THE EFFECT OF TAXATION ON MICROECONOMIC GROWTH IN NIGERIA

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Abstract
The study aims at ascertaining the effects of taxation on microeconomic performance in Nigeria from 2002 to 2011. Data were collected from secondary sources. Three hypotheses were tested using ordinary least squares regression method. The implication of the findings showed that government earnings from taxation will affect consumer spending and boost output production level. The study recommends that to ensure rapid economic growth in Nigeria, there is need for government to encourage local manufacturers of output through provisions of incentives from taxation. And through increase of import duties as to discourage importation of foreign goods which competes with local goods thereby increasing income generation from taxation which enhances economic growth. Government should continue to show fairness in fixing income tax of consumers so as to encourage consumers spending.

Keywords: Consumer Price Index (CPI); Value Added Tax (VAT); Manufacturing Output; Taxation, Nigeria
INTRODUCTION

Taxation is defined as a process by which a public authority such as the Federal, State or Local Government imposes a levy on individuals, sole traders, partnerships, limited liability companies and public corporations, limited by shares or limited by guarantee for the purpose of generating revenue to accomplish public sector projects (Anyaduba, 1999). From this definition it is evident that there are different forms of Taxation. Direct Taxation is the process of levying taxes on income or capital generated by the factors of production such as land, labour, capital and entrepreneurship (Anyaduba, 1999).

Direct Taxation is usually imposed on individuals and companies. The burden of direct taxation is not usually shiftable. The following aspects of Direct Taxation are currently in force in Nigeria as follows:

i) Personal Income Taxation;
ii) Companies Income Taxation;
iii) Petroleum Profit Taxation;
iv) Capital Gains Taxation;
v) Education Taxation (Iyoha, 2008).

Until a few years back, there was another form of Direct Taxation called Capital Transfer Taxation. Its enabling legislation is the Capital Transfer Taxation Act (CTTA), that was promulgated on 1st April, 1979. It was levied on any value of any property in value in excess of the sum of N100, 000 transferred gradually by any person during his or her lifetime or at his or her death (Anyaduba, 1999). However, it was discovered over the years as a result of militating social and cultural factors, that this form of Taxation could not be effectively implemented. The Capital Transfer Taxation Act was therefore promulgated in 1996.

Indirect Taxation is the one levied on goods and services. It is often levied at a point on a goods or services but the burden may be shifted to whoever it is intended should be the final consumer. The following types of Indirect taxation are currently in firm in Nigeria including:

(a) Stamp Duties;
(b) Excise Duties;
(c) Custom Duties on exports and imports;
(d) Mineral Royalties;
(e) Casino Taxation; and
(f) Value Added Taxation (Jhingan, 2008).

Both Direct Taxation and Indirect Taxation are instruments for generating increased government revenue among others.
The Influence of Taxation on Microeconomic Performance of Nigerian Economy

Nigeria like any other country introduced taxation primarily to generate revenue to offset its bills as well as to influence economic activities at large. Tax policies provide a mechanism for influencing consumer’s demand and for providing incentives for production. It is a key factor for addressing the government’s overall economic and social objectives: government expenditure, redistribution of income, maintenance of law and order, maintenance of civil services, maintenance of the diplomatic consular representatives and many other social services (Anyaduba, 1999).

The proportion of tax paid depends on the legislated amount (percentage) of the value of income, sales or property that is due to government by the owner of factors of production. Moreso, Keith Marden in 1983 in his evidence from 20th century suggested that nations with low tax experience have more rapid growth. However, tax he said should estimate higher output by increasing incentive to save, to invest, to work harder as well as to innovate.

Kaldor in 1965 said that the importance of tax in underdeveloped countries can hardly be overemphasized if they are to achieve their hope for accelerating economic progress. In the world of Justice Wendell Holmes, taxes are paid for services rendered by government in a civilized society (Kath, 1997).

Therefore, irrespective of the political ideology prevailing in any country, the government must expand her expenditure to a host of non-revenue yielding services. The government must also expand her expenditure to people at least under a short term assessment which serves as a prerequisite to a country’s economic, social and cultural development. To meet up with their numerous commitments and live up to their responsibilities, governments thus, require a substantial amount of funds; such funds are usually raised from various sources such as issuing of public debt, creation of money or levying of various types of taxes, fees, fines and specific charges (Jhingan, 2008).

Revenue generation from tax is mostly used by the government to promote this non-revenue yielding services because if left in the hands of the private sector, adequate human welfare will not be enhanced. In Nigeria where major priority is to provide security, alleviate or reduce the illiteracy ratio as well as to improve the health of the people, more of income generated from tax is often expended in security, education and health sectors of the economy. Hence, there is need to decide how the resources needed for the provision of socially desirable goods should be derived by the government from the owners of factors of production, from individuals and from corporate bodies (Adekanola, 1997).
The Development of the Nigerian Tax System

The Nigerian tax system emerged from the traditional British system of tax. Two main types of taxes are in operation. They are the direct and indirect tax systems. Both tax systems are also common ways of assessing tax in most developing countries. The first phases 1900 – 1945 marked the domination of Nigeria citizenry by colonial masters. Consequently, the policy on taxation and control was in the hands of the colonial masters. They controlled the tax system (Adesola, 1986). During this period, direct tax dominated the tax structure. At the beginning, the system was centralized within a unitary finance pattern of fiscal policy system. A few years within this period, the Nigerian tax system witnessed a traumatic change from direct tax dominance to indirect tax dominance occasioned by increase in foreign trade which accounted for about 90% of government total revenue for the nation then. The prominence of indirect rule was more observed in the northern protectorate as the indirect rule policy did not find its feet successfully on the southern soil. For instance, there was 1916 Isayen riot, 1978 Abeokuta riot and 1929 Aba riot. With the colonial policy in place, more revenue was expected from workers in form of direct tax and hence, the resentment of indirect rule in the south that reduced the amount of revenue generated in the south (Anyanwu, 1993).

In the north, so much direct tax was received because all the local authorities and employees were directly responsible for the collection of the direct tax mainly in the form of general tax levied on settled farmers, and gangly tax was levied on cattle rearers. The proceeds from direct tax in this regards were retained by the local authority for the maintenance of law and order and the provision of other local services such as water supply, road construction and so on (Anyanwu, 1997).

The second phase was between 1946 and 1965: This period witnessed a dramatic upturn in the direct tax, starting with the review of rules and regulations by direct taxation ordinance of 1948. The newly created region of the Mid-western Region metamorphosed into Bendel State and later split into Edo and Delta States in August 27th 1991. More personnel were now required to carry out the government activities, and so the level of direct taxation increased. Following the constitutional changes introduced into the country after the Second World War, the Native Administration has become the responsibility of the regional Government. This resulted in the increased levying of another direct tax, company direct tax which was strictly under the control of the Federal Government (Boadway, 1979a).

The personal income tax was revitalized alongside to constitute an important part of the country’s tax structure with export and import constituting about 2/3 of all government revenues. Within this period, foreign demand was stimulated due to the face of the Post World War and the Korean War boom. There was an upsurge demand, which was unleashed after the war,
which resulted in a rapid increase in imported goods and services and export of goods and services. Consequently, import and export term became productive; excise duties emerged and led to a process of industrial growth (Brown and Jackson, 1992).

**Tax Policy in Nigeria**

A tax policy represents the tax decisions and the allocation keys between the public and private sector in a country. It is usually imposed on individuals and entities that make up a country. The funds provided by tax are used by the states to support certain state obligations such as education systems, healthcare systems, pensions for the elderly, unemployment benefits, and public transportation. A national tax system is often a reflection of its communal values or the values of those in power. To create a system of taxation, a nation must make decisions and choices regarding the distribution of the tax burden to determine who will pay taxes and how much they will pay – and how the taxes collected will be spent (Calander, 1986).

In Nigeria, the taxation system dates back to 1904 when the personal income tax was introduced in Northern Nigeria before the unification of the country by the Colonial Masters. It was later implemented through the Native Revenue Ordinances in the Native Revenue Ordinances in the Western and Eastern regions in 1917 and 1928 respectively. Among other amendments in the 1930s, it was incorporated into Direct Taxation Ordinance No. 4 of 1940. The general opinion among scholars is that Nigeria’s fiscal regime is characterized by unnecessary complex, distortionary and largely inequitable taxation laws that have limited application in the formal sector that dominates the economy (Canterbury, 1983).

Given the foregoing, it is important that Nigeria adopts a tax policy that would enhance national development. The draft national tax policy that has been submitted for enactment by the National Assembly of Nigeria should be examined with a view to correcting perceived flaws inherent in the document. This will make it more effective (C.B.N., 2008).

The Nigerian tax system is basically structured as a tool for revenue collection (CBN, 2005, 2006). This is a legacy from the pre-independence Government. It is based on the 1948 British tax laws and it has been mainly static since enactment. The need to generate tax from personal incomes throughout the country prompted the Income Tax Management Act (ITMA) of 1961. In Nigeria, Personal Income Tax (PIT) from salaried employment is based on the pay as you earn (PAYE) system, and several amendments have been made to the 1961 ITMA (Due, 1993). For instance, in 1985, Personal Income Tax was increased from N600 or 10 percent of earned income to N2000 plus 12.5 percent of income exceeding N6000. In 1989, a 15 percent withholding tax was applied to savings deposits valued at N50, 000 or more while tax on rental income was extended to cover chartered vessels, ships or aircrafts. In addition, tax on the fees
of Directors was fixed at 15 percent. These policies were geared to achieve an effective protection for local industries and greater use of local raw materials.

**RESEARCH METHODOLOGY**

The research design employed by the researcher is ex post-facto research which aims at determining or establishing or measuring the relationship between one variable and another or the impact of one variable on another (Onwumere, 2009). The nature of data for the analysis of this study is secondary accessed from: the Central Bank of Nigeria Statistical Bulletin, 2013; Federal Inland Revenue Service and (Ehikioya, 2014).

**Research Model**

A regression model has been employed, the essence of regression is to use a mathematical equation to express the nature of the relationship existing between variables and ultimately to use this equation to predict the value one variable given a specific value of the other variable (Ugbam, 2001). The Researcher therefore forms an econometric model to capture the interaction between taxation and relative micro economic variables. The following is sample of a simple regression model:

\[ Y = b_0 + b_1X + \mu. \]

Where:
- \( Y \) = the variable we are trying to predict;
- \( b_0 \) = the intercept;
- \( b_1 \) = the slope;
- \( X \) = the variable we are using to predict \( Y \);
- \( \mu \) = the error term.

The intercept \( (b_0) \) is the value of the dependent variable when the independent variable is equal to zero while the slope of the regression line \( (b_1) \) represents the rate of change in \( Y \) as \( X \) changes. Because \( Y \) is dependent on \( X \), the slope describes the predicted values of \( Y \) given \( X \).

The above model can thus be applied in this study as:

\[ \text{CPI} = b_0 + b_1\text{VAT} + \mu \] \hspace{1cm} \text{Eqn. (1)}

\[ \text{MO} = b_0 + b_1\text{Taxation} + \mu \] \hspace{1cm} \text{Eqn. (2)}

Where:
- \( \text{CPI} \) – Consumer Price Index
- \( \text{VAT} \) – Value Added Tax,
- \( \text{MO} \) – Manufacturing Output
- \( \text{Taxation} \) – Total Revenue Generated from Taxation,
Techniques of Data Analysis

The Techniques of data analysis employed by the researcher is the Ordinary Least Squares method using Statistical Package for Social Sciences (SPSS) version 22.0. The aim of using this method is to minimize the error in our prediction of the dependent variable, and by minimizing the residuals, error will be minimized. By using the "squares" the researcher is precluding the problem of signs thereby giving positive and negative prediction errors the same importance.

Population & Sample

The population for this study comprises all the microeconomic variables and all tax revenue generated by the Federal Government of Nigeria from 2002 to 2011.

The microeconomic variables adopted for the study are Consumer Price Index (CPI), Manufacturing Output (MO) from 2002 to 2011 while the sample drawn from all tax revenue generated by the federal government are Value Added Tax (VAT) and total tax revenue from 2002 to 2011. This data were used because it was available and accessible.

ANALYSIS

Table 1. Necessary Micro Economic Variables needed for Analysis from 2002 to 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Taxation</th>
<th>VAT</th>
<th>CPI</th>
<th>MO</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>433.9</td>
<td>52.632</td>
<td>43.26339</td>
<td>507836.8</td>
</tr>
<tr>
<td>2003</td>
<td>703.1</td>
<td>65.876</td>
<td>49.3349</td>
<td>465811.7</td>
</tr>
<tr>
<td>2004</td>
<td>1194.8</td>
<td>96.1956</td>
<td>56.7357</td>
<td>349316.3</td>
</tr>
<tr>
<td>2005</td>
<td>1741.8</td>
<td>87.4948</td>
<td>66.8661</td>
<td>408367.5</td>
</tr>
<tr>
<td>2006</td>
<td>1866.2</td>
<td>110.5668</td>
<td>72.36746</td>
<td>478524.1</td>
</tr>
<tr>
<td>2007</td>
<td>1846.9</td>
<td>144.3728</td>
<td>76.26525</td>
<td>520883</td>
</tr>
<tr>
<td>2008</td>
<td>2972.2</td>
<td>198.0653</td>
<td>85.09909</td>
<td>585573</td>
</tr>
<tr>
<td>2009</td>
<td>2197.6</td>
<td>229.3232</td>
<td>95.76875</td>
<td>612308.9</td>
</tr>
<tr>
<td>2010</td>
<td>2839.3</td>
<td>275.5746</td>
<td>109.5979</td>
<td>643070.2</td>
</tr>
<tr>
<td>2011</td>
<td>4628.5</td>
<td>318</td>
<td>120.7333</td>
<td>694814.2</td>
</tr>
</tbody>
</table>

Sources: CBN Statistical Bulletin, 2013; Federal Inland Revenue Service; (Ehikioya, 2014)

\[ \text{CPI} = b_0 + b_1 \text{VAT} + \mu \]

Table 2. Model Summary

<table>
<thead>
<tr>
<th>Equation 1</th>
<th>R</th>
<th>.982</th>
</tr>
</thead>
<tbody>
<tr>
<td>R Square</td>
<td>.964</td>
<td></td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>.960</td>
<td></td>
</tr>
<tr>
<td>Std. Error of the Estimate</td>
<td>5.097</td>
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Table 3. ANOVA

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equation 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Regression</td>
<td>5620.443</td>
<td>1</td>
<td>5620.443</td>
<td>216.311</td>
<td>.000</td>
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<tr>
<td>Residual</td>
<td>207.865</td>
<td>8</td>
<td>25.983</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>5828.308</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4. Regression Coefficients

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equation 1 (Constant)</td>
<td></td>
<td>34.950</td>
<td>3.318</td>
<td>10.534</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>VAT</td>
<td></td>
<td>.270</td>
<td>.018</td>
<td>.982</td>
<td>14.708</td>
<td>.000</td>
</tr>
</tbody>
</table>

The R of .982 shows that there is a strong positive relationship between the explanatory variable (Value Added Tax) and the dependent variable (consumer price index). The R² of .964 shows that 96.4% of the variation in consumer price index can be explained by value added tax. The Anova table shows that the model fit is very significant (p-value<.001), thus valid for prediction. The intercept of 34.950 shows the value of the consumer price index when VAT is constant. The slope of .270 shows that at every unit increase in value added tax, consumer price index will increase by .270 units. The independent variable (taxation) is statistically significant (p-value<.001) in explaining the variation in consumer price index. After replacing the intercept, the slope and the standard error from the above regression output, we will have CPI = 34.950 + .270taxation + 5.097.

**Decision: Hypothesis I**

*Ho: Taxation has negative significant effect on consumer spending in Nigeria*

The P-value on which basis to reject the null hypothesis that taxation has negative significant effect on consumer spending in Nigeria is p-value < .001. Since the P-value<.05, we reject the null hypothesis and state alternatively that taxation has positive significant effect on consumer spending in Nigeria.

**MO = b₀ + b₁Taxation + μ**

Table 5. Model Summary_ a

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equation 1</td>
<td></td>
</tr>
<tr>
<td>R</td>
<td>.761</td>
</tr>
<tr>
<td>R Square</td>
<td>.579</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>.527</td>
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<tr>
<td>Std. Error of the Estimate</td>
<td>74126.608</td>
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</tbody>
</table>
Table 6. ANOVA

<table>
<thead>
<tr>
<th>Equation 1</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>60526782403.694</td>
<td>1</td>
<td>60526782403.694</td>
<td>11.015</td>
<td>.011</td>
</tr>
<tr>
<td>Residual</td>
<td>43958032543.827</td>
<td>8</td>
<td>5494754067.978</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>104484814947.521</td>
<td>9</td>
<td></td>
<td></td>
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</tbody>
</table>

Table 6. Regression Coefficients_a

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td>Equation 1</td>
<td>(Constant)</td>
</tr>
<tr>
<td>Taxation</td>
<td>67.032</td>
</tr>
</tbody>
</table>

The R of .761 shows that there is a strong positive relationship between the explanatory variable (taxation) and the dependent variable (manufacturing output). The R^2 of .571 shows that 57.1% of the variation in manufacturing output can be explained by taxation. The Anova table shows that the model fit is very significant (p-value = .011) thus valid for prediction. The intercept of 389743.126 shows the value of the manufacturing output when taxation is constant. The slope of 67.032 shows that at every unit increase in taxation, manufacturing output will increase by 67.032 units. The independent variable (taxation) is statistically significant (p-value = .011 > .05) in explaining the variation in manufacturing output. After replacing the intercept, the slope and the standard error from the above regression output, we will have MO = 389743.126 + 67.032taxation + 74126.608

Decision: Hypothesis II

Ho: Taxation has a negative significant influence on manufacturing output of Nigeria

The P-value on which basis we can reject the null hypothesis that government earnings from taxation has a negative significant influence on manufacturing output of Nigeria is .011. Since the P-value<.05 (benchmark), we reject the null hypothesis and state that taxation has a positive significant influence on manufacturing output of Nigeria.

Summary of Findings

(a) Taxation has positive significant effect on consumers spending in Nigeria. This implies that change in taxation will affect consumers' income spending in Nigeria.

(b) Taxation has a positive significant influence on manufacturing output of Nigeria.
The implication of the above findings shows that, change in taxation will affect both consumer income spending and production level in manufacturing sector respectively. Hence, taxation is one of the tools for achieving economic growth and development in Nigeria.

CONCLUSION & RECOMMENDATIONS
Taxation has a positive significant influence on microeconomic variables. This implies that change in taxation will definitely affect the economic growth in Nigeria. Thus, revenue generation from taxation will help to boast manufacturing production level and also enhance consumers’ spending in Nigeria. It is recommended that backed by policy the strategic managers of the tax management, Accountants and Economic Policy makers should emphasize on the need to,

1) Ensure timely and correct payment of Custom and Excise Duties taxation, thus this will increase government income which enhances Economic Growth.

2) Increase import duties as to discourage importation of foreign goods which competes with Nigeria local goods. Hence encouraging increase of manufacturing output production through incentive and boasting of income generation from taxation which enhances economic growth in Nigeria.

3) Continue to show fairness in fixing income tax of consumers as to encourage consumer spending which improves growth of the nation.

LIMITATIONS OF CURRENT STUDY
Due to the direction the Authors chose to go, this study was unable to cover other aspects of taxation (i.e. excise duty, import duty, petroleum profit tax, personal income tax, company income tax).

REFERENCES