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THE RELATIONSHIP BETWEEN TAXATION AND ECONOMIC GROWTH IN NIGERIA

Abstract: in this article we examine the relationship between taxation and economic growth in a resource rich country, using Nigeria as a case study. Empirical results reveal that taxation has a significant impact on Real GDP growth rates. However, the proportion of tax contribution to the growth rate falls short of the optimal level in terms of the volume of economic activities and value of total output. We made a conclusion that the Government should institute an appropriate tax system with an emphasis on broadening the tax base and in some cases, reviewing upwards the tax rates in order to increase the tax effort as well as ensure optimal contribution of taxation towards economic growth and development.

Keywords: economic growth, tax administration, tax efforts, resource-rich country, Nigeria.

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ВЗАИМОСВЯЗЬ НАЛОГООБЛОЖЕНИЯ И ЭКОНОМИЧЕСКОГО РОСТА В НИГЕРИИ

Аннотация: в статье рассмотрена взаимосвязь между налогообложением и экономическим ростом в богатой ресурсами стране такой, как Нигерия.

Эмпирические результаты показывают, что налогообложение оказывает существенное влияние на темпы роста реального ВВП. Однако доля налогового вклада в темпах роста не соответствует оптимальному уровню с точки зрения объема экономической деятельности и стоимости общего объема производства. Нигерия также отстает от других африканских стран в отношении налоговых усилий и имеет огромный неиспользованный потенциал для усиления мобилизации доходов. В связи с этим, необходимо создать соответствующую налоговую систему с упором на расширение налоговой базы и, в некоторых случаях, пересмотр в сторону повышения налоговых ставок, чтобы увеличить налоговые поступления, а также обеспечить оптимальный вклад налогообложения в экономический рост и развитие.

Ключевые слова: экономический рост, налоговое администрирование, налоговые усилия, богатые природные ресурсы, страна, Нигерия.

Taxation is an important fiscal policy instrument at the disposal of governments to mobilise revenue and promote economic growth and development. Governments use tax revenue to carry out their traditional functions such as the provision of public goods and services; maintenance of law and order; defence against external aggression; and regulation of trade and business to ensure social and economic maintenance [1]. Effective tax revenue mobilisation reduces an economy's dependence on external flows which have been found to be highly volatile.2 Taxation also allows governments' greater flexibility in designing and controlling their development agenda; conditions states to improve their domestic economic policy environment, thus creating a conducive environment for the much-needed foreign direct investments; and strengthens the bonds of accountability between governments and the citizens [2]. The 2008/2009 global financial and economic crisis provided useful lessons for countries on the need to direct more attention to domestic resources mobilisation efforts, including through increasing tax revenues, and shift away from over-dependence on external financial flows and export revenues.

Although tax structures vary considerably across countries, the primary objective of any tax structure is to attain maximum revenue and economic growth with minimum distortions. Different countries have different philosophies about taxation and different methods of tax collection. In the same manner, countries have different uses for their revenue which affect growth differently [1]. Agell et al. [2] have argued that the different uses of total government expenditure affect growth differently and a similar applies to way tax revenue is raised. Romer emphasises factors such as 'spill-over effect and learning by doing' by which firms' specific decisions to invest in capital and research and development, or investment in human capital, can yield positive external effects that benefit the rest of the economy. Solow, was the first to examine how taxation affects growth. He argued that steady state growth is not affected by tax policy; that is, tax policy, regardless of distortion, has no impact on long term economic growth rates, even if it reduces the level of economic output in the long term. On his part, argued that the different uses of total government expenditure affect growth differently and a similar argument applies to the way tax revenue is raised. The economic growth of Singapore for instance can be attributed to low rates of corporate and personal income taxes. Relatedly [3], argue that there exists a structural difference in taxation in developing countries and developed countries. For developing countries, they established that roughly two-thirds of tax revenue is derived from indirect taxes while for developed countries two-thirds comes from direct taxes. They suggested however, that tax structure can change over time to maximise the economic growth.

Irrespective of how a country chooses to share the tax burden among tax payers or allocates tax revenues among various goods and services, the tax revenue to gross domestic product (GDP) ratio is generally accepted as a crude measure of the tax effort of a given country and can be used as a basis for cross country comparisons. Compared to similar economies in Africa, Nigeria has a very low tax revenue to GDP ratio, with the bulk of government revenue being derived from oil and gas sector.4 Between 1981 and 2015, revenues from the oil and gas sector accounted, on average, for 75% of total government revenues, with the non-oil sector, of which taxation is part, contributing, on average, the remainder 25%, albeit with wide annual fluctuations [2]. Nigeria discovered oil in 1956 at Oloibiri in the Niger Delta after half a century of oil exploration, but commercial exploitation only started in 1968. By 1972, the oil sector share in total revenue was 54.4% against 45.6% share from non-oil sector. But by 1974 oil share of total revenue had increased to 82.1% with only 17.9% revenue accruing non-oil sector. Following the glut in the world oil prices in the later part of the 1970s however, the oil share in total revenue fell to 61.8% in 1978 while non-oil sector's share rose to 38.2%. More recently, the oil sector share in total revenue has been on an upward trajectory peaking at 88.6% in 2006. As at 2012, oil sector share in total revenue stood at 75.3% while non-oil sector accounted for 24.7% of the total revenue [1]. Overall, tax revenue, as a proportion of GDP, has been on a downward trend in the recent past. From a high of 5.459% in 2009, the tax to GDP ratio stood at 1.557% in 2012 which compares unfavourably with, for instance, the situation in South Africa, with a tax to GDP ratio of 26.81 and 25.52%, respectively, in 2009 and 2012 [1].

Despite the many policy, legislative and administrative reforms effected in the recent past, the Nigerian tax system is still riddled with several challenges which limit its optimal performance. The role of taxation in promoting economic growth in Nigeria has therefore, not been optimally felt, owing to defective tax policy framework and administrative mechanisms. Tax administration process and the institutions saddled with the responsibility of tax collection often suffer from limitations in skilled manpower and financial resources; and appropriate tools and technology required to meet the ever-increasing challenges and difficulties associated with tax administration. Over the years, Nigeria has relied heavily on crude oil exports as a major source of government revenue, and consequently, neglecting other critical sectors of the economy that would have broadened the country's tax base. However, the high volatility associated with crude oil prices has made it imperative for the country to explore other sources of revenue to help fund public expenditure.

In more specific terms, the Government of Nigeria should institute an appropriate tax system which emphasises the broadening of the tax base and in some cases, reviewing upwards the tax rates to enhance the contribution of taxation towards economic growth and development. In this respect, the tax administrative system in Nigeria should be strengthened to address some of the challenges presently clogging the wheel of progress as far tax administration is concerned. Furthermore, voluntary compliance should be encouraged through continuous taxpayers' education and the institutionalisation of a functional tax administrative system. It is also recommended that the tax execution agencies should forge good relationship with the professional associations involved in tax matters to elicit their support in reducing tax malpractices and other forms of fiscal corruption. In addition, regulatory authorities charged with the responsibility of collecting tax should further be strengthened to enforce compliance by taxpayers. There should be enhanced accountability and transparency from government regarding the management of revenue derived from taxation in terms of provision of public goods and services as this will enhance tax compliance among the tax payers. Lastly, as part of the broader economic diversification programme, tax revenue mobilisation should be used as a policy instrument to shift from the historical overreliance on oil revenues to non-oil revenues which are less volatile and are thus critical for the country's macroeconomic stability.

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