

The Role Of Tax Revenue In Promoting Economic Development In Nigeria

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Abstract: *The study investigates the effect of tax revenue on economic development in Nigeria from 2000 to 2023. The independent variable is tax revenue measured by PPT, CED, CGT and CIT while the dependent variable is economic growth proxy with HDI. Data for the study was derived from the CBN Statistical Bulletin and World Bank data bank 2020. Accordingly, the OLS result reported that CIT and CED significantly improve HDI. CGT, on the other hand, has a markedly detrimental impact, indicating that higher capital taxes may discourage investment and lower development results. PPT had no discernible impact on HDI. Hence, the study concludes that to improve the collection and efficient use of CIT and CED funds, which have been shown to promote development, the government should fortify tax administration.*

Keywords: Petroleum Profit Tax, Company Income Tax, Human Development Index , Customs and Excise Duties, Capital Gains Tax

1.0 Introduction

The quantity of resources produced and under its control to fund its infrastructure needs and cover its daily expenses determines a country's economic development. Nonetheless, it is thought that the necessary funds will be raised both internally and externally through a well-organized tax structure. The rise in a country's citizens' level of life from a low-income (poor) economy to a high-income (rich) economy is known as economic development. Economic development increases as local quality of life improves. As a macroeconomic policy tool, taxes influence the rate and magnitude of economic growth in all countries.

A well-designed tax system gives the government the chance to raise the money it needs to cover its ever expanding needs. Taxes are a reliable and sustainable source of funding for the government, and they are also a tool for macroeconomic management and fiscal policy. Because it affects every part of the economy, including individuals, businesses, citizens, and outsiders, it has the potential to be a weapon for social and economic reform. In order to accomplish certain objectives, the government power, acting through its agents, imposes taxes on its subjects or their property. According to Okeke, Mbonu, and Amahalu (2018), taxes are the transfer of resources from the private to the public sectors.

The primary goal of tax administration is to raise enough money to improve the welfare of the populace of a country, with an emphasis on fostering economic development and growth by creating the necessary infrastructure for better public services through effective administrative systems and structures. The money collected from taxes is essential for fostering economic development and expansion. Through tax income, the government provides assistance to the needy while ensuring that funds are directed toward significant social programs. Poorly managed tax income may not have the desired effect of stimulating economic activity and growth (Abomaye-Nimenibo, Michael & Friday 2018).

Infrastructure such as power, roads, telecommunication, water, and good health and educational facilities are necessary for businesses to prosper and compete on a global scale. This is because these amenities will lower the overhead costs of business owners and allow for expansion, which will create wealth for the prosperity of all citizens and increase income per capita. The main responsibility of the government is to provide these services, which comes with a significant financial cost. The government will have more money available to fulfill its mandate if taxes are administered effectively.

1.2 Statement of the Problem

The Federal Government of Nigeria has been unable to fulfill the growing social and public spending necessary to promote economic growth and development in the nation due to the tax income that has been collected throughout the years. Because of tax evasion, avoidance, and record falsifications, which have consistently resulted in low tax revenue intake, the tax system is egregiously inefficient. Over the years, the amount of revenue collected from tax sources has been hindered by gross inefficiencies and leaks, which has had a negative impact on the economy and per capita income (Etoama, Akani & Ogbonna, 2023).

The Federal Inland Revenue Service Board's inability to ensure that firms fully comply with tax laws and to include all operational enterprises in the tax net has significantly limited the amount of tax revenue that contributes to per capita income. The high percentage of tax evasion in Nigeria's tax system has also decreased the amount of tax revenue collected, which surely has an impact on inflation and government spending.

Furthermore, issues like a lack of data, an ineffective monitoring and enforcement system, and corrupt activities limit the country's current tax administration system's ability to generate revenue.

The effectiveness of taxes as a tool for fostering growth and development is still up for debate because multiple research have found conflicting results about the impact of taxes on economic development, leaving a knowledge gap. For instance, Osamor, Omoregbee,

Fadekemi, Adeoye, and Olumuyiwa-Loko (2023) looked at the connection between tax revenue and economic development and discovered that the variables under research were positively correlated. However, Akanbi,(2018). discovered a negative correlation between economic progress and tax revenue. This necessitates a thorough analysis of the connection between tax revenue and the economy in order to properly formulate policies and develop strategies for increasing its efficiency.

2.0 Literature Review

2.1.0 Conceptual Review

2.1.1 The Concept of Taxation

A tax is a mandatory payment made by a nation's people without the right to an immediate, corresponding refund. Taxation is the procedure by which the government collects taxes. Citizens must bear the cost of supporting the government, which always has certain tasks to complete for the benefit of the populace (Alexander, Keyi, & Alfa 2019). The Chartered Institute of Taxation of Nigeria (2002) and the Institute of Chartered Accountants of Nigeria (2006) both describe tax as an enforced monetary contribution that is implemented in accordance with legislative authority. Without an enabling statute, decree, act, or other legal framework, taxes lack legal standing and are therefore not considered charges.

Wages, company profits, dividends, interest, commissions, royalty payments, gains from investments, and rent are all considered forms of income, earnings, or wealth that are subject to taxation.

In light of these diverse sources of income, Amah, (2021) divides taxes into two categories depending on incidence and mode of payment. Direct and indirect taxes make up the second form, whereas proportional, progressive, and regressive systems make up the first. Personal income tax(PIT), business income tax(BIT), capital gains tax(CGT), petroleum profit tax(PPT), and education tax are all considered forms of direct taxation. Value added tax (VAT), stamp duty, excise duty, and customs duty are examples of indirect taxes, which are consumption taxes imposed on products and services (Awa, & Ibeanu, 2020).

Value-added tax (VAT), corporations' income tax (CIT), petroleum profit tax (PPT), and customs and excise duties (CED) were the four factors that were taken into consideration when conducting this study.

2.1.2 Economic Development

The process through which a country improves the economic, political, and social well-being of its citizens is known as financial development. The process via which developing economies transform into developed economies is known as economic development. Stated differently, the process via which low-income countries transform into high-income countries. The process via which the general population's general health, well-being, and academic standing improve is also referred to as economic development.

2.1.3 Human Development Index (HDI)

The Human Development Index (HDI) gives an overview of average achievements in three key areas of human development: having an acceptable level of living, being knowledgeable, and living a long and healthy life (Cobham & Janský, 2018). The Human Development Index (HDI) is a statistic developed and published by the United Nations to assess the social and economic development of various countries. Life expectancy at birth, expected years of schooling, mean years of education, and gross national income per capita comprise its four primary areas of interest (Dauda, & Dauda, 2020). This indicator can be used to compare different countries' levels of development and monitor how those levels have changed over time.

2.2 Theoretical Review

.2.1 Expediency Theory

Abdul Islahi Azim, an economist from Tunisia, developed this taxation hypothesis, which Mirrleeds confirmed in 1971. Every proposed tax policy should pass the practicability test, which is the foundation of the idea. It explains the effectiveness, economy, and efficiency of tax collection tools. Its compelling argument is that the government should not set tax rates that are detrimental to taxpayers. By doing this, it will be able to collect more money from a higher percentage of compliance. Egolum, and Ugonabo, (2021), opined that this theory views taxes as an effective policy tool that should be utilized to address the state's or society's macroeconomic and social problems, such as regional disparities, income inequality, and the mobilization of unemployment revenue. It is a theory of taxation that links tax obligations to state operations, with imposition serving as a key tool for funding state operations and subsequently serving as a foundation for allocating the tax burden among society's members.

2.3.0 Empirical Review

Olushola, Oliver, and Osang (2020) examined tax revenue and economic growth using an econometric approach. Multiple regression models were employed. The result revealed the positive relationship that existed between tax revenue and economic growth.

Using ADF, Oluwasegun and Olarewaju (2020) investigated the relationship between tax revenue and infrastructure development in Nigeria. The findings show that all of the series are co-integrated and integrated of order 1.

Olaoye, Ogundipe and Oluwadare (2019) investigated taxation on economic development of Nigeria from 2003 to 2017. (VECM) and (ADF) were adopted. The results disclosed that CIT, PPT and VAT have a long run impact on economic development in Nigeria. Omesì and Akpeekon (2019) measured the Effect of CGT on Economic Growth and Development in Nigeria. The OLS method was used, the result showed that CGT contributes to total tax revenue(TTR) of government.

Edewusi and Ajayi (2019) investigated the relationship between Nigeria's economic growth and tax income. Analysis using multiple regression was done. The results showed that PPT significantly and favorably influences economic growth.

El-mande, Bawa, Mohammed and Pate (2018) studied CGT awareness on revenue generation. descriptive statistics was adopted. The findings revealed that CGT has an insignificant contribution to revenue generation.

Inyama and Ubesie (2016) examined Effect of VAT, CED on Nigeria Economic Growth. simple regression technique was employed. The results disclosed that all non-oil tax revenue affects Nigeria GDP.

According to Onakoya and Afintinni (2016), tax income and economic development in Nigeria from 1980 to 2013 were co-integrated. (ADF) approach was used. The study demonstrated that taxes and economic growth in Nigeria have a long-term (but not a short-term) link.

3.0

Methodology

Ex-post facto design was adopted. The scope of the study spans the entire Nigerian economy. The population and sample size are the same, as the study adopted a census sampling technique. Data for this study were obtained from, CBN Statistical Bulletin, National Bureau of Statistics (NBS), Federal Inland Revenue Service (FIRS) and World Bank database from 1990 to 2024. The study applied descriptive statistics, correlation analysis, and inferential statistical techniques to interpret the data. To ensure the robustness of the model and the validity of results, a series of diagnostic tests were carried out.

3.1 Model Specification

Four empirical models were considered in this study. Mathematically, the econometric specification of the ordinary least square regression models for this study is:

Hence the present model is stated functionally as:

Capital Market= f (Agency and Information Problems, Transaction Costs, Capital Gains Tax, Dividend Tax and Regulatory Measures)(1)

The stochastic form of the model is specified as follow:

$$ASI = \beta_0 + \beta_1 CIT_t + \beta_2 PPT_t + \beta_3 CGT_t + \beta_4 CED_t + \varepsilon_{it} \dots \dots \dots (2)$$

Where:

HDI = Human development Index

CIT = Company Income Tax

PPT = Petroleum Profit Tax

CGT =Capital gain tax

CED = Custom and Excise Duties

β_0 = Constant

β_1 to β_2 = Parameter Coefficients

ε = Error term

Apriori expectation; $\beta_1, \beta_2 > 0$

4.0 Data Analysis

4.1. Descriptive Statistics

Table 4.1 Summary of Descriptive Statistics

	HDI	PPT	CIT	CED	CGT
Mean	1821.114	17.91143	78.65238	7.630952	22.15714
Median	2019.660	16.90000	80.10000	6.250000	19.50000
Maximum	3088.720	24.77000	90.20000	19.70000	52.70000
Minimum	547.3200	13.64000	62.00000	1.200000	3.200000
Std. Dev.	762.6021	2.696187	9.974899	5.763104	16.41882
Observations	34	34	34	34	34

Source: Eview 10.0 (2025)

From the result above, the HDI mean and (Std. Dev.) stood at ₦1,821.11, and ₦762.60 respectively disclosing a moderate variation. Furthermore, PPT discloses an average of 17.91%, implying that there exists a slight volatility. However, CIT didn't fluctuate much appearing to be stable with a mean of 78.65%. Again, CED disclosed a mean value of ₦7.63 billion, with an obvious fluctuation. Lastly, CGT disclose the highest fluctuation, with a mean 22.16% with a wide range.

4.2. Correlation Analysis

Table 4.2: Summary of Pearson Correlation

	HDI	PPT	CIT	CED	CGT
HDI	1.000000				
PPT	-0.778889	1.000000			
CIT	0.753070	-0.758914	1.000000		
CED	0.626902	-0.669124	0.716305	1.000000	
CGT	0.690070	-0.679213	0.745485	0.794523	1.000000

Source: Eview 10.0 (2025)

From the correlation analysis, the result disclose that HDI is positively correlated with all the variables except PPT. this implies that there exist a mixed impacts of tax types on economic development.

Table 4.3: Ordinary Least Square (OLS) estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.767333	1.25234	6.202278	0.0000
PPT	-0.55567	0.323377	-1.718347	0.5771
CIT	0.423673	0.156744	2.7029615	0.0021
CED	0.567333	0.278444	2.0375133	0.0456
CGT	-8.45545	3.747443	-2.2563235	0.0039
R-squared	0.833653			
Adjusted R-squared	0.844783			
F-statistic	27.023339			
Prob(F-statistic)	0.000001			
Durbin-Watson stat	2.146747			

Source: Eview 10.0 (2025)

Table 4.3 presents the OLS estimates for the relationship between tax revenues and human development, with HDI as the dependent variable. The model explains 83.37% of the variation in HDI ($R^2 = 0.8337$), and the F-statistic (27.02, $p < 0.01$) confirms overall significance. The Durbin-Watson statistic (2.15) indicates no serial correlation.

4.3 Discussion of Regression Results

According to the aforementioned study, PPT revealed a detrimental but statistically negligible impact on HDI. This suggests that HDI was not financed by oil-related tax revenue. Mismanagement may be the cause of this. Although they did not state the effect's direction, Olaoye, Ogundipe, and Oluwadare (2019) found a long-term influence of PPT on economic development, which is somewhat consistent with this conclusion. It does, however, run counter to Edewusi and Ajayi's (2019) findings, which indicated that oil tax revenues influenced development outcomes and showed a positive and substantial association between PPT and economic growth.

On the other hand, HDI is positively and statistically significantly impacted by Company Income Tax (CIT), suggesting that company tax revenue contributes to improving development outcomes. This is in line with the conclusions of Olushola, Oliver, and Osang (2020) and Olaoye et al. (2019), who discovered that CIT has a major impact on economic growth and development. Likewise, there is a positive and significant correlation between HDI and Customs and Excise Duties (CED), suggesting that trade-related taxes promote development, most likely by increasing public services and government revenue. This is consistent with research by Inyama and Ubesie (2016), which found that CED and other non-oil tax collections have a beneficial effect on Nigeria's GDP.

However, the HDI is negatively and statistically significantly impacted by the Capital Gains Tax (CGT), indicating that higher capital gains taxes may deter investment and impede development. El-Mande, Bawa, Mohammed, and Pate (2018) corroborate this conclusion by determining that CGT makes a negligible contribution to income generation, presumably as a result of lax enforcement and poor awareness. However, it differs with Omesi and Akpeekon (2019), who discovered that CGT increases overall tax collection, suggesting that it may have beneficial developmental effects if properly implemented. Overall, the results indicate that PPT is still mainly useless under the current fiscal framework, CGT may have unforeseen negative effects, while CIT and CED promote human development.

5.0 Conclusion

Using Ordinary Least Squares (OLS) regression, this study experimentally investigated the impacts of the (PPT), (CIT), (CED), and (CGT) on human development in Nigeria from 2000 to 2023. The results show that CIT and CED significantly improve HDI, suggesting that trade-related and corporation tax revenues are important for development. CGT, on the other hand, has a markedly detrimental impact, indicating that higher capital taxes may discourage investment and lower development results. PPT had no discernible impact on HDI, which may be a reflection of ineffective oil income management. All things considered, the study emphasizes how crucial sound tax laws and open revenue use are to promoting human growth.

5.1 Recommendation

1. To improve the collection and efficient use of CIT and CED funds, which have been shown to promote development, the government should fortify tax administration.
2. To ensure that it does not discourage growth-oriented capital creation, changes to the CGT policy are required to strike a balance between revenue generation and investment incentives.
3. To increase their influence on HDI, petroleum tax revenues (PPT) must to be effectively managed and directed toward development-oriented spending.
4. To guarantee that tax funds are effectively distributed to sectors that directly promote human development, fiscal transparency and accountability must be given top priority.

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