



EFFECT OF TAX REVENUE ON ECONOMIC DEVELOPMENT IN NIGERIA

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Abstract

This study examines the effect of tax revenues, specifically Company Income Tax (CIT), Value Added Tax (VAT), and Petroleum Profit Tax (PPT), on economic development measured by Poverty Headcount Ratio (PHR) in Nigeria. The research adopts an ex-post facto design, utilizing secondary data from 1990 to 2023. Multiple regression analysis was employed to assess the impact of each tax revenue source on the PHR. The results revealed that CIT and PPT do not significantly affect the poverty headcount ratio, as indicated by a p-value of 0.5854 and of 0.1759 respectively. Additionally, the analysis demonstrated that (VAT) revenue showed a significant negative effect on the poverty headcount ratio, supported by a p-value of 0.015. The implication is that increase in CIT will not translate into proportionate poverty reduction, while higher VAT and PPT revenue is associated with lower poverty levels. The study recommends a review of the tax policies, particularly CIT and PPT, to enhance their impact on poverty reduction by ensuring that these tax revenues are effectively utilized in poverty alleviation programs, the government should consider measures to mitigate the regressive effects of VAT on low-income households, such as reducing the VAT rate on essential goods or implementing targeted social safety nets and government should focus on effective allocation of PPT revenue to long-term development projects that generate sustainable economic growth and job opportunities.

Keywords: Tax Revenue, Economic Development, Poverty Headcount Ratio, Nigeria.

1.1 Introduction

The focus of government of any nation is primarily to ensure the socio-economic development of its citizens, and this responsibility is largely dependent on revenue generated from various sources, including taxes. The sustainability of a nation hinges on the availability of resources critical for funding infrastructure, providing security, and meeting recurrent and capital expenditures (Usman and Idoko, 2022). Therefore, revenue generation remains a vital concern, and Nigeria's over-reliance on oil as its main source of revenue is increasingly recognized as precarious for its long-term economic stability (Uloma, 2022). The global oil price volatility, compounded by COVID-19 and Russian-Ukraine war evident in sharp drop of crude oil price to \$38 per barrel in 2020 and disruption in supply chain, highlighted Nigeria's vulnerability and the need to explore more stable revenue sources like tax revenue, (Gbeke and Nkak, 2021). Tax revenue offers a significant and consistent alternative source of



income for the government. Adefolake and Omodero, (2022) define tax revenue whether on individual income, corporate profits, consumption, or property as compulsory charges or funds collected by the government through various forms of taxation, which are crucial for financing public services, development initiatives, and government activities. Unlike other sources of revenue, taxes play dual roles: they not only generate funds for the government but also serve as tools for economic regulation, influencing consumption patterns, redistributing wealth, and stabilizing the economy. Additionally, Adegbite and Abbey (2023) describes taxation as a structured process established by the government to exert control over tax collection, redistributing wealth from the private sector to the public sector to support national economic and social goals.

The role of tax revenue becomes even more significant when considering Nigeria's economic development objectives. Despite consistent growth in GDP, Nigeria's economic development remains hampered by widespread poverty, with over 63 percent of the population living below the poverty line. Although numerous poverty alleviation programs have been introduced by successive governments from Operation Feed the Nation in 1976 to the N-Power Program in 2016, poverty levels continue to rise (Gnangnon,2022). Understanding how tax revenue, derived from sources like company income taxes, value-added taxes (VAT), petroleum profit taxes contribute to economic development is crucial. Company income tax and Petroleum Profit tax for example, are significant contributors to government revenue and can be channelled into funding essential services and poverty reduction initiatives. VAT, as a consumption tax, also presents an opportunity for revenue generation that can be strategically used to address socio-economic disparities.

1.2 Statement of the Problem

In an ideal scenario, tax revenue should be a significant driver of economic development in Nigeria. Effective tax systems would generate sufficient funds to support infrastructure development, provide quality public services, reduce poverty, and enhance overall living standards. Through diversified and well-managed tax revenue sources, the Nigerian government would have the financial capacity to stimulate sustainable economic growth, achieve macroeconomic stability, and meet key development goals like poverty eradication as outlined in the Sustainable Development Goals (SDGs).

However, despite Nigeria's significant tax revenue potential, the country continues to struggle with widespread poverty, infrastructure deficits, and slow economic growth. The Nigerian economy remains heavily dependent on oil revenue, making it



vulnerable to fluctuations in global oil prices. The over-reliance on oil and the underutilization of non-oil tax revenue streams have resulted in insufficient resources to adequately fund public services, development initiatives, and poverty reduction programs. Moreover, inefficiencies in tax collection, tax evasion, and a narrow tax base have further limited the government's ability to harness tax revenue as a tool for economic development.

The discrepancy between Nigeria's significant tax revenue potential and its limited impact on economic development raises concerns about the effectiveness of tax revenue in driving growth and reducing poverty. The inability to fully leverage tax revenue as a catalyst for economic development hinders progress toward achieving critical development goals, particularly the reduction of poverty and the improvement of living standards. The study, therefore, aims to investigate the impact of these tax revenue sources on Nigeria's economic development, focusing on their role in advancing key development goals, including poverty alleviation and sustainable economic development in Nigeria. The main objective of the study is to ascertain the effect of tax revenue on economic development in Nigeria. The research findings will be of great importance to existing and prospective investors, managers, students, and academia and policy makers.

Review of related Literature

2.1 Conceptual Review

2.1.1 Tax Revenue

According to Usman and Idoko (2022) tax revenue are funds generated from various sources imposed by the government. Tax revenue refers to the funds collected by the government from various taxes, including income and profits, social security contributions, goods and services, payroll, property, and other taxes (OECD, 2018). It is a mandatory charge levied by the government and paid by individuals or organizations to generate revenues for administrative purposes (Agunbiade and Idebi, 2020). Taxation refers to the process established by the government to effect control over tax collection. Importantly, tax revenue is pivotal in wealth distribution amongst private and public sectors of the economy, thus lending assistance to government to actualize its economic and social objectives which include provision of healthcare facilities, education, security and quality roads, among others. Ayeni and Cordelia (2022) grouped taxes into direct tax and indirect tax. Direct tax refers to tax paid by individuals or organization. Omodero et al., (2021) observed that they are taxes paid directly to the government which include; Petroleum Profit Tax, Capital Gain Tax, Company Income Tax, Stamp Duties and Withholding Tax. Indirect taxes are charges that cannot be remitted directly to the government. The tax burden is not



borne by individual or organization concerned, rather transferred to final consumers. This is the case of tax charges on goods and services.

2.1.2 Company Income Tax

Corporation tax, as defined by Dauda and Dauda, (2020) applies to the taxable earnings of limited corporations and various organizations, including clubs, cooperatives, and charities. In Nigeria, Corporate Income Tax (CIT) is levied on the income of resident companies and non-resident entities doing business in the country. This tax, administered by the Federal Internal Revenue Service, varies depending on the nature of the business and annual turnover. The objectives of corporate income tax in Nigeria extend beyond revenue generation, encompassing equitable wealth distribution, economic regulation, and promoting public health by discouraging harmful products. Tax incentives, such as exemptions, are also used to attract investors and drive economic growth (Odusola,2023). According to Eneche and Stephen (2023), efficient tax collection and allocation can help bridge infrastructure gaps, thereby enhancing the overall economic environment and provision of roads, schools, and healthcare facilities, which are crucial for creating a conducive environment for businesses and improving the standard of living for citizens. By fostering a more diversified economy and reducing dependence on the oil sector, CIT helps to stabilize Nigeria's economy, making it more resilient to external shocks. Thus, the strategic utilization of CIT revenue not only contributes to immediate fiscal needs but also lays a foundation for sustainable economic growth Dibia and Onwuchekwa, (2019).

2.1.3 Value Added Tax

Value Added Tax (VAT) is a tax on consumption that is applied at each stage of production and distribution, with businesses able to offset the tax paid on inputs against the tax levied on sales, making it a reliable revenue stream. Introduced in Nigeria in 1993, VAT replaced the old sales tax system in response to the successful experiences of other countries and aimed to reduce dependence on unpredictable oil revenues. As cited by (Nwakanma et al.,2020) VAT revenue is essential for the improvement of infrastructures and human capital development, which collectively enhance the quality of life and productivity of the workforce. The Finance Acts; 2019, 2020 and 2021 brought some couples of changes including increase in VAT rate from 5% to 7.5% in 2020. Additionally, new provisions have clarified the definitions of taxable goods and services, refined the determination of the time of supply, and mandated VAT registration for non-resident businesses (Section 2A, Section 10). These amendments were designed to create a more precise framework for VAT administration, improve compliance, and adapt to evolving economic conditions.



2.1.4 Petroleum Profit Tax

Petroleum operations in Nigeria involve the acquisition and delivery of petroleum through methods such as drilling and extraction, but not refining activities (Uloma,2022), and currently overseen by the Petroleum Industry Act (PIA),2021. According to Odusola (2023) Petroleum Profit Tax is the charge on aggregate earnings from the sales or supply of crude oil including charges on rent, royalties and exploration leases. The Petroleum Profit Tax (PPT) is a significant revenue source for Nigeria, accounting for about 70% of government income and 95% of foreign currency earnings. The proceeds from PPT assist the government cushion the effects of fluctuations in global oil prices, ensuring investment in public goods that promotes standard of living and leveraging critical development projects without recourse to debts (Adereti and Oluwalogbon (2020). Recent reforms have impacted the Petroleum Profit Tax framework, notably through the 2019 Finance Act, removing the exemption for withholding tax (WHT) on dividends. Petroleum Profit Tax (PPT) is a significant contributor to Nigeria's economic development, given that the petroleum sector is a major driver of the country's economy.

2.1.5 Economic Development

Economic development is a comprehensive process aimed at improving the economic wellbeing and quality of life for people in a specific region or country. It encompasses several dimensions, including economic growth, income distribution, and human development. Economic growth, typically measured by increases in Gross Domestic Product (GDP), is a key component of development. This growth results from various factors such as technological advancements, increased investment, and enhanced productivity. However, economic growth alone does not guarantee development if it is not accompanied by improvements in living standards and equitable distribution of wealth (Nwakanma et al., (2020). Income distribution is another crucial aspect of economic development. For development to be meaningful, the benefits of economic growth must be shared fairly across different segments of society. Effective income distribution aims to reduce inequality and provide equitable opportunities for all individuals to benefit from economic progress. This includes policies and programs designed to address disparities and ensure that growth translates into tangible improvements in the quality of life for the broader population. Human development is integral to economic development, focusing on enhancing individuals' overall well-being through improvements in education, health, and living conditions. Indicators such as life expectancy, literacy rates, and access to healthcare are essential for measuring progress in human development. Additionally, modern economic development emphasizes sustainability, ensuring that current economic activities do

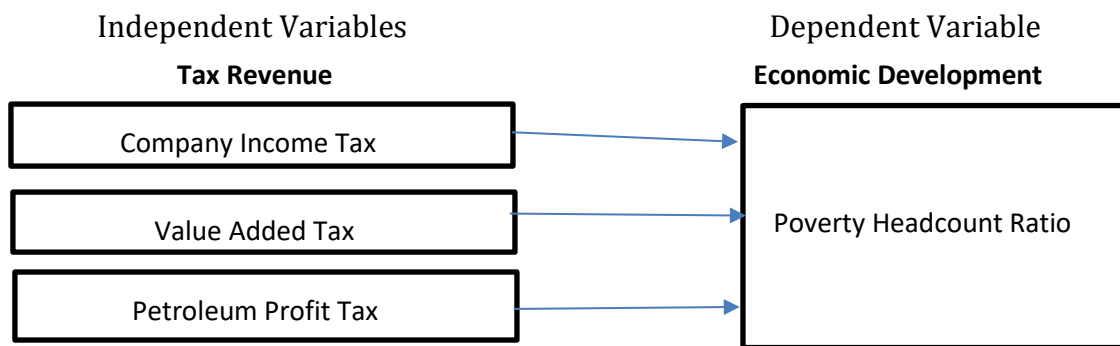
not compromise future generations' ability to meet their needs. This involves promoting environmental protection and responsible resource management to achieve long-term stability and well-being.

2.1.6 Poverty Headcount Ratio

Poverty assessment employs various metrics to evaluate economic hardship, including headcount ratios, poverty gaps, and composite indices such as the Physical Quality of Life Index (PQLI), the Augmented Physical Quality of Life Index (PAQLI), and the Human Development Index (HDI) (CBN, 2001). Among these, the Head Count Ratio (H) is the most straightforward and widely used measure, representing the proportion of the population living below the poverty threshold relative to the total population (CBN, 2001). In Nigeria, the national poverty headcount ratio, which is based on specific national poverty lines, was reported as 40.1% in 2018 by the World Bank, using data compiled from various credible sources (World Bank, 2024). This figure is a key indicator of the extent of poverty in the country, offering valuable insights into the socio-economic conditions and aiding in the formulation of poverty alleviation strategies.

The poverty headcount ratio, as defined by the World Bank in 2016, measures the percentage of the population living below the established poverty line. This line, defined by the United Nations in 2020, represents the minimum income or consumption level required to satisfy essential human needs such as food, shelter, and clothing. This measure is widely utilized by governments, international organizations, and researchers to assess poverty levels and inform policies aimed at reducing poverty, as highlighted by the U.S. Census Bureau in 2021.

Figure 1: Conceptual Framework: Diagram Showing Linkages between Variables



Source: Researcher's Compilation (2024)



The diagram above is a conceptual framework which shows the relationship between the tax revenue and economic development in Nigeria. The diagram presents proxies of tax revenue which include Company Income Tax, Value Added Tax and Petroleum Profit Tax while proxy for economic development is Poverty Headcount Ratio.

2.2 Theoretical Framework

2.2.1 Resource Mobilization Theory

The study was anchored on Resource Mobilization Theory, developed in the 1960s and 1970s by Johan Gustaf Knut Wicksell and Erik Lindahl, offers a comprehensive framework for analysing social movements. This theory places a strong emphasis on the importance of resources in driving collective action, arguing that the success of social movements largely depends on their ability to acquire and effectively use resources to achieve their goals (McCarthy and Zald, 1977). In the context of tax revenue and economic development in Nigeria, Resource Mobilization Theory provides valuable insights into how resources contribute to collective action and societal progress. By focusing on the strategic mobilization of resources—ranging from moral and cultural to material and human resources—the theory helps to understand how tax revenue and other resources are utilized to address poverty. This framework facilitates an analysis of how different types of resources are coordinated and mobilized, drawing parallels with both social movements and business practices, and highlights the role of technology and strategic efforts in achieving development goals. Besides, the Resource Mobilization Theory has faced criticism for its focus on rational and self-interested actors, which some argue limits its explanatory power, particularly in movements driven by deep-seated grievances (Jenkins, 1983; Gamson, 2004). Critics such as Benski et al. (2013) and Taylor and Van Dyke (2004) point to the lack of a universally accepted definition and conceptual clarity within the field. Nevertheless, the theory acknowledges the significance of "social movement entrepreneurship" and the role of organizational efforts in transforming dispersed demands into coordinated actions.

2.3 Empirical Review

2.3.1 Company income tax and poverty headcount ratio

Eneche and Stephen (2023) examined the relationship between Tax Revenue and Nigeria Economic Growth. Data were gathered through secondary means. Tax Revenue is proxy by Company Income Tax, Value Added Tax and Petroleum Profit Tax, while Economic Growth is proxy by Gross Domestic Product. Data collected were analysed via regression techniques. The study revealed that Companies Income Tax and Value Added Tax (non-oil Tax Revenue) have significant relationship with Nigeria Economic Growth, while Petroleum Profit Tax (oil tax revenue) has a positive but no



significant relationship with Nigeria Economic Growth. John-Akamelu et al. (2023) assessed the effect of tax revenue on economic growth in Nigeria over a twenty-eight-year period from 1994 to 2021. The study utilized company income tax, petroleum profit tax, personal income tax, and value-added tax to proxy tax revenue, while gross domestic product measured economic growth. Using Augmented Dickey Fully Unit root tests, descriptive statistics, and inferential statistics such as Pearson correlation and Ordinary Least Square (OLS) regression analysis, the study found non-significant positive effects of various taxes on Gross Domestic Product in Nigeria.

2.3.2 Value added tax and poverty headcount ratio

Eng and Lim (2023) investigated the relationship between economic growth and the growth rate of tax revenues on goods and services, tax revenue on income, profit, and capital gain, and tax revenue on international trade and transaction. They utilized a VAR model for analysis, finding that all variables in the study were integrated of order one. The model was run using first differences, with an optimal lag length determined at lag-two based on the information criterion. The empirical findings indicated that the growth rate of tax revenue on income, profit, and capital had the most significant impact on economic growth, followed by tax revenue on goods and services, and tax revenue on international trade and transaction. Adegbite and Abbey (2023) examined the moderating roles of organizational culture on both tax revenue and economic growth in Nigeria. Conducting a cross-sectional survey with data obtained from 132 respondents, the study used descriptive statistics, Spearman's rank order correlation coefficient, and partial correlation technique. The results revealed a significant relationship between tax revenue and economic growth in the organizations studied, with organizational culture significantly moderating this relationship. Uloma (2022) examined the effect of taxation management on economic growth in Nigeria covering the period 1994-2020. Using the expediency theory of taxation and applying linear multiple regression with Ordinary Least Squares (OLS) technique, the study found that value added tax management had a non-significant positive effect on economic growth, while company income tax and petroleum profit tax management had negative and significant effects on economic growth in Nigeria.

2.3.3 Petroleum profit tax and poverty headcount ratio

Etima et al. (2020) investigated the connection between Petroleum Profits Tax, Company Income Tax, and economic growth in Nigeria from 1980 to 2018. The investigation analysed secondary data throughout a 39-year span. Analytical procedures such as Augmented Dickey Fuller (ADF) unit root tests, Engle Granger Procedure Cointegration tests, Parsimonious Error Correction Mechanism (ECM),



Durbin-Watson statistics, and over-parameterized models were utilized. The results indicated a considerable and large association between the investigated variables, with coefficients of 0.9844 and 0.9471 for petroleum profit tax and corporate income tax, respectively, indicating a long-run relationship. The parsimonious results also indicated excellent correlations for business income tax and petroleum profit tax on economic growth. Edewusi and Ajayi (2019) undertook a study to examine the relationship between tax revenue and economic growth in Nigeria from 1995 to 2015. Petroleum profit tax, corporate income tax, and value-added tax were utilized as independent variables and proxies for tax revenue, while gross domestic product (GDP) was used as the dependent variable and a measure of economic growth. Descriptive statistics, Augmented Dickey Fuller unit root tests, and Johansen co-integration tests were employed to analyse the data gathered from the Central Bank of Nigeria (CBN) Statistical Bulletin and the Federal Inland Revenue Service (FIRS). The findings suggested that petroleum profit tax, corporate income tax, and value-added tax had a favourable and large effect on economic growth in Nigeria. Dibia and Onwuchekwa (2019) studied the connection between taxes and economic growth in Nigeria from 1981 to 2016. The research focuses on the relationships among company income tax, petroleum profit tax, and economic growth, using real gross domestic product (RGDP) as a proxy for economic growth. Time series data were investigated using multiple regression analysis. The findings revealed that both petroleum profit tax (PPT) and corporate income tax (CIT) had a beneficial and large effect on real gross domestic product (RGDP) in Nigeria.

Methodology

3.1 Research Design

The research made use of *ex-post facto* research design. In the opinion of Nwankwo et al., (2019) it is based on events that has occurred in the past, which cannot be manipulated. It was carried out in Nigeria with particular focus on evaluating the effect of tax revenue on economic development. Data were collected from Central Bank Statistical bulletin, Federal Inland Revenues Services, Bureau of Statistics and World Bank reports from 2012 to 2023.

3.2 Model Specification

The panel least squares regression analysis is adopted due to nature of data which comprises time series and cross-sectional data, to estimate the effect of the independent variables on the dependent variable in the models. The multiple regression models are expressed below:

$$\text{PHR} = F (\text{CIT, VAT, PPT}) \quad [\text{Equation (1)}]$$



Econometrical expression is as follows:

$$PHR_{it} = \beta_0 + \beta_1CIT_{it} + \beta_2 VAT_{it} + \beta_3 PPT_{it} + \mu_{it} + \epsilon_{it} \quad \text{[Equation (2)]}$$

Where;

- Log = Natural Logarithm
- PHR = Poverty Headcount Ratio
- CIT = Company Income Tax
- VAT = Value Added Tax
- PPT = Petroleum Profit Tax

β_0 is the constant term or intercept for firm i in the year t . $\beta_1, \beta_2,$ and $\beta_3,$ are linear regression coefficients to be estimated.

μ_{it} is the non-observable individual effect while ϵ_{it} is the disturbance or error term for firms in the year t .

4.1 Data Presentation

The data used in this study (See Appendix 1) reflects the percentage of Nigeria's population living on less than \$2.15 per day, based on World Bank development indicators. From 1990 to 2023, an average of 46% of Nigerians lived below this poverty line.

4.2 Data Analysis

4.2.1 Descriptive Statistics

Table 4.2: Descriptive Statistic

	PHR	CIT	VAT	PPT
Mean	1.649511	1.957875	1.940046	2.401508
Median	1.641214	1.895619	2.101557	2.224036
Maximum	1.766413	3.144720	3.110279	3.521249
Minimum	1.489958	0.477121	0.437751	1.025306
Std. Dev.	0.081102	0.779554	0.826498	0.780664
Skewness	-0.247903	0.061627	-0.435112	0.140022
Kurtosis	1.972728	1.783675	1.882944	1.547970
Jarque-Bera	1.843243	2.117404	2.840563	3.097988
Probability	0.397873	0.346906	0.241646	0.212462



	PHR	CIT	VAT	PPT
Sum	56.08339	66.56775	65.96158	81.65127
Sum Sq. Dev.	0.217060	20.05425	22.54228	20.11138
Observations	34	34	34	34

Source: Author’s Computation, 2024 (Eviews-10)

The table showed that the of poverty headcount ratio and value added tax -0.247903 and -0.435112 are negatively skewed relative to normal, while company income tax of 0.061627 and petroleum profit tax of 0.140022 are positively skewed relative to normal distribution. The result showed that based on the skewness values all the variables are normally distributed because the values are less than one. The kurtosis values of poverty headcount ratio $1.972728 < 3$, value added tax $1.882944 < 3$, company income tax < 1.783675 and petroleum profit tax $1.547970 < 3$ which signifies normal distribution of the variables because their kurtosis values are < 3 . Also, probability of values of poverty headcount ratio $0.397873 > 0.05$, value added tax $0.241646 > 0.05$, company income tax $0.346906 > 0.05$ and petroleum profit tax $0.212462 > 0.05$ which signifies normal distribution of the variables because their probability values > 0.05 .

4.2.2 Pairwise Correlations

Table 4.3: Correlation Matrix with P-values involving 34 Observations

	PHR	CIT	VAT	PPT
PHR	1.000000	-0.693050	-0.758959	-
CIT	-0.693050	1.000000	0.840012	0.723258
VAT	-0.758959	0.840012	1.000000	0.934809
PPT	-0.723258	0.934809	0.818913	0.818913
				1.000000

Source: Researcher’s Computation, 2024 (Eviews-10)

The correlation matrix provides insights into the linear relationship between the poverty headcount ratio (PHR) as the dependent variable and the independent variables: Company Income Tax (CIT), Value Added Tax (VAT), and Petroleum Profit Tax (PPT). The negative correlation coefficients between PHR and each of the tax



variables suggest an inverse relationship, indicating that increases in tax revenue from CIT, VAT, and PPT are associated with a reduction in poverty levels. Specifically, the correlation between PHR and VAT is -0.758959, which is the strongest negative relationship among the variables. This implies that VAT is most effective in reducing poverty, likely because it generates significant revenue that may be directed toward poverty alleviation programs. The correlation between PHR and PPT is also strongly negative at 0.723258, suggesting that revenue from petroleum profit tax similarly contributes to lowering poverty levels. The correlation between PHR and CIT is -0.693050, indicating that while CIT has a negative effect on poverty, it is less impactful compared to VAT and PPT. Regarding the relationships among the independent variables, CIT, VAT, and PPT are all positively correlated with each other, with the strongest correlation between CIT and PPT (0.934809). This high correlation suggests that as CIT increases, PPT also tends to rise, possibly because both taxes are closely linked to business activities in the oil and non-oil sectors. The positive correlations indicate that these tax revenue sources tend to move together, reflecting the interconnectedness of revenue streams in Nigeria's fiscal structure. However, the strong inter-correlations among the independent variables may raise concerns about multicollinearity, which could affect the stability and interpretability of the regression model.

4.2.3 Multiple Regression Analysis

Dependent Variable: PHR

Method: Least Squares

Date: 08/26/24 Time: 09:35

Sample: 1990 2023

Included observations: 34

Table 4.4: OLS Multiple Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CIT	0.019752	0.035818	0.551464	0.5854
VAT	-0.053868	0.020906	-2.576673	0.0151
PPT	-0.046874	0.033813	-1.386264	0.1759
C	1.827913	0.031292	58.41550	0.0000



Variable	Coefficient	Std. Error	t-Statistic	Prob.
R-squared	0.611382	Mean dependent variable		1.649511
Adjusted R-squared	0.572521	S.D. dependent variable		0.081102
S.E. of regression	0.053026	Akaike info criterion		-
				2.925929
Sum squared resid	0.084353	Schwarz criterion		-
				2.746357
Log likelihood	53.74079	Hannan-Quinn criter.		-
				2.864690
F-statistic	15.73223	Durbin-Watson stat		0.745612
Prob(F-statistic)	0.000002			

Source: Eviews 10.0 Statistical Software (2024)

The results presented in the table 4.4 indicate the effects of different tax revenue components— Company Income Tax (CIT), Value Added Tax (VAT), and Petroleum Profit Tax (PPT)—on the poverty headcount ratio (PHR) in Nigeria from 1990 to 2023 using OLS multiple regression analysis. The coefficient for CIT (0.019752) shows a positive effect on the poverty headcount ratio, though it is statistically insignificant with a p-value of 0.5854. This implies that increases in company income tax do not significantly affect poverty reduction in Nigeria.

In contrast, VAT shows a negative and significant effect on PHR, with a coefficient of 0.053868 and a p-value of 0.0151. This suggests that an increase in VAT revenue is associated with a reduction in the poverty headcount ratio, indicating that VAT revenue might be effectively directed toward poverty alleviation initiatives. Similarly, PPT has a negative coefficient (-0.046874), though it is not statistically significant (p-value of 0.1759), indicating that while PPT may have a poverty-reducing effect, it is not strong enough to be conclusive. The model’s R-squared value of 0.611382 indicates that 61.14% of the variation in the poverty headcount ratio is explained by the tax variables included in the model. The F-statistic of 15.73223 with a significant p-value (0.000002) confirms the overall model’s goodness of fit. However, the Durbin-Watson statistic of 0.745612 suggests potential autocorrelation issues, which could affect the reliability of the results. Overall, the analysis highlights VAT as the most impactful tax instrument in reducing poverty, while CIT and PPT have limited and statistically insignificant effects on the poverty headcount ratio in Nigeria.



4.3 Test of Hypotheses

Decision Criteria

Gujarati and Porter (2014) assert that decision rule involves accepting the alternate hypothesis (H_1) if the sign of the coefficient for Loan impairment to total loan ratio is either positive or negative, the modulus of the t-statistic $>|2.0|$ and the p-value of the t-statistic < 0.05 . Otherwise, accept H_0 and reject H_1 .

Restatement of the Hypotheses in Null

H₀₁: Company Income Tax revenue has no significant effect on poverty headcount ratio in Nigeria.

H₀₂: Value added tax revenue has no significant effect on poverty headcount ratio in Nigeria.

H₀₃: Petroleum profit tax has no significant effect on poverty headcount ratio in Nigeria.

5.1 Summary of Findings

The findings of the study are summarized as follows:

- i. The study found that company income tax (CIT) revenue has a positive but non-significant effect on the poverty headcount ratio in Nigeria, with a coefficient of 0.019752 and a p-value of 0.5854.
- ii. Value-added tax (VAT) revenue showed a significant negative effect on the poverty headcount ratio, with a coefficient of -0.053868 and a p-value of 0.0151, indicating that higher VAT revenue is associated with lower poverty levels.
- iii. Petroleum profit tax (PPT) revenue also had a negative but non-significant effect on the poverty headcount ratio, with a coefficient of -0.046874 and a p-value of 0.1759.

5.2 Conclusion

The study examined the effects of tax revenue on economic development in Nigeria, with a focus on the poverty headcount ratio as the measure of economic well-being. The findings reveal mixed outcomes, reflecting the varied influence of each tax component on poverty alleviation efforts in the country. The results indicate that CIT has a positive but non-significant effect on the poverty headcount ratio, implying that increases in company income tax revenue do not translate into substantial poverty reduction. The result is alignment with the outcome of the studies by (Eneche and Stephen (2023; John-Akamelu et al. 2023) that found non-significant albeit positive effects with economic growth. This outcome could be attributed to inefficiencies in



the allocation and utilization of CIT revenues, which might not be adequately, targeted toward poverty alleviation programs.

On the other hand, VAT revenue was found to have a significant negative effect on the poverty headcount ratio, suggesting that higher VAT collections contribute to reducing poverty levels. This significant negative impact could be linked to the use of VAT revenues in funding public services and social welfare programs that directly benefit low-income populations. The finding is in consonance with the study by Uloma (2022) which revealed negative and significant effects on economic growth in Nigeria. Contrastingly, studies by (Eng and Lim,2023; Adegbite and Abbey,2023) showed that significant positive relationship exist between Tax Revenue and economic growth. PPT also demonstrated a negative but non-significant relationship with poverty reduction, indicating that despite its potential, petroleum profit tax revenues are not effectively harnessed to combat poverty. Conversely, the research studies by (Edewusi and Ajayi, 2019; Dibia and Onwuchekwa,2019) exhibited significant positive effects on real gross domestic product (RGDP)in Nigeria. The non-significance could be due to issues such as mismanagement, corruption, or the channelling of funds into areas that do not directly benefit the economically disadvantaged. While VAT shows a more direct impact on reducing poverty, the study underscores the need for better governance, transparency, and effective management of tax revenues to enhance their contribution to economic development and poverty alleviation in Nigeria.

5.3 Recommendations

The study made the following recommendations:

1. To enhance the impact of company income tax (CIT) on poverty reduction, it is crucial for the government to ensure that CIT revenues are allocated to poverty alleviation programs effectively, channelling investments into sectors such as education, healthcare, and infrastructure, and critical development goals which have a direct and measurable effect on improving the quality of life for low-income populations.
2. Given the significant negative effect of VAT on poverty reduction, it is important to continue optimizing VAT revenue collection while preserving essential exemptions on basic goods and services. Improving the efficiency of VAT administration to minimize evasion and ensure accurate collection will further support these efforts.
3. To better utilize petroleum profit tax (PPT) revenue for poverty reduction, the government should focus on effective allocation of these funds to long-



term development projects that generate sustainable economic growth and job opportunities. Establishing a sovereign wealth fund or stabilization fund with a portion of PPT revenues can provide a financial buffer during economic fluctuations, supporting continuous poverty alleviation efforts.

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