 1b. Analysis of variance Table.

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	405.401	1	415.404	3495.453	.000
Residual	19.933	48	6.3401		
Total	425.334	49			

Source: Researcher (SPSS) (2020).

Table 1c. Model Summary.

Model	R	R^2	Adj. R^2	Std. Error of Estimate
	0.94	0.921	0.921	0.2514

Source: Researcher (SPSS) (2020).

Taxation explain 92 percent of variation experience on economy development and this result is significant F = 3495.453, $p < 0.05$. Taxation makes a positive impact on economy development and this is significant, t (6.34), $p < 0.05$.

Decision

Based on the analysis above, the null hypothesis (Ho) is therefore rejected while the alternative hypothesis (Hi) is accepted; which state that there is relationship between taxation and economic development in Nigeria.

Hypothesis Two

H0 2: There is no significant relationship between taxation and economic system of Nigeria.

Table 2a. Regression coefficient.

Model	Unstandardized Coefficients		Standardized Coefficients	T Sig.	
	B	Std. Error	Beta		
	.711	.052		33.144	.000
	.730	.014	.853	52.134	.000

Source: Researcher (SPSS) (2020).

Table 2b. Analysis of variance Table.

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	381.101	1	461.601	3281.056	.000
Residual	27.224	48	.101		
Total	408.325	49			

Source: Researcher (SPSS) (2020).

Table 2c. Model Summary.

Model	R	R^2	Adj. R^2	Std. Error of Estimate
	0.91	0.85	0.853	0.4221

Source: Researcher (SPSS) (2020).

Taxation explain 85 percent of variation experience in the economic system of Nigeria and this result is significant $F = 3281.056$, $p < 0.05$. Taxation makes a positive impact on the economic system and this is significant, t (33.144), $p < 0.05$.

Decision

Based on the analysis above, the null hypothesis (Ho) is therefore rejected while the alternative hypothesis (Hi) is accepted; which state that there is a relationship between taxation and economic system of Nigeria.

VI. Discussion of Findings

From the results of the analysis from Analysis of Variance (ANOVA), regression statistics and EVIEWS which is econometrics software for data analysis, taxation has a positive relationship with the Gross Domestic Product (GDP). In Nigeria, the result can be further justified in the sense that taxes imposed especially in the manufacturing sector is always higher than expected which is not coupled with the provision ** of appropriate social amenities and basic infrastructure. Most of the manufacturing industries and firms are discouraged that despite the high taxes imposed, there is no stable power supply thereby making these industries to incur so much cost in running their firms as other means of power supply and other social amenities are sourced privately by them.

In Nigeria, unemployment rates increase daily even as taxation figures or Government Revenue increase. Millions graduate yearly without provision made for them in terms of employment by the Government. As a result of inadequate funding, political instability, inadequate infrastructure, a lot of industries closed shops and some are operating below expectations. Also if schools were adequately funded by the government, vocational and technical centers would have been established or provided in schools so as to help students become more self reliant and more towards becoming self employed after graduation.

VII. Findings

From this study, it was discovered that Nigeria faces a series of challenges when it comes to optimizing taxation for economic growth and development.

1. Taxation system in Nigeria has not been fully tapped and maximized and its role in promoting economic development is not felt because of its poor administration and thus all macro economic indicators shows an economy in dire need of rejuvenation, balancing and indeed radical reform. This view was supported by Ukaejiofor (2018).

2. Tax Administration in Nigeria is faced with a lot of challenges which cut across the three tiers of government and include: lack of an overall understanding of the role of tax in National development, Lack of accountability for tax revenue, lack of inter-governmental collaboration, co-operation and coordination between tiers and agencies of government as well as dependence on oil revenue leading to a neglect of taxation as a source of revenue. This view was supported by Oni (2018).

3. Taxation is a core pillar of a countries regulatory framework for investment and growth. It features prominently in investment decision making motivated by profit maximization while also spurring local enterprises development. The Nigerian tax system is currently undergoing several reforms geared at enhancing tax collection and administration with minimal enforcement cost. The tax laws are consistently being reviewed with the aim of repealing obsolete provisions and simplifying the main ones. The introduction of unique tax payers identification number (TIN) since February 2008, Automated tax system that facilitates tracking of tax positions and individual tax payer, E-payment system which enhance smooth payment procedure and reduces the incidence of tax touts.

4. There are still a number of contentious issues that requires urgent attention and among them is the issue of appropriate tax authority to administer several taxes. Also, the issue of multiple taxes severally administered by all the three tiers of government sometimes imposes welfare costs. Tax Evasion and avoidance and the issue of corruption are still a perennial issue in the country. One source that can make the nation to actualize its vision 2020 is to have a strong tax system that conveniently generates revenue with minimal welfare cost. This view was supported by Ikwueze (2015).

VIII. Conclusion

The research work has been identified and relates the need for formulating and implementing taxation policies that will aid the economic development in Nigeria. In periods of inflation, taxation is useful in stabilizing prices with reasonable level of full employment and economic growth. A higher taxation that is not accompanied by increased government expenditure will decrease consumers purchasing power and hence check inflation. Taxation also helps to protect infant industries, improve balance of payment, reduce income irregularities and also control monopoly. Taxation increases government revenue in Nigeria but unemployment rate is on the increase. Most industries source power supply privately thereby incurring high costs in production. Taxation plays a crucial role in promoting economic development.

IX. Recommendations

The following recommendations are made to assist government in making taxation policies that will aid economic development in Nigeria.

- There should be continuous awareness on the part of tax payers on the role of taxation in the economic development in Nigeria.

- Efforts should be made by the government to channel the revenue from taxation towards economic activities that will benefit the tax payers. This will discourage tax evasion and avoidance.
- There should be inter governmental collaboration, cooperation and coordination between different tiers and agencies of government.
- Government should reduce the tax rate placed on private investors as this will encourages more private investment in the economy.

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