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Impact of Taxation on Economic Growth and Development in Nigeria: A Review

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ABSTRACT
This study seeks to investigate the relationship between taxation and economic growth in Nigeria. The research's major objective is to see how tax is being collected by the tax authority and how it's being used in the development of the economy. The Federal Inland Revenue Service (FIRS), constitute the respective body responsible for taxation in the nation in general. The analysis of data is presented in tabular form using simple parentage and narration response. It consist of statistical calculation perform with raw data to provide answers to the questions including the research. The finding shows that the effective management in the Federal Inland Revenue Service (FIRS) enhances their revenue years. This means there were positive significance relationship between non-oil revenue profit tax and growth of the Nigeria economy. It also shows that the effective management and control in the system assisted the monitoring and appropriate evaluation of the revenue for the purpose of economic growth. Policy lateralization of the Nigeria economy being vigorously pursued by the federal government. The following recommendation are hereby presented by the researchers which he feels will help in the development of Nigeria economy in other to reflect the increase in standard of living and economic development. There is need for the Nigerian government to restructure the tax system in other to meets demand of the 21st century. The Federal Inland Revenue Service (FIRS), the government should ensure that taxation is properly manage in a manner that will accelerate economic growth, reduce inflation rate and generate employment in the country.

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I. INTRODUCTION

Taxation is not new word in Nigeria or the world as a whole. In Nigeria, taxation has been in existence even before the coming of the colonial masters or British. Taxation constitutes the major source of internal revenue to Nigerian government. The provision of basic amenities, securities among others is the responsibility of any government to her citizens. In other to provide the above mentioned Government need revenue from various source such as internal sources which constitutes majorly income from taxation. Taxation is a powerful mechanism that can be used by the government in growth and development of an economy.

The primary goal of any developing country like Nigeria is to ensure or initiate the impact of taxation on the economy growth and development which leads to a higher standard of living, thus taxation can be used as a stimulus to accelerate such growth of the Nigeria economy.

Therefore it can be realized that since the advent of democracy in Nigeria, tax revenue and economic growth have been experiencing an upward growth in absolute terms. This study therefore seeks to determine the impact of taxation in economic growth and development and to determine whether there is any relationship between economic growth and taxation in Nigeria using simple percentage method (SPM). The problem of this paper work is that: It is obvious that Nigeria being one of the developing nations of the world is seriously faced with series of problems which includes, the extent in which the relationship exists between economic growth and taxation in Nigeria, the probable impact of the taxation on the Nigeria economic growth and development., the possible recommendation in improve the performance of taxation in Nigeria economy. The objective of this study is base on the specific objectives which as follows: to determine the relationship that exist between economic growth and taxation in Nigeria, to examine the impact of the taxation on Nigeria economic growth and development, to proffer recommendation to enhance the performance of the taxation. Research hypothesis is about the assumption, inference or feeling of the researcher on the set objectives. It is therefore, formulated based on the objectives of the study. In line with the aim and objectives of this study, the following hypotheses were formulated, the extent of the relationship that does not exists between economic growth and taxation in Nigeria, the extent to which taxation does not impacted to Nigeria economic growth and development, there is no significant recommendation put in place to enhance the performance of the taxation. The scope and limitation of the study this is expected to cover Nigeria (i.e. thirty six (36) states and the FCT), Federal Inland Revenue Services (FIRS), since the same tax act applied in Nigeria.

Due to financial handicap, distance (landmass) and the constraints and the attitude of the respondents, most of them were either not available or incorrectly completed the questionnaire given to them. The irrational behavior of human beings who react differently as same were willing to give the needed information other were reluctant or refused to co-operate even under several persuasion. While the paper methodology used in data collection were gotten from both the primary and secondary sources.

The study is important in such that: The outcome of this study would enhance the students offering course in taxation to understand the subject properly and help the research to obtain the award of Bachelor Degree in Accounting, the findings of this research would help government officials to utilize taxation in achieving desired goals. it shall also serve as an eye opener to government of the present time that taxation can be used as economic tool for growth and development of the country in order to avoid inflation, control high cost living and low standard of living.

The remaining of this paper is divided into three sections, a conceptual clarification section, theoretical literature review section and a conclusion, recommendation section and empirical.

II. CONCEPTUAL FRAME WORK

Taxation is basically the process of collecting taxes within a particular location, in this regards tax has been defined as “a monetary charge imposed by the government on persons, entities, transactions or properties to yield revenue” (Appah 2010). It has also been defined “the enforced proportional contributions from person and property, levied imposed upon an individual by the state by virtue of its sovereignty for the support of Government and or all public need” (National tax policy).

Taxation may also be defined as a “pecuniary burden laid upon individuals or property to support government expenditure (Nwezeaku 2015). A tax “is not a voluntary payment or donation, but an enforced/compulsory contribution, exacted pursuant to legislative authority” and is “any contribution imposed by government”, whether under the name of duty, custom exercise, levy or other name. Taxes are therefore defined as a financial charge or levy imposed upon an individual’s, institutions or legal entity by a state or a component of the state (Yaya 2013).

Anyanwu (2012) defined taxation as the compulsory transfer or payment (or occasionally of goods and services) from private individuals, institutions or groups to the governments. The main purpose of tax is to raise revenue to meet government expenditure and to redistribute wealth and management of the economy (Ola, 2001; Thingan, 2004; Bhartia, 2009).

There are three basic objectives of taxation which are; raising revenue for the government, regulating the economy and economic activities, and controlling income and employment (Anyanwu, 2013).

Nzotta (2017) asserted that taxes generally have allocation, distribution and stabilization functions. The allocation function of taxes entails the determination of the pattern of production, the goods that should be produced, who produces them, the relationship between the private and public sectors and the point of social balance between the two sectors. The distribution function of taxes relates to the manner in which the effective demand over economic goods is divided, among individuals in the society. According to Musgrave and Musgrave (2014), the distribution function deals with the distribution of income and wealth to ensure conformity with what society consider a fair or just state of distribution. The stabilization of function of taxes seek to attain high level of employment, a reasonable level of price stability, an appropriate rate of economic growth and development, with allowances for effects on trade and on the balance of payment. Nwezeaku (2015) argues that the scope of these functions depends, inter alia, on the political and economic orientation of the people, their needs and aspirations as well as their willingness to pay tax. Thus the extent to which a government can perform its functions depends largely on the ability to design tax plan and administration as well as the willingness and patriotism of the government.

III. THERETICAL LITERATURE REVIEW

Understanding the impact of taxation on economic growth and development can be viewed from two major schools of thought the traditional economic school and the modern school. In the traditional economic school, Robert Barno (2005), views summarized in the work of Slemrod (2003) is that while holding other determinants of growth constant, low tax rates and how low government spending were associated with higher growth. This means that the higher the marginal tax rate, the greater the chances of higher income tax payers diverting extra time from productive operations to leisure activities. On the other hand, the modern school revealed that higher marginal tax rates leads to greater economic development in the long-run because government would secure a greater revenue which when invested in the country’s education and infrastructure development will boost the economy (Bonu & Pedro 2009).

IV. EMPIRICAL FRAMEWORK

Several empirical studies have been conducted on the impact of taxes on economic growth and development. Okafor (20120 investigated the impact of income tax revenue on the economic growth of Nigeria as provided by the gross domestic product (GDP). The relationship between indirect taxation and economic growth has been examined severally by different researchers. The empirical studies of Anyanwu (2012), Engen and skinner (2016), Tosun and Abizadeh (2015) and Arnold (2017) were used as the basis for different explanations of taxes on economic growth and development. Engen and Skinner (2016) in their study of taxation and economic growth of U.S economy, large sample of countries and use of evidence from micro level studies of labour supply, investment demand, and productivity growth. Their result suggests modest effects on the order of 0.2 to 0.3 percentage points' differences in growth rates in response to a major reform. They stated that such small effects can have a large cumulative impact on living standard. Tosun and Abuzadeth (2015) in their study of economic growth of tax changes in OECD countries from 1980 to 1999 reveal that economic growth measured by GDP per capital has a significant effect on the tax mix of GDP per capital. It is shown that while the shares of personal and property taxes have responded positively on economic growth, shares of the payroll and goods and services taxes have shown a relative decline. Arnold (2017) in their study found that short term recovery requires increase in demand while long run growth requires increase in supply. As short term concessions can be hard to reverse, this implies that policies to alleviate this crisis could compromise long run growth.

V. CONCLUSION AND RECOMMENDATIONS

Conclusion

Ultimately taxation has not only contributed to the Federal Government only but has income an important investment in regulating most economic activities and has been as impacted to economic growth and development. In view of this, taxpayers must be persuading to pay taxes regularly.

Recommendation

The following recommendations are hereby presented by the researchers which he feels will help in the development of the Nigeria Economy in order to reflect to increase in standard of living and economy development

1. In the Federal Inland Revenue Service (FIRS), the government should ensure that taxation is properly managed in a manner that will accelerate economic growth, reduce inflation rate and generate employment in the country. State government should look into the more ways of generating revenue by having state owned enterprises.

Local government should have more effective monitoring committee to ensure more revenue for their local responsibility.

2. There is also need for the Nigerian government to restructure the tax system to meet demands of the 21st century. There is also for the state government to restructure their tax system, likewise local government.
3. The federal government of Nigeria should encourage entrepreneur development as the analysis shows that company income tax increase gross domestic product which would reduce. The rate of unemployment in Nigeria and the dependence on government for paid jobs as this will increase government revenue from company income tax. Also state government should encourage entrepreneur development so as to increase state owned investment. Local government should encourage entrepreneur development in other to increase small and medium scale enterprises (SME).

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