



TAXATION AND SOCIO-ECONOMIC DEVELOPMENT IN NIGERIA

Otuedon Ajueyitse Martins (Ph.D.)^{1*} and Ogodogun College²

^{1&2}Department of Accounting, Igbinedion University, Okada; Edo State

*Corresponding Author's Email: otuedonmartins@gmail.com

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ABSTRACT: *The study examined the linkage between taxation and socio-economic development in Nigeria. The study employed a descriptive research design using secondary data collected from various issues of the Central Bank of Nigeria, Planning, Research and Statistics Department, National Bureau of Statistics and Federal Inland Revenue Service bulletins. The study focused on a five year time series study from 2017 – 2021. The study was anchored on the socio-political theory of taxation and the study methodology involved the review of extant literature on two groups of taxes: oil and non-oil taxes and how they are used to bring about socio-economic development proxied by GDP expenditure at constant purchase prices. The review revealed that tax revenue had positive relationships with socio-economic development, but they are grossly inadequate to meet up with GDP expenditures. The study concluded that tax revenues are under generated in relation to crude sales. It was recommended that among others that the government should engage in a complete re-organization of tax administrative machinery to reduce poor documentation of tax receipts, incidence of tax evasion and avoidance to the barest minimum to improve tax revenue and bring more taxpayers into the tax radial in order to enhance socio-economic development.*

KEYWORDS: Socio-economic development, Taxation, Gross domestic product, Tax receipts, Taxpayers.



INTRODUCTION

Tax is an obligatory payment levied on a taxpayer by the government or her agencies in order to raise funds for several public expenditures and economic growth of the state; while taxation is a process of imposing tax on the citizens of a country. The notion “taxation” can also be seen as a set of economic, organizational and legal relations between the state and economic entities in the field of legislative lateral redistribution of the cost of various resources by transforming tax payments to the tax revenues of the budget system and extra-budgetary centralized funds (World Bank, 2011). Tax transformation represents a statutory, prescribed by the state, conversion of tax deductions (the level of economic entities, including citizens) to tax revenues of the corresponding budget or centralized fund (state level). Taxation is a revenue generation exercise and the second largest form of internally generated income in Nigeria. It is a well-established fact that one of the main sources of government funding is tax revenue. There is a statement that, the larger the amount of tax collected, the higher the level of socio-economic developments (Organisation for Economic Co-operation and Development OECD, 2014; Ademola, 2012).

According to Okoye and Gbegi (2013), one of the major functions of government in developing countries such as Nigeria is the provision of infrastructure like electricity, schools, roads, pipe-borne water, hospitals and to ensure a rise in per-capita income. Also, it can be used for poverty alleviation to mention a few; all these fall under socio-economic development (Okoro & Kigho, 2013; Okoro, 2014; Okoro & Egbunike, 2017; Okoro & Egberi, 2019). For services to be suitably offered the government should have enough revenue to finance them and it should be noted that the emergence and existence of a state is connected to taxation and taxes it implements in solving the challenges it faces and in achieving her socio-economic well-being. Collected taxes and funds allow the state to implement its developmental agenda, providing varying degrees of economic, social and emotional well-being of citizens. The tax to finance these enormous responsibilities is one of the major problems facing third world countries (Toder & Viard, 2014; World Bank, 2014).

In Nigeria, revenue from tax has accounted for a minute portion of aggregate revenue obtained over the years compared with the volume of revenue generated by the Federal Government. Records showed that decline in oil prices before the Russian and Ukraine war times has led to decreased funds available for distribution among Federal, State and Local Governments in Nigeria and hence for socio-economic development. Furthermore, over-dependence on oil as a major source of revenue in Nigeria has become a serious set-back for sustainable economic development. It is noteworthy that globally, there is a paradigm shift to tax revenue as a better alternative source of revenue generation and the need for the Nigerian government to generate adequate revenue from taxation has become imperative and matters of national importance. The problem of this study expresses the question: are the various taxes collected by the government commensurate with the level of socio-economic development in Nigeria?



REVIEW OF RELATED LITERATURE

Taxation

Tax concept is as old as civilization and it is the most constant means of revenue generation to the government. Basically, tax is aimed at raising government revenue to enable the government to meet up with its expenditure as well as a means of creating a viable relationship between taxpayers (citizens) and the government. Wahl, Kastlunger and Kirchler (2010) opined that tax payment is one of the civic tasks required from taxpayers, which offers the government the revenue for provision of basic amenities and also to realize wealth distributions. Thus, tax is seen as a compulsory levy imposed by the government on taxpayers in line with relevant laws of tax. A good tax system should be sufficient, convenient, efficient and fair in nature (Osho et al., 2020). A tax is considered sufficient if it has the ability to generate enough funds to the government in the provision of public goods. Tax is expected to be convenient when the method of collection is clear and well known to all taxpayers.

The efficiency of tax means how taxpayers react to tax as a result of economic behavioral changes while tax fairness means taxpayers' abilities to pay tax and these are characterized by horizontal and vertical equitable methods. Taxes are levied on incomes like salaries, corporate firms' profits, interest incomes, dividends, and royalties, among others (Ishola, 2016). Taxation as a source of revenue helps most state government as well as local government to build marketplace and stalls which are rented out by them to raise revenue for the provision of more and essential services such as maintenance of law and order in the society (Ogbonna, Appah & Ebimobowei, 2012).

Social-Economic Development

The main challenge of governments is to increase citizen's welfare via implementation of suitable economic policies by direct participation in national and global economic activities. The adequacy of infrastructure is a foundation for a country's economic growth and development. Ideally, public expenditures contribute to the creation and augmentation of the domestic economic environment for both national and foreign investments, boost internal and external trades, attract tourists, increase agricultural productivity, and encourage craftsmanship and small-scale industrial production (Ayo, 2020).

All these economic activities generate gainful employment and accelerate economic growth and development in the short, medium and long terms (Okoro & Egberi, 2020). The link between tax and economic development has been researched with varied results (Soyode & Kajola, 2006; Tosun & Abizadeh, 2005; Ude & Agodi, 2014). Though it is certainly likely to have growth devoid of development, economic development creates conditions that offer long-run economic growth. Jobs are a main concern of policy: for growth, what matters is the number of jobs while for economic development the focus is wages, career advancement opportunities, and working conditions (Uzonwanne, 2015).



Theoretical Framework

The study was based on five theories of taxation: ability to pay theory, expectancy theory, the cost of service theory, the benefit received theory and the sociopolitical theories of taxation. The ability to pay theory holds that taxes imposed on tax-payers should be based on the progressive tax approach which means taxes should be levied according to a tax-payer's ability to pay. This theory was advocated by Adam Smith when he advocated that the amount of tax payable should be equal, in proportion to earned income. The expectancy theory of taxation states that every tax proposal must pass the test of practicality and must be the sole consideration before the tax authorities in a bid for tax proposal. It strongly emphasizes that the economic and social objective of the state is considered irrelevant since it is meaningless to have a tax that cannot be levied and effectively collected.

According to the cost-of-service theory, the cost incurred by the government in providing certain services to the people must collectively be met by the people who are the receivers of the service.

This theory articulated that tax is similar to price. So, if a person does not utilize the service of a state, he should not be charged any tax. A modification in the cost-of-service theory gave birth to the benefit received theory of taxation. The theory assumes that there is an exchange relationship between taxpayers and the government. The government confers some benefits on tax payers by providing social goods which the tax payers pay a consideration in the form of taxes for using such goods. The inability to measure the benefits received by an individual from the services rendered by the government has rendered this theory inapplicable. The socio-political theory of taxation states that social and political objectives should be the major factors in selecting taxes. This theory forms the anchor of the study.

Empirical Review

Akinwale (2010) examined the inadequacy of infrastructure in Nigeria. He gathered data from archival sources and found based on the analysis that despite the efforts aimed at improving the state of infrastructure in Nigeria, the problem of inadequacy in infrastructure still persists. He opined that the problem is not insufficient funds but that of negligence and corruption.

Adegbie and Fakile (2011) studied the relationship between Company Income Tax and Nigeria Economic Development relationship. Using Chi-square and Multiple Linear Regression analysis in analyzing the primary and secondary data respectively and concluded that there is a significant relationship between company income tax and Nigerian economic development.

Adegbite (2015) assessed the effect of corporate tax on revenue profile in Nigeria and also examined the impact of corporate tax revenue on economic growth in Nigeria. Secondary data was obtained from Central Bank of Nigeria (CBN) statistical bulletin from 1993-2013 and multiple regressions analysis was employed to analyze the relationship between the dependent variable (Gross Domestic Products (GDP) and independent variables (company income tax, value added tax, petroleum profit tax and inflation). It is therefore concluded that corporate income tax has a positive significant impact on revenue profile in Nigeria with the Adjusted R² of 95.3% which directly enhanced growth in Nigeria.



METHODOLOGY

The methodology was based on a qualitative approach using the exploratory method to analyze extant literature. Other methods used include survey, fieldwork and case studies that have adopted a more conventional quantitative approach such as contingency-type studies.

RESULTS

The 2021 statistics on tax revenue and yearly GDP by expenditure and income at 2021 constant purchaser prices revealed that tax revenues are grossly inadequate to meet expenditure on GDP which stood at ₦73,382.77 billion at constant purchase prices for the year under review. The total oil tax revenue is ₦2008.45 billion while that of non-oil tax revenue is ₦4434.53 billion. These values accounted for 2.74% and 6.04% of the total GDP expenditure for 2021 fiscal year respectively. This revelation is in line with OECD (2014) and Ademola's (2012) opinion that the larger the amount of tax collected, the higher the level of socio-economic developments and vice versa.

Furthermore, the 2020 statistics on tax revenue and yearly GDP by expenditure and income at 2020 constant purchase prices revealed that total oil and non-oil tax revenues to be ₦1516.9934 billion and ₦3435.2311 billion respectively, while expenditure on GDP was ₦70,800.54. These however did not cover the GDP expenditure of the year under review. While the percentage of GDP to oil tax stood at 2.14%, that of non-oil tax was 4.85%. This revelation is in line with Afuberon and Okoye (2014) who revealed that under generation of taxation revenue will bring about inadequate funding of public infrastructures and vis-a-vis expenditure on GDP.

The 2019 statistics on tax revenue and yearly GDP by expenditure and income at 2019 constant purchase prices revealed that tax revenues are grossly inadequate to meet expenditure on GDP which stood at ₦72,094.09 billion for the year under review. The total oil tax revenue is ₦2114.2684 billion while that of non-oil tax revenue is ₦3147.6479 billion. These accounted for 2.93% and 4.37% of the total GDP expenditure for 2019 fiscal year respectively. This revelation is in line with OECD (2014) and Ademola's (2012) opinion that the smaller the amount of tax collected, the smaller the level of its contribution to socio-economic developments (GDP).

The extent of taxation financing socio-economic development in Nigeria for the year 2018

The 2018 statistics on tax revenue and yearly GDP by expenditure and income at 2018 constant purchase prices revealed that tax revenues to be are grossly inadequate to meet expenditure on GDP which stood at ₦70,536.35 billion for the year under review. The total oil tax revenue is ₦2467.5807 billion while that of non-oil tax revenue is ₦2853.3107 billion. These accounted for 3.50% and 4.05% of the total GDP expenditure for 2018 fiscal year respectively. This finding is in line with the views of Toder and Viard (2014), and World Bank (2014) who say that generating tax to finance GDP is one of the major problems facing third world countries.



Finally, 2017 statistics on tax revenue and yearly GDP by expenditure and income at 2017 constant Purchase prices revealed that tax revenues to be are grossly inadequate to meet expenditure on GDP which stood at ₦69,205.69 billion for the year under review. The total oil tax revenue is ₦1,520.4817 billion while that of non-oil tax revenue is ₦2,507.4635 billion. These accounted for 2.20% and 3.625% of the total GDP expenditure for 2017 fiscal year respectively. These findings are the views of Abata (2014) when he said that the imposition of tax on all taxable individuals and companies/organizations will augment government financial position to defray her expenditures. The major findings are that tax revenue from all sources for the years reviewed are grossly inadequate to meet up with government expenditure on GDP; this may not be unconnected to a deficient tax administration system that can encourage tax evasion and avoidance, lack operation computer hardware, lack of honest and trained revenue officers, amongst others.

CONCLUSION AND RECOMMENDATIONS

Effort has been made on this study to examine the financing link between taxation and socio-economic development in Nigeria, proxied by GDP. From the above findings we hereby conclude that taxation is not the most significant source of revenue in Nigeria; this ought not to be. In other countries, like Ghana, Togo, Cameroon and in the developed countries, taxation is the first or second most significant source of government revenue. This is the main reason while taxation should be taken more seriously so that it can take its pride of place. We also conclude that tax is a 'sine qua non' for the growth and socio-economic development and Nigeria cannot survive without a sound tax administration system in the country at large.

Going by the above findings, the following recommendations are hereby put forward which we believe could increase tax revenue as well as eliminate administrative problems in order to enhance socio-economic development in our dear country, Nigeria.

- i. The tax officials need human capital development through adequate in-service training and provision of adequate and suitable working materials and facilities.
- ii. Government should ensure to distribute its social welfare programmes equally to provide direct and indirect benefits to taxpayers. This will give them the assurance that a portion of their money paid for tax is effectively utilized by the government.



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