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EFFECTS OF MULTIPLE TAXATION ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN NIGERIA

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Abstract

The study examined the effects of multiple taxation on the growth of Small and Medium Enterprises (SMEs) in Nigeria. The aim is to investigate the extent to which multiple taxes affect the operation of SMEs in the country using expansionary rate of these businesses as surrogate for growth. Data for the study were obtained through responses from questionnaire designed on a five (5) point likert scale. Out of 193 questionnaire administered on staff and owners of SMEs on Lokoja – Kogi State, 131 of them were returned representing approximately 68% response rate. The responses were empirically analysed using non-parametric statistics comprising mean score, standard deviation and z-test. The results suggest that multiple taxes have negatively affected the growth of SMEs in Nigeria as many operators of these businesses expressed their unwillingness to venture into new enterprises or expand the existing ones for fear of multiple taxes that continue to take a significant portion of their earnings. The study recommends that government at all level in the country should address the issue of multiple taxes on SMEs by restricting to collecting only those taxes within their tax jurisdiction as stipulated by law. Further, provision should be made in Nigeria. Tax laws for stiff penalties against any tier of government, tax officials and tax agencies using orthodox, unfriendly and illegal means to enforce multiple taxes on operators of SMEs in Nigeria.

Keywords: Multiple taxes, Small and Medium Enterprises, Expansionary rate, Tax laws, Government.

Introduction

The rationale for imposing taxes in any nation stems from government numerous responsibilities and her desire to stimulate growth of economic activities in specific sectors.

Taxation, apart from being the major source to finance government's responsibilities citizens, it is also a means of ensuring that certain economic policies of government such

as creation of friendly environment for private business/enterprises are brought into fruition. As economic regulator, taxation is a potent tool for promotion economic welfare through creation of tax friendly economy conducive for businesses to survive and grow (Osita, 2011).

It is the desire of nations developed or developing for private enterprises to thrive. In Nigeria, private businesses in the category of Small and Medium Enterprises (SMEs) has been playing a crucial role in job creation and poverty alleviation contributing significantly to the country's Gross Domestic product (GDP). The socio-economic contribution of SMEs to the growth of the country cannot be overemphasized as the sector has been the major some of employment, innovation and wealth creation (Faloyin, 2015).

Entrepreneurship through SMEs have been key in economic growth of the nation mainly responsible for engineering initiatives in the area of capital formation, manufacturing/production service delivery, telecommunication, agriculture and so on. The sector has been the major driver of growth in the economy hence government through various forms of tax reliefs, credits, exemptions, allowances, holidays encouraged private businesses a contained in the compendium if investment incentives of Nigeria 2017 complied by Nigeria Investment Promotion Commission (NIPC) and Federal Inland Revenue Service (FIRS). The aim of the incentives is to spur private businesses for growth, wealth creation and poverty reduction in the society in line with what obtains in many advanced countries of the world as countries such as USA and China use government fiscal policy of taxation to stimulate microeconomic growth.

Omah (2016) observed that one of the viable fiscal policy tool used in encouraging entrepreneurship/private business initiative, growth and taxation is taxation and generous tax policies. Collaborating Omah (2016), Momoh (2017) stated that in China, U.K, U.S and Japan, low tax rates devoid of multiplicity and generous tax holidays for new businesses have triggered growth of private businesses in these countries.

Encouraging growth of SMEs in developing nations of sub-Saharan Africa like Nigeria is critical to national needs. Taxation is a powerful tool in the hand of government which can be designed to trigger private investment in line with national need and priorities. In Nigeria, national needs such as employment creation, poverty reduction, industrialization and self-reliance are of paramount. These can be largely achieved through SMEs. Therefore encouraging growth of SMEs in Nigeria is sacrosanct for improved growth rating of the countries among community of nations.

It is in recognition of critical role of SMEs in the economy of Nigeria that government has been offering incentives to provide the operation of the sector in the country. Unfortunately however, the growth of these businesses is quite discouraging as many of them do not survive two (2) to three (3) years after, their establishment (Lawal & Aduku, 2016). Momoh (2017) observed that over 75% of SMEs in Nigeria die in infancy not surviving beyond their 4th anniversary due to myriad of challenge that cannot be remedied by the operations in the sector. Identifying one of these key challenges, Kaigama (2016) discovered that multiple tax imposed on SMEs is a major factor responsible for the abrupt folding up of these businesses in Nigeria as these illegal taxes continue to take a large sunk of their earnings (Kaigama, 2016). Collaborating Abiola (2012) that multiple taxes continue to major issue faced by SMEs as similar types of

taxes are imposed by deferent tiers of government in fragrant disobedience to tax laws relations to taxes that are to be collected by each level of government in Nigeria.

The worrisome aspect of multiple taxation is the embarrassing nature of its enforcement and the use of orthodox collection procedure such as mounting of roadblocks, forceful closure of shops of trades in market places and unpleasant handling of persons and businesses that are not able to pay.

Many of these SMEs are not only burdened by the huge sums of multiple taxes but also the forceful method of collection (Lawal & Aduku, 2016). The issue of multiple taxes on SMEs in Nigeria is more in the local and state government in desperate bid of these tiers of government to expand their revenue bases without recourse to their stated tax revenue jurisdiction (Momoh, 2017).

Literature Review

Conceptual Clarification

The following are key concepts in the study and are clarified as follows:

SMEs: The definition of SMEs varies according to the context, author and the country where these businesses operate. In Britain for instance, SMEs are defined as those enterprises with annual turnover of 2million pound or less with fewer than 200 paid employees (Ekpeyone & Nyong, 1992). In Japan SMEs are seen as those businesses with 100million yen paid up capital and 300employees (Ekpeyong & Nyang, 1992). In Nigeria, SMEs are defined as those entrepreneurship businesses with small number of employees of between 1-100 for small sized businesses and up to 500 or more for medium sized companies (CBN report, various issues). SMEs in Nigeria are broadly defined as business with turnover of less than N100million per annum and/or less than 300 employees and having capital investment not exceeding N2million (excluding the cost of land) or a minimum of N5million naira (CBN reports).

Multiple Tax: Multiple Tax or Multiplicity of Taxes (MT) refers to unlawful and compulsory payment collected mostly by local and state government without legal backing (Abiola, 2012). It is a situation where a tax payer is forced by two (2) or more levels of government to pay either the same or similar taxes in desperate bid to increase their revenue base (Folayin, 2015). Abiola (2016) viewed MT as a situation where the same level of government imposes two or more taxes on the same base. Adum (2018) described MT as a case where profit or wealth of an individual or corporate body is taxed more than once.

Growth: Growth in business is a process of improving some measure of an enterprise's success largely through cost minimization and profit maximization (Fasch, K. U, 2013). A growing enterprise is any enterprise that generates significant cash flow earnings which increase at significantly faster rates than the overll economy (Kaigama, 2016). A growing enterprise tends to have profitable reinvestment and expansionary opportunity from its own retained earnings (Famolola, 2014). Lawal and Aduku (2016) described business growth as that stage where a business reaches the point of expansion and seeks additional options to generate more profits. Kaigama (2016) describes business growth as a function of so many exogenous and endogenous factors of which taxation is one – exogenous.

Empirical Review

Segun and Osazee (2018) did a study on the effect of multiple tax regimes on sustainable development among small scale enterprises in Lagos state: A study of Lagos Island local government. The aim of the study was to determine the influence of multiple tax determine the influence of multiple tax burden on business performance of small scale enterprises particularly in Lagos Island. Using primary source, data were collected from small business owners within Lagos Island Local government. The data were analysed using simple percentage of inferential statistics. It was discovered that there is significant relationship between MT burden and business performance of small scale enterprises. The study recommended that government should establish an institution to manage the issue of MT in Nigeria.

Ocheni and Gemade (2015) conducted a study on the effect of multiple taxation on the performance of SMEs in Benue state. The aim of the study was to examine the effect of multiple taxation on SMEs survival. Data for the study were collected from a sample of 74 respondents into small and medium scale business in Benue state using questionnaire. Responses were analysed using simple percentages of non-parametric statistics. Findings suggest that multiple taxation has negative effects on survival of SMEs. The study recommended that government should come up with uniform tax policies that will aid development of SMEs in Nigeria.

Onwe (2006) investigated the effects of multiple taxation on small scale enterprises in Ebonyi state. The aim of the study was to examine the impact of multiple taxation on investment decision of operators. Using primary source, data were collected from a sample of operators of small scale business in Ebonyi state. The obtained data were analysed descriptively using God'sman and Kruskal's Gama of non-parametric measures. It was discovered that 60% of the respondents complained that tax expenditure takes between 50-60% of their turnover and that negative association exist between multiple taxation and growth of Small Scale Enterprises (SSEs). The study recommended introduction of simplified taxation for SSEs.

Oseni (2014) studied multiple taxation as a bane of business development in Nigeria. The aim of the study was to examine the appropriateness of multiple taxes in developing nations like Nigeria given the ambiguous legislation that contain list of fees and taxes to be collected by all tiers of government in Nigeria. The study used content analysis method to highlight challenges that are peculiar to the country introducing taxes that are not backed by laws. The study recommended use of police to arrest those involved in collecting taxes outside the ones in tax laws of Nigeria.

Ebere, Eunice and Chimaobi (2016) conducted a study on effect of multiple taxation on investment in small and medium enterprises in Enugu State. The aim of the study was to examine the effect of multiple taxation on investments in SMEs. Using primary source through questionnaire distribution, data were obtained from a sample of 80 respondents. Obtained responses were analysed with the use of simple percentages. It was found that multiple taxation has negative effects on SMEs investments. The study recommended that government should evolve a tax policy that would encourage investment in SMEs.

Chukwuemeka (2017) conducted a study on multiple taxation and the operations of business enterprises in Aba metropolis. The aim of the study was to examine the effect of taxation on businesses particularly in Aba. Structured questionnaires were used to obtain

data from selected private business operators in Aba metropolis. Analysis of the data was done using simple percentages. The findings suggest among others that multiple taxation has discouraged the springing up of new businesses enterprise in Aba metropolis.

This study was carried out on SMEs operating in Lokoja, Kogi State to either confirm or dispute findings of previous studies on related issue conducted elsewhere in Nigeria. This therefore formed a basis for a valid conclusion and recommendation of this study on the issue of multiple taxation on SMEs in the country which has become a naughty economic problem on SMEs yet to be properly addressed by successive government in Nigeria.

Theoretical framework

The study is anchored on Laffer curve theory of taxation propounded by Arthur Laffer in 1979 cited in Afuberoh & Okoye (2014). The curve illustrates a theoretical relationship between rates of taxation and the resulting levels of government revenue. With emphasis on taxable income elasticity. The theory assumes that no tax revenue is raised at the extreme tax rates of 0% and 100%, government collect zero (0) revenue due to changes in behaviour of tax payers in response to the tax rate either losing their incentive to do business or finding numerous ways to evade tax just like 0% tax rate where no revenue is raised.

The theory further explained the two effects of taxation namely: the arithmetic and economic effects of tax rates on revenue. The two effects have opposite results on revenue in case of decrease or increase in tax rates. According to the arithmetic effect, if tax rates are lowered, tax revenue will be lowered by the amount of the decrease in the rate. That is the amount of the tax revenue is a function of income available for taxation multiplied by the tax rate. Thus Revenue R is equal to $t \times B$ where t is the tax rate and B is the taxable base ($R = t \times B$). The economic effect however recognised the positive impact that lower tax rate has on work, output, employment and entrepreneurship growth. At a high tax rate with multiple imposition, negative economic effect like tax evasion and disinvestment will dominate arithmetic effect leading to decline in tax revenue (Lawal & Aduku, 2016).

Methodology

Survey research design was adopted in this study. Data for the study were primarily obtained through questionnaire designed to reflect five (5) point Likert scale. The questionnaires were administered to 193 respondents made up of owners and staff of ten (10) randomly selected SMEs in Lokoja, Kogi state. Out of the distributed questionnaire, 131 of them were properly filled and returned representing a response rate of 68%.

Data Analysis

The responses were empirically analysed using mean (\bar{x}) score, standard deviation and z-value statistical test.

Validity of the Instrument

Validity of the instrument was done by giving copies of the questionnaire to senior academics for review and their suggestions were incorporated in the final draft. Also, the instrument was subjected to reliability test using test-retest method. The method is to

establish the consistency of the responses from the questionnaire administered on two occasions to the same respondents (Hyginus, Nicholas & Isaac, 2017).

Results

Table 1: Effects of Multiple Tax on Growth of SMEs

S/N	Responses	SA	A	UND	D	SD	Mean	Std	z-value
Nature of Effects									
1.	Due to multiples taxes SMEs have not been able to expand their businesses	135	252	39	44	6	3.63	0.0598	0.0259
2.	Multiple taxes imposed on SMEs is one of the major factors responsible for low profit and low expansionary rate of SMEs	270	208	21	8	4	3.90	0.306	0.0341
3.	Low rate of expansion and profit contraction due to multiple taxes on SMEs is a factor responsible for high rate of employment in the society	140	264	45	22	6	3.64	0.374	0.1286
4.	Multiple taxes imposed especially by local and state government authorities on SMEs operators is a key factor responsible for unwillingness of SMEs operators to establish business or expand existing ones.	145	232	60	46	01	3.69	0.068	0.050
5.	Multiple taxes and the unfriendly collection method by both state and local government authorities negatively affect intercity commerce and expansion of SMEs in Nigeria	150	280	60	12	5	3.87	0.047	0.340
6.	Slow business activity due to multiple taxes on SMEs hinders economic growth reflected in low GDP growth rate of Nigeria	205	232	51	22	4	3.92	0.061	0.065
7.	Taxes such as reuse collection tax, market taxes levies collected by both local and state government authorities are detrimental to growth of business	190	244	39	28	5	3.86	0.051	0.0713
8.	Poor and corrupt attitude of tax officials and unfriendly orthodox collection procedure discourages both potential and existing entrepreneurs to either venture or expand existing business	170	252	33	30	8	3.76	0.058	0.0468

Source: Field Survey (November/December, 2018)

SA: Strongly Agree (5points), **A:** Agree (4 points), **UND:** Undecided (3 points), **D:** Disagree (2 points), and **SD:** Strongly Disagree (1 point).

The z-value is calculated using the statistical formula: $Z = \frac{x - \mu}{d \text{ (Std)}}$

Where Z = the standard normal deviation

x = the mean of the sample (value of observations)

μ = the mean of the population (the distribution)

d = the standard deviation of the population (the distribution)

Findings and Discussions

From the table 1, it was found that all the items of questionnaire construct have a mean response score greater than 3.0 on a five (5) point Likert scale. This is an indication that there is a reasonable agreement that the desire of operators of SME's to grow and expand their business is inhibited by multiple taxes imposed by different levels of government a desperate bid to widen their revenue base. This finding is consistent with that of Oseni (2014), Ocheni & Hemade (2015) and Ebere et'al (2016) that discovered in their separate studies that multiple taxes have negative effect on operation of SME's in Nigeria.

Similarly, the positive values of Z-statistics for all items of the questionnaire in the table implies that multiple taxation is one of the major issue impeding the growth of SMEs operating in the area of study and a reflection of what obtains of effects of MT on SMEs elsewhere in the country operating under the same socio-political and economic environment. This result is in conformity with that of Chukwuemeka (2017) and Segun & Osazee (2018) in their studies found out that multiple taxes has hindered the growth of SMEs in Nigeria.

Conclusion and Recommendations

Multiple taxation, its imposition and unfriendly collection procedure meted out for SMEs in Nigeria has been a serious issue with less attention of successive government on finding ways of curbing it. It is quite unfortunate that while the immediate negative effect of multiple taxes is felt at micro level, the negative effect of multiplicity of taxes on the national economy is higher due to reduced revenue and high employment rate as entrepreneurs will result to evading taxes and unwillingness to either venture into new business or expand their existing businesses. This will certainly worsen the unemployment situation in Nigeria that government is battling with. Therefore, immediate action of government at all levels in Nigeria. To curb the socioeconomic effect of multiple taxes on SMEs is of interest to entrepreneurs, government and people of Nigeria.

It is in this view that the following recommendations are put forward:

1. That all tiers of government especially the local and state government in the federation should restrict themselves within the confinement of their tax jurisdiction as enshrined in the constitution.
2. Revenue officials and tax agencies/consultants used by these level of government should be enlightened on the legal implication of imposition of multiple taxes on tax payers especially SMEs operators. Because the reactionary effect of multiple taxes can be counterproductive mostly manifested in tax evasion loss of revenue and microeconomic retardation.
3. Nigerian tax laws should be strengthen for stringent penalty against any tier of government and tax agencies used in imposing and collecting illegal taxes in the country.

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Effect of Personal Reliefs and Allowances on Tax Liabilities and Tax Burdens of Individual Taxpayers in Nigeria

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Abstract

This paper examines the various statutory provisions for granting Consolidated Relief Allowance (CRA) and other tax-free allowances in Nigeria. The objective is to resolve existing disparities in the application of tax law provisions and thus harmonize the rules for granting tax-free reliefs under the Personal Income Tax (Amendment) Act, (PITAA), 2011. Hypothetical data of gross income and relevant domestic circumstances of individual taxpayers were generated. CRAs and other specified tax variables were computed based on provisions of S.33 and the sixth schedule to the Act. Data were analyzed using mean, t-test statistics and ANOVA. Results indicate that S.33(1) and the sixth schedule of the Act produced CRAs that differ significantly, and that the exclusion of tax-free reliefs in S.33(4) of the Act in practice has significant effect on tax liabilities and tax burdens of individual taxpayers in Nigeria. The paper concludes that observed disparities in statutory definitions for CRA and the use of practice guidelines that are inconsistent with clear provisions of tax laws could widen the gap between tax practice and tax statute, and eventually mar the goals for certainty and equity in tax administration. Consistent with judicial decisions, the paper posits that the provisions in paragraphs (1) and (3) of the sixth Schedule to PITAA, 2011 cannot override the clear and unambiguous provisions in S.33(1) of the Act, and therefore recommends among other policy adjustments, that the definitions of CRA in the 6th schedule should be reviewed to harmonize them with S.31(1) of the statute, and that the other tax-free allowances in S.33(4) should be adopted in practice since they were not repealed in the 2011 Act.

Keywords: Tax laws and practice, Gross Income, Consolidated Relief Allowance, Tax-free Allowances, Tax liabilities, Tax burdens, tax inequities.

Introduction

An essential ingredient of a good tax system hinges on its ability to ensure certainty and equity in the distribution of tax burden on taxpayers with regard to their economic and domestic circumstances. Certainty implies complete absence of confusion as to the amount to pay as tax; and that the method of computing the tax is clear to the understanding of both taxpayers and tax practitioners to minimize incidences of tax avoidance and corruption in tax administration. Where the provision in a section of a tax statute on a subject matter is inconsistent with provisions in other sections, parts or schedules of the same Act on the same subject matter, then this will result to confusion and disparity in the computed tax figure. Equity in tax administration considers the ability of the taxpayer such that taxpayers with equal taxable capacity should bear the same tax burden (Horizontal equity) while tax payers with higher taxable capacity should bear more tax burden (Vertical equity).

Taxable capacity of individual taxpayers differs by their income and domestic circumstances. To accommodate these two factors, the administration of personal income tax in Nigeria adopts the progressive tax system of imposing a higher tax rate per naira as income increases and makes provisions for a wide range of reliefs and allowances to minimize the gap in tax burden created by differences in income and domestic circumstances. The reliefs and allowances that reflect domestic circumstances of taxpayers include alimony, child allowance, dependent relative allowance, life assurance relief, and disabled person allowance. Also, the National Housing Fund Act, 1992, and the National Health Insurance Scheme Act, 1999 each provides for a contribution of 2½% of the basic salary of an employee to be made to the Fund/Scheme, while the Pension Reform Act, 2014 requires a contribution of a minimum of 8% of monthly emolument of the employee (ICAN, 2014). These contributions are tax deductible in the hand of individual taxpayers and therefore constitute part of Tax Exempt Deductions under Paragraph (2) of the 6th Schedule to PITAA, 2011.

These reliefs and allowances have been subject of legislative reviews and amendments since 1961 when the Income Tax Management Act (ITMA) was enacted in Nigeria. In particular, PITAA, 2011 amended thirty-five (35) sections of PITA, 2004 including Section 33 of the Principal Act on personal reliefs and allowances which, not only introduced conflicting definitions for Consolidated Relief Allowance (CRA) in Paragraphs (1) and (3) to the 6th Schedule, but equally generated implementation challenges as to whether the introduction of CRA under S.33(1) of the new Act replaced the old tax-free allowances for alimony, child, dependent relatives and disabled persons which were claimable under PITA, 2004. Could it be correct to presume that tax-free allowances clearly provided for in S.33(4) of PITAA, 2011 are inapplicable in practice simply because the Act amended S.33(1) of the Act by replacing the provision for Personal Allowance with Consolidated Relief Allowance (CRA)? This presumption resulted to divergent interpretation and applications of the provisions for granting personal reliefs and allowances in practice.

In providing clarification on the implementation of the CRA in the amended Personal Income Tax Act, FIRS (2012) stated that “CRA replaced the erstwhile personal allowance, children allowance, dependent relative allowance, leave allowance, etc in the amended law”. This position held by the FIRS has remained controversial with notable

tax practitioners disagreeing with the position of the Revenue Service. For instance, PWC (2019) in its explanatory notes on the proper treatment of reliefs/deductions in S.33 and Schedule 6 to PITAA 2011, included all the other tax-free reliefs in S.33(4)(a)-(e) as valid claims to be granted to individual taxpayers. This practice is understandable since S.33(3) of PITA, 2004 (containing these other tax-free reliefs) was merely renumbered as S.33(4) in PITAA, 2011 and not repealed. Reacting to the position held by the FIRS on the matter, Olugbenro (2013) noted that it is perhaps easy to predict the direction toward which the Tax Authorities may move, arguing that they would prefer that the controversies be resolved in favour of the provisions in the 6th Schedule as against taxpayers (especially, those with the current or anticipated annual income in excess of N20 million) who ordinarily will prefer to have the phrase “or 1% of gross income whichever is higher” as provided in S.33(1) retained.

According to ICAN (2014), the emerging controversy created two schools of thought. The first school is made up of persons who posit that since the relevant subsections of S.33(4) on the tax-free allowances were not deleted from the amended legislation, the allowances are still claimable under the new Act. The proponents of the second school, however, argue that the non-deletion of S.33(4) on the other tax-free allowances from the amended legislation was an omission by the National Assembly and should not be construed to mean their availability, and that the intention of the National Assembly in grating a Consolidated Allowance was to simplify the process of Personal Income Tax computation by deleting the subsections. ICAN (2014) further reported that as a result of the conflicting views on the claimability of the old tax-free allowances in S.33(4), and need to make the Act less cumbersome and enhance its implementation and effectiveness, the Joint Tax Board (JTB) issued a guideline for tax practice pending the time the law is amended (JTB, n.d.).

The JTB guideline, however favoured the second school of taught which focuses only on differences in the income of taxpayers, and neglected the big question of differences in taxable capacity resulting from variations in domestic circumstances of taxpayers. Thus, persons on the same income bracket but with different domestic circumstances (for alimony, child, dependent relatives and disabilities) are, by this JTB guideline, made to pay the same amount of tax per Naira. No doubt, the JTB guideline appears to have raised more unanswered questions/issues than the solutions that it sought to provide. First, could the provisions for computing tax-free allowances under S.33(4) be properly regarded as cumbersome or complex? Could it be right to sacrifice equity principle for a need to simply the tax computation process? To what extent does non recognition and exclusion of taxpayers' personal financial responsibilities for and commitments to domestic circumstances duly provided for in S.33(4) affect their tax burdens?

This paper, while resolving the conflicts and misconceptions in the provisions of PITAA, 2011 for computing CRA, determined whether the CRAs computed based on different definitions of CRA in the Act differ significantly. It further evaluated the effect of excluding the other tax-free reliefs in S.33(4) of the Act on tax liabilities and tax burdens of individual taxpayers in Nigeria. The major objective being to harmonize implementation and compliance challenges associated with granting tax-free reliefs to individual taxpayers in Nigeria.

The specific objectives are:

1. To determine if there is any significant difference in the computed CRAs based on the provisions in S.33(1) of PITAA, 2011 and the CRAs computed based on the provisions in Paragraphs (1) and (3) to the 6th Schedule of the Act.
2. To ascertain the effect of tax-free allowances provided in S.33(4)(a)-(e) of PITAA, 2011 on tax liabilities of individual taxpayers in Nigeria.
3. To determine the effect of tax-free reliefs provided under S.33(4)(a)-(e) of PITAA, 2011 on tax burdens of individual taxpayers in Nigeria.

Accordingly, the following three null hypotheses were tested:

HO₁: There is no significant difference in the value of CRAs computed based on the provisions in S.33(1) of PITAA, 2011 and the CRAs computed based on the provisions in Paragraphs (1) and (3) to the 6th Schedule of the Act.

HO₂: Tax Liabilities of individual taxpayers are not significantly affected by the exclusion of claims for tax-free reliefs provided in S.33(4)(a)-(e) of PITAA, 2011

HO₃: Exclusion of claims for tax-free reliefs provided in S.33(4)(a)-(e) of PITAA, 2011 does not have any significant effect on tax burdens of individual taxpayers in Nigeria.

Review of Related Literature

Personal Reliefs and Allowances

Tax reliefs and allowances are deductions available to individual taxpayers under personal income tax laws to reduce their chargeable /taxable income and lighten their tax burden (ICAN, 2014, and Ezejelue & Ihendinihu, 2006). They are granted in recognition of the taxpayers personal financial responsibilities in a year of assessment. Thus, individuals with the same assessable income may not pay the same amount of tax because of differences in their domestic circumstances.

Sections 32 to 35 of PITA 1993 as amended up to 2011 provide a wide range of reliefs to individual taxpayers to reflect differences in their income and domestic circumstances. Where these reliefs and allowances are claimed, they reduce the chargeable income of taxpayers as the relevant income covered are freed from tax. A historical review of each of the personal reliefs and allowances, which must be claimed in writing in the prescribed Form with proof of claims, are provided below:

a) Personal Relief

This relief is often referred to as Earned Income Allowance) and is claimable by every taxpayer who has earned income in a Year of Assessment (YOA). The claim for personal relief has continued to vary since the enactment of the Income Tax Management Act (ITMA) 1961 in Nigeria (Sotinwa, 1982). Up to 1984 YOA, personal relief was equal to N600 where Earned Income is less than N2,500, but where Earned Income is greater than or equal to N2,500, personal relief is the higher of ₦1,200 and 10% of earned income plus N600 (ITMA, 1961). The personal relief granted in 1985 and 1986 YOA was ₦1,200 plus 12½% of earned income in excess of N600; but from 1987 to 1989 tax year, the relief was changed to ₦1,000 plus 12½% of earned income. From 1990 to 1991

YOA, personal relief stood at ₦2,000 plus 15% of earned income, and this was raised to ₦3,000 plus 15% of earned income from 1992 to 1997. With effect from 1998 to 2010 tax years, claims for personal relief stood at ₦5,000 plus 20% of earned income (Ezejelue & Ihendinihu, 2006).

b) Consolidated Relief Allowance (CRA)

This was introduced in the PITAA, 2011 to replace personal reliefs (i.e. Earned Income Allowance) provided for under Section 33(1) of PITA, 2004. In amending S.33(1) of the Principal Act, the 2011 Act changed the basis for computing the variable component of the Personal Relief from Earned Income to Gross Income and generated a number of contentious issues with unintended consequences. For instance, the new Section 33(1) increased the fixed and variable components of personal reliefs and renamed it as Consolidated Relief Allowance (CRA). Also, the sixth Schedule to the Principal Act was substituted for a new 6th Schedule which however provided for CRA at rates and amounts which appear to many taxpayers and commentators to be in conflict with Section 33(1) of the same Act (Olugbenro, 2013).

The new Section 33(1) of PITAA, 2011 provides that CRA be computed *as N200,000 subject to a minimum of 1% of Gross Income whichever is higher, plus 20% of Gross Income*. This translates to the higher of N200,000 and 1% of Gross Income, plus 20% of Gross Income”. However, the 6th Schedule Paragraph (1) specifies that CRA be computed *at a Flat rate of N200,000 plus 20% of Gross Income*, while Paragraph (3) of the same Schedule provides that CRA be calculated *as ₦200,000 plus 20% of Gross Income, subject to a minimum tax of 1% of Gross Income, whichever is higher*. This, according to Olugbenro (2013), amounts to repeating the confusion of Paragraph (1) in Paragraph (3).

No doubt, the three definitions for CRA will not yield the same amount of CRA in any particular case and therefore creates implementation challenges. For instance, the choice on the first part of the definition of CRA in Section 33(1) will depend on whether Gross Income is greater than ₦20m or not. The choice will favour ₦200,000 in all cases in which Gross Income is at most ₦20m, but will not favour ₦200,000 when Gross Income is greater than N20m. For instance, if Gross Income is ₦25m, then:

$$\text{CRA} = \text{₦}250,000 + 20\% (25,000,000) = \text{₦}5,250,000$$

Paragraph (1) to the 6th Schedule of PITAA, 2011 provides basis for computing CRA “at a flat rate of N200,000 plus 20% of Gross Income”. This has no option of comparing the fixed component with 1% of Gross Income as in Section 33(1) of the Act. Consequently, Paragraph (1) of the 6th Schedule will only produce the same amount of CRA with S.33(1) when Gross Income is not more than N20 million; but will when Gross Income is greater than N 20 million. For instance, if Gross Income is N25 million, the computed value for CRA will be lower than the result obtained based on Section 33(1) of PITAA, 2011, viz:

$$\text{CRA} = \text{₦}200,000 + 20\% (25,000,000) = \text{₦}5,200,000.$$

Thus, in this instance, Paragraph (1) yielded CRA that is less than the value obtained based on Section 33(1) by N50,000.

Under Paragraph (3) to the 6th Schedule, CRA is computed as “N200,000 plus 20% of Gross Income, subject to a minimum tax of 1% of Gross Income, whichever is higher”. This also aligns with the definition in Paragraph (1) but conflicts with the provision in S.33(1) of PITAA, 2011. In aligning with the definition of CRA in Paragraph (1), the definition in Paragraph (3) to the 6th Schedule also alluded to the amendment to S. 37 of the Principal Act on Minimum tax payable which was increased from 0.5% of Total Income to 1% of Gross Income in the new Act. Minimum tax here means that when a person's taxable income (after all permissible deductions) is nil or lower than a certain percentage of his total income, such a person will be required to pay a minimum tax. The implication of this increase in minimum tax rate is that tax payable by low income earners who hitherto paid minimum tax at 0.5, would be doubled.

The definitions of CRA in the 6th Schedule conflict with the definition provided in the exacting Clause/Section, leading to different interpretations and applications and raising real questions for tax practice and tax education in Nigeria. To resolve this conflict, there is need to resort to court rulings insimilar situations. A generally accepted principle in judicial interpretation is that Schedules, Tables, and Forms are useful in construing the provisions in the body of a statute, but they do not override the plain words of the statute. If there is any contradiction/conflict, the enacting clause (Section) will prevail. The decisions of the Courts in Federal Civil Service Commission v. Laoye (1989), Afolayan v. Bamidele (1999), and Oputeh v. Ishida (1993) are instructive. In these cases, the Court ruled that on no account should provisions in Schedules, Tables and Forms override, take away, or restrain the clear and unambiguous provisions in the Sections of a Statute. Consequently, the provisions in Paragraphs (1) and (3) of the 6th Schedule cannot override the provisions of Section 33(1) of PITAA, 2011 in respect of CRA. Accordingly, computation of CRA should be based on the provisions of Section 33(1) of PITAA, 2011.

The speculation/presumption that the introduction of S.33(1) of PITAA, 2011 covered the other tax-free allowances bothering on domestic circumstances of taxpayers which were claimable under PITA 2004 is objectionable. This presumption received administrative support of the Federal Inland Revenue Service (FIRS). Justifying the exclusion of the reliefs, the FIRS (2012) reported that:

before the amendment of the law, low income earners were only entitled to allowances that were far less than ₦200,000 on their income but now they are entitled to ₦200,000 + 20% of their gross income which is not taxable any longer.

The above report by FIRS is arguable. Before the amendment Act was enacted, individual taxpayers enjoyed the following reliefs/allowances and tax-free income:

a) Tax-free income on:	₦	
Rent allowance	150,000 per annum	
Transport	20,000 „ „	
Meal	5,000 „ „	
Utility	10,000 „ „	
Entertainment	6,000 „ „	191,000
Leave Grant of 10% of Basic Salary		

- b) Personal reliefs and allowances based on S.33 of PITA, 2004:
- | | |
|--|--|
| Personal allowance (S.33(1)) | - N5,000 + 20% of earned income |
| Alimony (S.33(2)(a)) | - N300 maximum |
| Child allowance(S.33(2)(b)) | - N10,000 maximum for four qualifying children |
| Dependent Relatives(S.33(2)(c)) | - N4,000 maximum for two relatives |
| Life Assurance Premium(S.33(2)(d)) | - Actual premium paid |
| Disabled Person Allowance (S.33(2)(e)) | - Higher of N3,000 and 20% of earned income |

Under the amended Act, N191,000 non-taxable income listed in a) above are classified as taxable and included as Gross Emolument in S.3(b) and S.33(2) of PITAA, 2011. With a total fixed component of ₦210,300 as listed in a) and b) above, and additional tax-free allowances/deductions in the variable component for leave grant, personal allowance, and disabled person allowance, it remains doubtful whether low income earners were entitled to allowances that were far less than ₦200,000 on their income as reported. First, the fixed components of ₦213,300 before the amendment is higher than N200,000 under the new Act. Secondly, there is need for empirical evidence to be provided before we can safely conclude that 20% of Gross Income (the variable component of CRA in the new Act) is greater than the sum of the variable components for Personal Reliefs of 20% of Earned Income, Leave Grant of 10% of Basic Salary and Disabled Person Allowance of 20% of Earned Income that existed in the Principal Act. Therefore, the clarification given in FIRS (2012) needs to be empirically evaluated.

The fact remains that the old Subsections (2) and (3) of S.33 of PITA, 2004 covering claimable personal allowances for alimony, child, dependent relatives, life assurance premium, and disabled persons, were not repealed but respectively renumbered as Subsections (3) and (4) in PITAA, 2011. Thus, S.33(4)(a) – (e) of PITAA, 2011 expressly provides for these other tax-free allowances and the reliefs cannot be construed to have been repealed by implication. It is a generally accepted and settled legal dictum that Statutes cannot be repealed by implication, but the repeal of any Statute must be expressly stated in the legal instrument repealing the earlier Statute (*Olanrewaju v Oyeyemi*, 2001). Also, in *NIDB v. Fembo (Nig) Ltd.* (1997), the Court held that it would be highly improbable that the legislature would depart from the general system of law without expressing its intentions with irresistible clarity. Following from the above judicial positions, the other tax-free reliefs for alimony, child, dependent relatives, life assurance premium, and disabled persons are still valid claims under S.33(4)(a)-(e) of PITAA, 2011. To construe otherwise is a presumptuous error in legal interpretation and an aberration in tax practice.

c) Wife Allowance and Alimony

These allowances were alternately granted under S.20A(3)(a) of ITMA, 1961 and claimed by individual taxpayers who were deemed to be resident in Nigeria or exercised any employment the whole gains or profits of which were deemed to be derived from Nigeria or by a person liable to tax under the Income Tax (Armed Forces and Other Persons) Act, 1972. Although Wife Allowance became inapplicable from 1992 tax year, it was granted to every male taxpayer who ordinarily was deemed to be resident in

Nigeria and who, during the year preceding the year of assessment, had a wife living with and maintained by him.

The Act provided for a deduction of N300 to be claimed by a married man or a deduction of any alimony not in excess of N300 paid to a former spouse under an order of a court of competent jurisdiction in the case of an individual whose marriage has been dissolved. The claim for wife allowance was increased to N500 with effect from 1987 and remained so until 1991 tax year when it was abolished due to complaints of unfairness and inequity that surrounded it. First, the allowance discriminated against the female gender who in many Nigerian context, were the bread winners and even maintained their families (including the husband). If the operative/qualifying words for claiming this allowance is co-habitation and maintenance, the most appropriate name for the allowance would have been Spouse Maintenance Allowance to eschew the gender discriminatory nature of 'wife' allowance; particularly, wives who maintain and live with their husbands should have been entitled to make claims, and the agitations that led to its proscription in 1992 would not have arisen.

However, the condition for making relief for alimony has remained the same over time. Under S.33(4)(a) of PITAA, 2011, relief for alimony is the lower of N300 and actual amount paid to a former spouse under an order of a court of competent jurisdiction of a dissolved marriage. Needless to say that the amount to be claimed as alimony has become economically unrealistic/meaningless and this makes a call for urgent and upward review of this subsection expedient; more so as relief for alimony was not repealed in the new Act.

d) Child Allowance

This relief is claimable by every taxpayer who in the year preceding the year of assessment maintained a child. Like other tax-free personal allowances, the amount claimed on a child per annum has varied over the years. Up to and including 1986 tax year, child allowance was ₦250 per child per annum, and this was increased to N400 and granted in 1987 and up to 1991 years of assessment. From 1992 till 1994 years of assessment, ₦500 per child was claimable per annum, while ₦1,000 per child was granted in 1995. In 1996 and 1997 tax years, the allowance was ₦1,500 per child per annum, but with effect from 1998 year of assessment till date, ₦2,500 has remained the claim per child per annum. So, by the provision of S.33(4)(b) of PITAA, 2011, child allowance is claimable at the prevailing value of ₦2,500 per child per annum.

For child allowance to be granted, the Act specified the conditions which must be satisfied. S.33(4)(b) of PITA 2011 outlined that the child upon whom the claim is to be made must on the first day of that preceding year of assessment be:

- i) Less than 16 years of age, or
- ii) Unmarried and maintained by the taxpayer, and
- iii) Receiving full-time instruction in a recognized educational establishment, or
- iv) Was under articles or indentures in a trade or profession.

Thus, age, marital status, and maintenance are the key qualifying conditions for granting claims for child allowance to any taxpayer; receiving full-time instruction and being

under article or indenture are evidences that the child is under the maintenance of the taxpayer.

The Act, under S.33(4)(b)(i)-(iv), equally placed certain restrictions on the amount to be granted as child allowance. First, claims for child allowance must be restricted to four children, and husband and wife or wives (not separated by deed or court order) shall be treated as one individual taxpayer for purposes of the claim. Again, where the maintenance cost for a child is shared by two or more persons, the relief shall be equitably apportioned between them by the relevant tax authority. However, a widow who remarried is allowed under subsection 4(b)(iv) to claim reliefs for every child (up to a maximum of four) born by her to her deceased husband.

e) Dependent Relatives Allowance

This allowance is granted to every individual taxpayer who, during the year preceding the year of assessment, incurred costs in maintaining or assisting to maintain a close relative or the individual's spouse who was either incapacitated by old age or infirmity or the widowed mother of the individual's spouse. Again, the amount to be claimed has maintained upward trend over the years. Up to and including 1986 tax year, dependent relative allowance was limited to N400, and any excess cost was not considered as deductible relief. From 1987 till 1991 tax year, the claim for dependent relative allowance was limited to N600, but this was increased to ₦1,000 for the period 1995 to 1997. However, in 1998 tax year, dependent relative allowance was limited to ₦2,000 per relative per annum for a maximum of two relatives. This has remained in force till date.

By the provisions of S.33(4)(c)(i) &(ii) of PITA 2011, no deduction for dependent relative allowance shall be granted on any relative whose income in the year preceding the year of assessment exceeds ₦1,000, and that claims by two or more individual taxpayers in respect of anyone relative shall be restricted to ₦2,000, subject to a maximum of two relatives. Where the amount so incurred by them on the same relative is in excess of that sum, then the allowance to be granted to each of them shall be in the proportion of the cost so incurred by each of them. The aggregate amount to be granted as dependent relative allowance for any individual taxpayer for any tax year shall not exceed ₦4,000 – S.33(4)(c)(iii) of PITAA, 2011.

f) Life Assurance Premium

Life Assurance Premium is claimable by an individual taxpayer who, during the year preceding the year of assessment, paid premium to any insurance company in respect of insurance on the life of the taxpayer or the life of the spouse or of a contract for a deferred annuity on the life of the taxpayer or the life of the spouse – S.33(4)(d) of PITAA, 2011. For this claim to be allowed, the insurance policy in respect of which the premium is payable must secure a capital sum on death (Ezejelue and Ihendinihu, 2006).

The amount of life assurance relief granted up to and including 1995 year of assessment was the lower of premium paid and the lowest of:

- i) 10% of Capital Sum Assured,
- ii) 20% of Statutory Total Income,
- iii) An overriding maximum of N2,000 up to 1991, but from 1992 to 1995, the overriding maximum was increased to ₦5,000.

However, with effect from 1996 tax year, the limitations and restrictions were no longer applicable, hence life assurance relief is the annual amount of any premium paid by the individual taxpayer during the year preceding the tax year (Ezejelue & Ihendinihu, 2006).

It should be noted that Paragraph (2) to the 6th Schedule of PITAA, 2011 introduced Tax Exempt Deductions, and one of the five items listed is life assurance premium. This relief is also provided for in S.33(4)(d) of the same Act. Thus, including life assurance premium as one of the Tax Exempt Deductions in Paragraph (2) to the 6th Schedule tantamount to duplication. Also, the Schedule did not prescribe any conditions to be met by claimants as it previously existed under S.33(3)(d) of PITA 2004, and renumbered to S.33(4)(d) in PITAA, 2011. For instance, the Schedule was silent on whether claims for life assurance premium could extend beyond policies on the life of the tax payer and the spouse, a condition which was clearly spelt out in the enacting clause (Section). Based on judicial pronouncements in *Oputeh v. Ishida* (1993) and *Afolayan v Bamidele* (1999), the provision in S.33(4)(d) of PITAA, 2011 will supersede the provision in paragraph (2) of the 6th Schedule of the Act to avoid duplicating claims for the relief/deduction.

g) Disabled Person Allowance

This is additional personal allowance for a disabled person which was introduced in 1989 tax year. The law provided that a disabled person using special equipment *as well as* the services of an attendant in the course of a paid employment shall be entitled to additional personal allowance of ₦2,000 or 10% of his earned income *whichever is lower*. Note that the amount is restricted to ₦2,000 only and that the disabled person must satisfy the three conditions of using a *special equipment* and *the services of an attendant* in the *course of a paid employment*. The cost of the services of the attendant is, by implication, to be borne by the disabled person out of the merger relief.

These rules existed up to 1997 tax year but with effect from 1998 year of assessment and up till date, the conditions and the monetary value of the relief were changed to N3,000 or 20% of the earned income, *whichever is higher* for a disabled person who uses special equipment *or* the services of an attendant in the course of a paid employment. Accordingly, the disabled person is no longer required to use both special equipment and the services of an attendant before qualifying for the relief. Again, the fixed component of ₦3,000 becomes the minimum (rather than the maximum) relief claimable, depending on the amount of earned income of the disabled person. S.33(4)(e) of PITAA, 2011 however provides that the amount of deduction for disabled person under this relief shall not exceed 10% of the earned income of the person for that year. This provision, however restricts the upper limit to be claimed to 10% of earned income as against 20% of earned income provided as the variable component of the relief.

Again, the Act restricted this claim to disabled persons on paid employment, thereby leaving self-employed persons with disabilities disadvantaged. Considering the need to promote sustainable entrepreneurship ventures where most persons with disabilities operate, and coupled with the fact that persons with disabilities are scarcely offered paid employment in both private and public sector organizations, it would be most

appropriate to have all self-employed persons with disabilities included in the group to whom additional personal allowance should be granted.

Gross Income

It should be noted that the principal and the amended Personal Income Tax Acts have no definition for Gross Income which is the basis for calculating CRA claimable by taxpayers under the amended Act. However, ICAN, (2014) defined Gross Income to mean all income of a taxpayer, whether received in cash, in kind or in any form (excluding income specifically exempted). Alpheaus and Ihendinihu (2016) also noted that Gross Income of an individual during a YOA is the aggregate assessable income of that individual from all sources after adjusting for general charges, balancing adjustment on disposed qualifying expenditures, reliefs for losses incurred by the individual in business, and capital allowances granted to the individual on qualifying expenditures, as well as tax exempt income including income that suffered withholding tax at source. While clarifying the meaning of Gross Income, ICAN (2014) further noted that, for purposes of computing CRA, Gross Income shall be defined as the total income (excluding Franked Investment Income) of a taxpayer; that is, Earned Income plus Unearned Income (excluding Franked Investment Income).

This clarification for Gross Income however raises questions on whether general charges (such as interest paid on loan taken to build owner occupier residential accommodation), capital allowances, balancing adjustments on disposed qualifying expenditures, and loss reliefs should not form part of what should be deducted from aggregate income of an individual before arriving at Gross Income. Since these items do not fit into what could be deducted after obtaining Gross Income, and consistent with the procedure for calculating Total Income under PITA, 2004, this paper adopted the definition provided in Alpheaus and Ihendinihu (2016), the framework of which is represented viz:

$$GI = (GE + BTI + UI) - GC + BC - (BA + CA + LR) - TEI$$

Where:

GI	=	Gross Income
GE	=	Gross Emoluments
BTI	=	Business/Trade Income (adjusted for tax purposes)
UI	=	Unearned Income
GC	=	General Charges such as interest on loan for building owner occupier residential accommodation.
BC	=	Balancing Charge on disposal of qualifying expenditures
BA	=	Balancing Allowance on disposal of qualifying expenditures
CA	=	Capital Allowances claimed for the tax year
LR	=	Loss Reliefs
TEI	=	Tax Exempt Income (such as Franked Investment Income and interests on government bonds and securities).

Chargeable Income

This is the income that is used as the base for calculating the amount an individual owes the government as tax for a specified tax period/year. The term is used interchangeably with Taxable Income to mean the balance of Gross Income after deducting the reliefs and allowances specified in S.33 and Tax Exempt Deductions provided under Paragraph (2) to the 6th Schedule of PITAA, 2011.

Tax Liability

Tax Liability is the amount of tax that is legally due from or owed by an individual to a taxing authority for a specified tax year. It is the proportion of a taxpayer's Gross Income that is due under the law (and as such, legally binding debt of a taxpayer) to government for funding social programmes and the costs of governance.

The tax liability of an individual in Nigeria is currently calculated by applying the tax rates as prescribed in Paragraph (3) to the 6th Schedule of PITAA, 2011, on the tax base (chargeable Income). The income tax rates in Paragraph (3) to PITA, 2004 were amended by PITAA, 2011 for more equitable tax band in the new Act, viz:

PITA, 2004	PITAA, 2011
Paragraph (3) to the 6 th Schedule	Paragraph (3) to the 6 th Schedule
First N30,000 at 5%	First N300,000 at 7%
Next N30,000 at 10%	Next N300,000 at 11%
Next N50,000 at 15%	Next N500,000 at 15%
Next N50,000 at 20%	Next N500,000 at 19%
Above N160,000 at 25%	Next N1,600,000 at 21%
	Above N3,200,000 at 24%

Source: Paragraphs (3) to the 6th Schedule to PITA, 2004 and PITAA, 2011

Tax Burden

Tax burden is the amount of tax paid by a person or company in a specified period considered as a proportion of the total income in that period. Kagan (2019) used the term 'effective tax rate' as a measure of tax burden and described it as the average rate at which their earned income and unearned income are taxed.

Tax burden is an indicator of how well tax policy meets one of its primary goals – equitably raising the revenues needed to run government. Equity has two dimensions – Vertical equity and horizontal equity. In an attempt to raise revenue for government, consideration should be given to tax burden such that taxpayers with equal taxable capacity (in terms of both income and domestic circumstances) should bear the same tax burden (Horizontal equity) while taxpayers with higher taxable capacity should bear more tax burden (vertical equity). Since payment of tax reduces a taxpayer's real income, tax burden measure is an attempt to quantify this decrease in utility and evaluate the

decrease against a measure of ability-to-pay. This is because taxes may impose an excess burden on the taxpayer beyond the amount of tax payment if the burdens induce distortions in the economic system by altering relative prices and disadvantaging taxpayers with heavy tax burdens.

Based on the amendments introduced in PITAA, 2011, and consistent with specifications for tax burden in Alpheaus and Ihendinihu (2016), the calculation for tax burden in this study was determined as the amount of tax liability of an individual taxpayer in a specified period expressed as a percentage of the Gross Income in that period.

Theoretical Framework

This work is anchored on the ability-to-pay theory. The ability-to-pay theory is a dominant progressive taxation theory which says that money for public expenditure should come from “him that hath” instead of from “him that hath not” Kendrick (1939). The theory is built on the fairness and equity principles of taxation, which treats individuals with the same characteristics/circumstances similarly for them to pay the same taxes (horizontal equity), while individuals with higher ability-to-pay or those who receive more from the government services should be taxed more (vertical equity). Applying this principle to determine when equal sacrifice implies progressive taxation, Young (1987) noted that equality of sacrifice means apportioning the contribution of each person towards the expenses of government (taxes) so that he shall feel neither more nor less inconvenience from his share of the payment than every other person experiences.

This theory underpins the present study as it incorporates the dimensions of income and domestic circumstances upon which the taxable capacity of individual taxpayers are based. Thus inclusion or exclusion of certain tax-free reliefs affects computed tax liability and tax burden, and ultimately distorts the goal for equity and equality in tax administration. To an individual taxpayer therefore, sacrifice is synonymous with tax and any application of tax law provisions must be driven by the taxpayers’ ability-to-pay and weighed against both vertical and horizontal equities with full consideration of differences arising from both income and domestic circumstances of taxpayers.

Empirical Review

Empirical studies on the effects of changes in tax laws on a number of macro and micro economic variables exist in literature and an exhaustive review of such works is thus beyond the scope of the present study. Consequently, selected works on the response of tax payment, tax burden and other economic variables to changes in tax laws were reviewed.

In the United States of America, Steindel (2001) investigated how income tax changes affected consumer spending and personal savings rate. The study evaluated how actual consumer responses to income tax changes compared with those predicted by the life cycle permanent income theory. The work tracked the effects of three major federal

income tax changes (the 1968 Tax Surcharge, the 1975 Tax Rebate and the 1982 Tax cut) on the personal savings rate and consumer spending. Using hypothetical case study approach, the paper observed the behaviour of the personal savings rates around the time a tax change becomes effective and noted that, while the tax and benefit changes examined prompted changes in consumer spending, the magnitude of the responses varied greatly. The spending effect was larger when the tax change was legislated to have a permanent effect on tax liabilities. It was therefore concluded that consumer spending changes when a tax change affects take-home pay and that consumers measure the size of a tax change by its immediate effect on tax payment.

Yew, Milanov & McGee (2015) explored the impact of a major tax reform on individual tax morale in a transition economy. The study was carried out in Russia following the implementation of a flat tax system in 2001 using survey data from WVS (World Values Survey, 2014) for 2006 and 2011, and from EVS (European Values Survey, 2014) for 1999. An Ordered Probit Regression Model was used to investigate the effects of income level, sector of employment, demographic and institutional variables on tax morale index. Results from the study revealed significant coefficient for income scale and employment sector variables with negative marginal effects on tax morale. Socio-demographic variables had varying effects on tax morale while institutional variables were reported to have positive correlation to individual tax morale for the three years. Linear trend associations were detected and it was concluded that individual tax morale for Russia did not change in the years before and after the flat tax reform.

In Nigeria, Dabo, Aimuyedo & Muhammad (2014) investigated the effect of Personal Income Tax (Amendment) Act on Revenue Generation. Chi-square and t- test statistics were used to evaluate data collected from Kaduna Board of Internal Revenue Service. The paper reported that the new tax law has not encouraged taxpayers to voluntarily comply with self-assessment and has not driven the force of change that will minimize the incidence of tax avoidance and evasion. It concluded that the 2011 Personal Income Tax (Amendment) Act has not improved revenue generation in Kaduna State and called for further review of the Act to address inherent loopholes that offer opportunities for undue manipulations by taxpayers.

Onyekwelu & Ugwuanyi (2014) conducted an opinion poll of 80 respondents on the effect of PITAA, 2011 on revenue generation in Nigeria. The paper had as part of its specific objectives the intention to determine the effect of the changes in the Act on taxpayer's income and relevant tax authority. Descriptive statistics were used to capture the socio-economic characteristics of the respondents and the effect of PITAA, 2011 on revenue generation, taxpayer revenue and the tax authorities. The Chi-square technique was used in testing the three hypotheses set for the study and the test results formed the basis for rejecting all the three null hypotheses.

In another study, Alpheaus, Ihendinihu & Azubike (2015) measured the effect of changes in Personal Income Tax Act on chargeable income of individual taxpayers in Nigeria. The main objective was to resolve speculations that chargeable income under

the amended Act is higher than previously existed among taxpayers of different income brackets. Data on income and domestic circumstances of sampled taxpayers in 2014 tax year were collected from Abia State Board of Internal Revenue and analyzed using descriptive statistics, paired sample t-test, and Analysis of Covariance (ANCOVA). Results indicated that PITAA 2011 produces a significantly lower chargeable income than PITA 2004, and that this difference cuts across taxpayers in the identified income groups.

In a related study, Alpheaus, Ihendinihu, and Akpu, (2016) investigated the effect of changes in PITAA, 2011 on tax liabilities of taxpayers on different income levels using causal comparative research design. The study made use of a sample of 319 individual taxpayers categorized into low, moderate, high and very high income groups. Results obtained using descriptive means, paired sample t-test and pairwise comparison of means indicate the existence of significant differences in tax liabilities of taxpayers based on the provisions of PITA, 2004 and PITAA, 2011, and that the effects differ significantly among the four groups of income earners. The paper concludes that the changes in the tax law narrowed the income gap between the rich and the poor and recommended further amendments to stimulate voluntary compliance level and growth in government tax revenue in Nigeria.

Following the outcome of this study, Alpheaus and Ihendinihu (2016) carried out a comparative study of tax burdens of salaried and self-employed taxpayers under Personal Income Tax Act, 2004 and the amendment Act in 2011 using ex-post facto research design. A sample of 259 income levels/points available on the Unified Salary Structure in Nigerian Federal Universities and 60 self-employed taxpayers registered with Abia State Board of Internal Revenue were selected. Data on the gross income and domestic circumstances for the two groups of taxpayers were collated based on provisions in the two tax laws. Results obtained using t-test indicate no significant difference between the tax burdens of salaried and self-employed taxpayers under PITA 2004, while significant differences exist between the two groups under PITAA, 2011. The study concludes that the changes made in the 2011 amendment Act resulted to significant difference between the tax burdens of salaried and self-employed taxpayers in Nigeria and recommends the introduction of Entrepreneurship Relief Allowance in favour of self-employed taxpayers to adjust the observed inequity in tax borne between the two groups under the new Act.

The present study extends the investigation by evaluating the effect of Personal Reliefs and Allowances on Chargeable Income and Tax Burdens of taxpayers in Nigeria. The paper is probably a pioneering study that provided empirical evidence on the difference in CRAs computed based on conflicting provisions in the Section and Schedule of PITAA, 2011, as well as on the effects of exclusion or otherwise of the tax-free reliefs in S.33(4) of the Act on the tax liability and tax burden of taxpayers. The investigation is driven with the target objective of narrowing the knowledge and application gap created by existing disparities in, and misconceptions about, the statutory provisions for computing and granting CRAs and other tax-free reliefs under the amended Act.

Methodology

The study adopted a combination of comparative research design and case study methodology. The comparative research design was considered necessary in determining the effect of different definitions and applications for computing CRAs in S.33(1) and the 6th Schedule of PITAA, 2011. The case study approach was needful in resolving conflicts in, and misconceptions about, the applicability or otherwise of tax-free reliefs provided in S.33(4) of the Act based on established judicial pronouncements. Two sets of hypothetical/simulated data on gross emolument, earned income, gross income, and relevant domestic circumstances of individual taxpayers were generated. The first set comprised 30 gross income items for demonstrating differences in computed CRAs based on definitions provided in S.33(1) and the 6th Schedule with the computed values for CRAs shown in Appendix 1. The second comprised 21 data points on the identified tax variables for determining the effect of *Exclusion* or *Inclusion* of other tax-free reliefs in S.33(4) of PITAA, 2011 on the identified tax variables. Two scenarios were investigated: first is the determination of taxable income, tax liability and tax burden with the presumption that the other tax-free reliefs for domestic circumstances of taxpayers are granted in addition to CRA following the specifications in equations (1), (5), and (7) as shown in the analytical procedures for this study. The second is the computation of taxable income, tax liability and tax burden assuming that the other tax-free reliefs are subsumed into CRA and therefore not claimable (using specifications in equations (2), (6) and (8) as depicted in the analytical procedure adopted. The resulting tax variables under the two scenarios are presented in Appendix 2.

Analytical Procedures and Variable Specifications

The analytical procedures used in computing Gross Income, Taxable Income, Tax Liability, and Tax Burden for the study was adapted from Alpheaus and Ihendinihu (2016) with slight modifications. The modifications were the incorporation of Alimony among the tax-free relief and the adoption of constant amounts of claims in each of the tax years for alimony, child allowance, dependent relative allowance, life assurance premium, and gratuity as specified under each of the two scenarios - *with inclusion* (_{WI}) and *with exclusion* (_{WE}) viz:

Taxable Income

Taxable Income was computed using the specifications in equations (1) and (2) below:

$$TI_{WI} = GI - (CRA + A + CA + DRA + DPA + NHF + NHIS + LAP + NPS + G) \quad (1)$$

$$TI_{WE} = GI - (CRA + NHF + NHIS + NPS + G) \quad (2)$$

Where:

TI_{WI} = Taxable Income *with Inclusion* of S.33(4) of PITAA, 2011

TI_{WE} = Taxable Income *with Exclusion* of S.33(4) of PITAA, 2011

GI = Gross Income (computed following procedures adopted in Alpheaus & Ihendinihu, 2016)

CRA = Consolidated Relief Allowance - higher of N200,000 or 1% of gross income + 20% of gross income - Section 33(1).

- A = Alimony granted at N300 for each taxpayer per annum
 CA = Child allowance of N2,500 per qualified child up to a maximum of four (Section 33(4)(b). Maximum claim of N10,000 was granted to each taxpayer.
 DRA = Dependent Relative Allowance (limited to N2,000 for each relative, subject to a maximum of any two relatives (Section 33(4)(c). Maximum claim of N4,000 was granted to each taxpayer.
 DPA = Disabled Person Allowance: Higher of N3,000 or 20% of earned income for a qualified disabled person (Section 33(4)(e)
 NHF = National Housing Fund Contribution at 2.5% of (GE+ BTI)
 NHIS = National Health Insurance Scheme at 2.5% of (GE+ BTI)
 LAP = Life Assurance Premium at actual premium paid (in line with Section 33(4) (d). Total Actual Premium of N25,000 was used.
 NPS = National Pension Scheme at 7.5% of (GE)
 G = Gratuities at actual amount received of N40,000.
 GE = Gross Emoluments
 BTI = Business/Trade Income (adjusted for tax purposes)

Tax liabilities

Tax liabilities were conceptualized by the authors based on two scenarios: *with Exclusion* ($_{WE}$) and *with Inclusion* ($_{WI}$) of S.33(4) of PITAA, 2011 and computed as follows:

$$TL_{WI} = \sum_{i=1}^n ITR_i (TBI_i) \quad (3)$$

$$TL_{WE} = \sum_{i=1}^n ITR_i (TBI_i) \quad (4)$$

Where:

TL_{WI} = Tax Liability of an individual taxpayer with inclusion of S.33(4).

TL_{WE} = Tax Liability of an individual taxpayer with exclusion of S.33(4).

ITR_i = Income Tax Rates specified in Paragraph (3) of the 6th schedule with $i = 1, 2, \dots, 6$ under PITAA, 2011.

TBI_i = Tax Band Income i.e. the proportion of taxable income applicable to a specified tax band.

Equations 3 and 4 can respectively be expanded to give:

$$TL_{WI} = ITR_1 (TBI_1) + ITR_2 (TBI_2) + \dots + ITR_n (TBI_n) \quad (5)$$

$$TL_{WE} = ITR_1 (TBI_1) + ITR_2 (TBI_2) + \dots + ITR_n (TBI_n) \quad (6)$$

Where

n = number of tax bands in the 6th schedule of the personal income tax law under which the tax liability is computed.

Tax burden

Tax burden was computed as:

$$TBt_{WI} = \frac{TTPt_{WI}}{GIt} \times 100 \quad (7)$$

$$TBt_{WE} = \frac{TTPt_{WE}}{GIt} \times 100 \quad (8)$$

Where:

- TBt_{WI} = The Tax Burden of an individual in year t *with Inclusion* of S.33(4).
 TBt_{WE} = The Tax Burden of an individual in year t *with Exclusion* of S.33(4).
 TTPt_{WI} = Total Tax Paid by the individual in year t *with Inclusion* of S.33(4);
 (assuming that all computed tax liabilities are paid to the tax authority on assessment)
 TTPt_{WE} = Total Tax Paid by the individual in year t *with Exclusion* of S.33(4);
 (assuming that all computed tax liabilities are paid to the tax authority on assessment)
 GI_t = Gross Income of the individual in year t

Data collated were analyzed using descriptive statistics, t-test and the Analysis of Variance (ANOVA) with the aid of SPSS version 20.0.

Results and Discussions

The results of the data analyzed and discussions of findings are presented in two subheadings.

1. Difference in CRAs Computed Based on Provisions in Section and Schedule of PITAA, 2011.

The data in Appendix 1 indicates differences in computed CRAs based on definitions provided in S.33(1) and Paragraphs (1) and (3) to the 6th Schedule and the descriptive statistics is shown in Appendix 2. The results indicate that the two definitions of CRA in the Section and Schedule produced the same amount of CRA only when Gross Income is less than or equal to N20 million (see serial numbers 1 to 3 in Appendix 1. However, CRAs increasingly differed as Gross Income increased, with the definition in S.33(1) yielding higher values of CRA than the Schedule.

The first hypothesis which sought to determine whether the observed differences in value of the CRAs are statistically significant is restated thus:

HO₁: *There is no significant difference in the value of CRAs computed based on the provisions in S.33(1) and the provisions in Paragraphs (1) and (3) to the 6th Schedule of PITAA, 2011.*

The result of the test of significant difference in the observed value of CRAs based on the two conflicting definitions in the provisions of the Act is presented in Table 1.

Table 1: Test of Significant Difference in Computed CRAs based on Conflicting Definitions in the Section and the Schedule of PITAA, 2011

One-Sample Test						
	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
CRA	3.529	29	.001	426,350	179269.7010	673430.2990

Source: Authors' Computation based on data in Appendix 1.

The results indicate that the mean CRA based on S.33(1) is greater than the value obtained based on the definition in the 6th Schedule by N426,350. The t-value is 3.529 with a probability index of .001. Since the significant level is less than the set alpha level of 0.05, we reject the Null Hypothesis and conclude that there is significant difference in the value of CRAs computed based on the definition provided in the Section and that provided in the Schedule to PITAA, 2011. Consequently, the definition of CRA in S.33(1) tilts more favourably towards the taxpayer in the value of CRA claimable than the definition in the 6th Schedule of the Act. This accords with Olugbenro (2013) who reported that taxpayers with current or anticipated annual income in excess of N20 million will prefer S.33(1) to be retained.

This result raises questions on the usefulness of a Schedule in statutes and how conflicts between a Schedule and the Section should be treated. It should be noted that Schedules, Tables and Forms in a statute are useful in construing the provisions in the body of a statute, but they do not override the plain words of the statute. If there is any contradiction, the enacting clause (Section) will prevail. This is the decision of the court in *Federal Civil Service Commission v. Laoye* (1989), *Afolayan v Bamidele* (1999) and *Oputeh v Ishida* (1993). In these decided cases, the Courts consistently ruled that on no account should provisions in Schedules, Tables and Forms override, take away, or restrain the clear and unambiguous provisions in the Section of a Statute. Consequently, the provisions in Paragraphs (1) and (3) to the 6th Schedule cannot override the provisions of S.33(1) of PITAA, 2011 on the definition of CRA, hence CRA should be granted/claimed based on the provisions in the enacting Clause/Section.

2. Effect of Exclusion of Tax-Free Reliefs in S.33(4) of PITAA, 2011 on the Tax Liabilities and Tax Burdens of individual taxpayers.

The study further investigates whether the exclusion or otherwise of tax-free allowances provided in S.33(4) of PITAA, 2011 significantly alter the value of chargeable income, and consequently affect tax liabilities and tax burdens of individual taxpayers in Nigeria. The results of the descriptive statistics are shown in Appendix 3 and the comparative mean figures on the tax variables are summarized in Table 2.

Table 2: Comparison of Mean Tax Variables Based on Inclusion or Exclusion of Tax-free Reliefs in S.33(4)(a)-(e) of PITAA, 2011.

Tax Variable	Mean		Change in Value	% Change in Value as a result of inclusion
	Reliefs in S.33(4) Excluded	Reliefs in S.33(4) Included		
Personal Reliefs & Allowances	2,328,000.00	3,794,966.67	1,466,966.67	63.0 (Increase)
Taxable Income	9,826,119.05	6,031,152.38	3,794,966.67	38.6 (Decrease)
Tax Liability	2,150,268.57	1,239,476.57	2,150,268.57	42.4 (Decrease)
Tax Burden	18.99	9.97	9.02	47.5 (Decrease)

Source: Authors' Computations based on results in Appendix 3.

Results in Table 2 revealed two important information. First, the inclusion of the other tax-free reliefs provided for in S.33(4)(a)-(e) increased the total claims for personal reliefs and allowances from N2.33million to N3.8 million (63.0%). Secondly, the inclusion of the reliefs had the effect of reducing the taxable Income from N9,8 million to N6.0 million (38.6%), tax liability from N2.2 million to N1.2 million (42.4%), and tax burden from 19% to 10% (47.5%). Thus, recognizing both income and domestic circumstances of taxpayers in granting tax-free reliefs minimizes tax burden of taxpayers and enhances voluntary compliance more than when differences in income is the only consideration for granting such reliefs.

The paper further investigated whether the observed differences in tax liabilities and tax burdens based on the inclusion or otherwise of the other tax-free reliefs are significant, and the results are shown in Table 3.

Table 3: Test of Significant Difference in Mean Tax Liability and Tax Burden based on Inclusion or Exclusion of tax-free reliefs in S.33(4) of PITAA, 2011.

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
Tax Liability	Between Groups	8710191706272.000	1	8710191706272.000	7.983	.007
	Within Groups	43644725029714.290	40	1091118125742.857		
	Total	52354916735986.290	41			
Tax Burden	Between Groups	854.020	1	854.020	75.453	.000
	Within Groups	452.744	40	11.319		
	Total	1306.764	41			

Source: Authors' Computations based on data in Appendix 2.

The following two hypotheses were tested:

- HO₂: *Tax Liabilities of individual taxpayers are not significantly affected by the exclusion of claims for tax-free reliefs provided in S.33(4)(a)-(e) of PITAA, 2011.*
- HO₃: *Exclusion of claims for tax-free reliefs provided in S.33(4)(a)-(e) of PITAA, 2011 does not have any significant effect on tax burdens of individual taxpayers in Nigeria.*

From table 3, the F-value of the mean tax liabilities is 7.983 with a probability index of .007. Since this significant level is less than the set alpha level of 0.05, the null hypothesis (HO₂) is rejected and we conclude that tax liabilities of individual taxpayers are significantly affected by the exclusion of claims for tax-free reliefs provided in S.33(4)(a)-(e) of PITAA, 2011.

Similarly, the F-value of the mean tax burden is 75.453 (P = .000 < .05). Accordingly, we reject the null hypothesis (HO₃) and conclude that excluding tax-free reliefs provided in S.33(4)(a)-(e) of PITAA, 2011 has significant effect on the tax burden of individual taxpayers in Nigeria.

Consequently, not granting tax-free allowances provided in S.33(4) with the presumption that they are covered under CRA alters the tax liability and tax burden profile of taxpayers and this practice fails to consider and accommodate the domestic idiosyncrasies of taxpayers. Differences in domestic circumstances are key issues in addressing problems of tax inequalities, inequities, and imbalances in tax burdens among individual taxpayers in Nigeria. Besides, this practice amounts to repealing an existing legislation by implication, a complete departure from the general system of law as expressed in *Olanrewaju v Oyeyemi* (2001) and *NIDB v Fembo (Nig.) Ltd* (1997).

Conclusion and Recommendations

The paper confirms the existence of conflicts in the legal provisions for determining CRA under PITAA, 2011 and concludes that the definition of CRA in Paragraphs (1) and (3) of the 6th Schedule to PITAA, 2011 cannot override the plain and unambiguous words provided in S.33(1) of the Act. Evidence from this study has shown that the application of the two conflicting definitions resulted to significant differences in computed values for CRA. Again, presumptions for *exclusion* of tax-free allowances on the domestic circumstances of taxpayers tantamount to misconception of the clear letters of the Act, and any application of the presumption in practice is illegal and represents serious challenge in tax education in Nigeria. It is an established legal dictum that the repeal of a Section, Schedule, Table or Form in a Statute cannot be adduced or construed by implication, but must be expressly stated in the new statute. Consequently, claims of allowances for alimony, child, dependent relatives, life assurance premiums, and disabilities are still valid and grantable under S.33(4)(a-e) of PITAA, 2011. This becomes imperative as results from this study have shown that excluding these tax-free reliefs has significant effect on tax liabilities and tax burdens of individual taxpayers in Nigeria.

Recommendations

1. The definition for CRA under S.33(1) of PITAA, 2011 (ie. Higher of N200,000 and 1% of Gross Income, plus 20% of Gross Income) should be uniformly adopted by tax administrators in granting personal reliefs to individual taxpayers, and by tax instructors/educators in teaching taxation in all institutions of learning in Nigeria.
2. The conflicting definitions for CRA in Paragraphs (1) and (3) to the 6th Schedule should urgently be reviewed to synchronize and align the provisions of the Paragraphs (Schedule) with the provisions in S.33(1) of the Act.
3. Tax educators, administrators, practitioners, and taxpayers should no longer presume that CRA has covered claimable allowances for alimony, child, dependent relatives, life assurance premium, and disabled persons, but should treat them as valid under PITAA, 2011, since the reliefs were not (and cannot be presumed to have been) repealed by the Act.
4. The government, particularly the legislative arm, and government bodies/institutions with mandate to regulate and manage tax matters in Nigeria should initiate early processes for amending conflicting provisions in tax Statutes soon after amendments to existing laws are made public. It is hardly commendable that the Nigerian tax system has existed with these conflicts and misconceptions since 2011 when the amendment to the Principal Act was made without any visible efforts to correct the anomalies by the authorities/legislature. Timely response to

- defects in Statutes should be the hallmark of legislative activities in the area of taxation.
5. CITN, JTB, and professional accountancy bodies in Nigeria are requested to stimulate regular dialogues based on sponsored research works in critical areas of taxation. This will further help in identifying imbalances in tax statutes and other critical areas for greater efficiency in fiscal administration in Nigeria.
 6. Including Life Assurance Premium as one of the Tax Exempt Deductions in Paragraph (2) to the 6th Schedule amounts to duplication as the same relief has been provided for under S.33(4)(d) of the Act. The provision for this item in the Schedule cannot override that in the enacting Clause, and should accordingly be deleted by the Legislature.
 7. Spouse Maintenance Allowance should be introduced to function in the stead of the repealed Wife Allowance to provide a tax shield against the additional burden of maintaining a spouse. This new relief will be granted to either the wife or the husband to eschew the gender discriminatory nature of the repealed Wife allowance.
 8. Restriction of additional personal allowance for disabled taxpayers to persons on paid employment should be removed to accommodate self-employed persons with disabilities.

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Appendix 1:

Simulated Data of Gross Income and CRA of 30 Taxpayers

Gross Income	CRA = S.33(1): Higher of 200,000 & 1%(GI) + 20%(GI)	CRA = 6th Schedule, Para (1) & (3): 200,000 + 20%(GI)	Difference in CRA
18,000,000	3800000	3800000	0
19,500,000	4100000	4100000	0
<u>20,000,000</u>	<u>4200000</u>	<u>4200000</u>	<u>0</u>
22,600,000	4746000	4720000	26000
24,500,000	5145000	5100000	45000
25,000,000	5250000	5200000	50000
25,400,000	5334000	5280000	54000
27,000,000	5670000	5600000	70000
27,800,000	5838000	5760000	78000
28,500,000	5985000	5900000	85000
30,700,000	6447000	6340000	107000
32,000,000	6720000	6600000	120000
38,300,000	8043000	7860000	183000
41,050,000	8620500	8410000	210500
42,400,000	8904000	8680000	224000
45,700,000	9597000	9340000	257000
48,000,000	10080000	9800000	280000
52,500,000	11025000	10700000	325000
56,500,000	11865000	11500000	365000
59,000,000	12390000	12000000	390000
64,300,000	13503000	13060000	443000
65,700,000	13797000	13340000	457000
66,000,000	13860000	13400000	460000
71,600,000	15036000	14520000	516000
74,500,000	15645000	15100000	545000
75,000,000	15750000	15200000	550000
80,000,000	16800000	16200000	600000
120,000,000	25200000	24200000	1000000
250,000,000	52500000	50200000	2300000
325,000,000	68250000	65200000	3050000

Appendix 2:
Hypothetical Data of Income, Tax-free Reliefs and other Tax Variables of 21 Taxpayers

Gross income	Gross Emolument	Earned Income	CRA section	ACDAs	DPA	TTFRate	TTFD	TIncIn	TIncCh	TIncDu	TTFExch	TIncExch	TIncExch
5,500,000	6,600,000	8,000,000	3500000	14,300	1600000	5,114,300	18,228,600	10425700	2294168	13,9	13540000	3521600	21,34
5,500,000	9,000,000	12,000,000	3200000	14,300	2400000	5,614,300	23,228,600	8045700	1722968	11,49	13660000	3070400	20,47
5,120,000	5,600,000	9,800,000	3024000	14,300	1960000	4,998,300	19,796,600	8146700	1747208	12,37	13145000	2946800	20,87
2,400,000	4,600,000	10,750,000	2680000	14,300	2150000	4,384,300	20,438,600	6608200	1377968	11,11	11452500	2540600	20,49
5,450,000	7,050,000	9,440,000	3490000	14,300	1888000	5,392,300	20,224,600	9991950	2190068	13,31	1538250	3484220	21,18
4,500,000	2,100,000	3,500,000	1100000	14,300	700000	1,814,300	7,128,600	2288200	341168	7,58	4102500	776600	17,26
3,900,000	4,900,000	6,600,000	2980000	14,300	1320000	4,314,300	15,228,600	8823200	1908668	13,74	13137500	2945000	21,19
2,600,000	9,900,000	10,500,000	4120000	14,300	2100000	6,234,300	22,968,600	12033200	2679968	13,67	18267500	4176200	21,31
3,000,000	7,000,000	9,500,000	2900000	14,300	1900000	4,714,300	18,928,600	7220700	1524968	11,73	11935000	2656400	20,43
5,000,000	8,000,000	10,000,000	3200000	14,300	2000000	5,214,300	20,428,600	8620700	1860968	12,41	13835000	3112400	20,75
8,500,000	5,000,000	6,500,000	1900000	14,300	1300000	3,214,300	12,928,600	4520700	876968	10,32	7735000	1648400	19,39
4,800,000	2,500,000	3,000,000	1160000	14,300	600000	1,774,300	6,548,600	2623200	421568	8,78	4397500	847400	17,65
2,700,000	1,600,000	2,500,000	740000	14,300	500000	1,254,300	5,008,600	1135700	64568	2,39	2390000	365600	13,54
4,520,000	5,600,000	9,800,000	3104000	14,300	1960000	5,078,300	19,956,600	8466700	1824008	12,56	17545000	3042800	20,96
5,000,000	2,200,000	4,800,000	1400000	14,300	960000	2,374,300	9,548,600	3155700	549368	9,16	5530000	1119200	18,65
2,100,000	1,600,000	1,900,000	660000	14,300	380000	1,054,300	4,008,600	965700	23768	1,03	2020000	276800	12,03
4,500,000	2,100,000	3,500,000	1100000	14,300	700000	1,814,300	7,128,600	2288200	341168	7,58	4102500	776600	17,26
8,500,000	5,000,000	6,500,000	1900000	14,300	1300000	3,214,300	12,928,600	4520700	876968	10,32	7735000	1648400	19,39
5,000,000	9,000,000	12,000,000	3200000	14,300	2400000	5,614,300	23,228,600	8045700	1722968	11,49	13660000	3070400	20,47
2,700,000	1,600,000	2,500,000	740000	14,300	500000	1,254,300	5,008,600	1135700	64568	2,39	2390000	365600	13,54
3,450,000	7,050,000	9,440,000	2890000	14,300	1888000	4,792,300	19,024,600	7591950	1614068	12	12384250	2764220	20,55

Source: Authors' Computation using Equations (1) to (8) based on hypothetical data of Gross Income, Gross Emolument, Earned Income,

Appendix 3:
Descriptive Statistics of Taxable Income, Tax Liability and Tax Burden based on Inclusion or Exclusion of S.33(4) of PITAA, 2011

Tax Variables	N	Minimum	Maximum	Mean	Std. Deviation
Consolidated Relief Allowance - S.33(1) of PITAA, 2011	21	660000	4120000	2328000.00	1091419.443
Total Tax Free Reliefs including reliefs in S.33(4) of PITAM	21	1054300	6234300	3794966.67	1735303.585
Taxable Income INCLUDING Other Tax Free Reliefs in S.33(4) of PITAM	21	965700	12033200	6031152.38	3422634.682
Tax Liability INCLUDING Other Tax Free Reliefs in S.33(4) of PITAM	21	23768	2679968	1239476.57	821432.324
Tax Burden INCLUDING Other Tax Free Reliefs in S.33(4) of PITAM	21	1.03	13.90	9.9686	3.83787
Taxable Income EXCLUDING Other Tax Free Reliefs in S.33(4) of PITAM	21	2020000	18267500	9826119.05	5115820.351
Tax Liability EXCLUDING Other Tax Free Reliefs in S.33(4) of PITAM	21	276800	4176200	2150268.57	1227796.884
Tax Burden EXCLUDING Other Tax Free Reliefs in S.33(4) of PITAM	21	12.03	21.34	18.9872	2.81211
Valid N (listwise)	21				

Source: Authors' Computation based on data in Appendix 2.

MODERATING EFFECT OF EXTERNAL DEBT ON THE IMPACT OF TAX REVENUE ON NIGERIA ECONOMIC GROWTH

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Abstract

Every economy of the world needs revenue in order to develop sustainably and thereby take position in the comity of nations. Studies have shown that the economic growth of nations all over the world depends largely on the revenue generated from a well - structured tax system. However, Nigeria's overdependence on oil for foreign exchange has adversely affected the sustainable growth of the nation. This has made the need to diversify the revenue base of the county to be very obvious. On this basis, this study evaluated the effect of tax revenue on Nigeria economic growth within 1997-2017. The study employed the ex-post facto research design. The sample size consisted federally collected taxes paid by the corporate tax payers and economic growth in Nigeria proxied by real gross domestic product (RGDP), while external debt was introduced as a moderating variable from 1997 to 2017. Data were sourced from government reports validated by their respective regulatory bodies. Descriptive and inferential statistics were adopted for data analysis. The findings revealed that tax revenue had a significant effect on the economic growth in Nigeria ($F=2502.02$, $Adj. R^2 = 0.999$, $P\text{-value} = 0.0000$). The Petroleum Profit Tax (LOG(PPT)) has significant positive effect on GDP in the long-run. [$Coef.=0.269$; $R^2=0.996$; $P\text{-value}=0.000$; $t=7.635$], Companies Income Tax (LOG(CIT)) has a significant positive effect on GDP in the long run [$Coef.=0.296$; $R^2=0.996$; $P\text{-value}=0.000$; $t=31.933$]; Value Added Tax (LOG(VAT)) has a significant positive effect on GDP in the long run [$Coef.=0.296$; $R^2=0.999$; $P\text{-value}=0.000$; $t=44.668$] and Customs and excise duties (LOG(CUS) has a significant positive effect on GDP [$Coef.=0.296$; $R^2=0.995$; $P\text{-value}=0.000$; $t=8.604$]. The study concluded that tax revenue influences economic growth and determines long-run economic growth. The study finds that Value Added Tax (VAT) and Customs and excise duties (CUS) are the determinants of short-run economic growth. The study recommended among others that government and all relevant tax relevant authorities should formulate appropriate policies in order to: encourage citizens to pay taxes as at when due, ensure appropriate utilization of the taxes collected, Improved capacity for the government agencies to formulate and implement sound tax policies effectively.

Keywords: Companies Income Tax (CIT), Economic Growth, External Debt, Gross Domestic Product (GDP), Petroleum Profit Tax (PPT) and Tax Revenue and Value Added Tax

Introduction

The economic growth of nations the world over mostly depends on the quantity of revenue generated from a well-structured tax system. The principal obligation of every responsible government is the provision of adequate public goods and services that improve the standard of living of citizens. The fulfilment of these responsibilities essentially depends on the quantum of revenue generated by the government through various means. Economic growth can be positive, zero, or negative (Eneje, 2018). Positive economic growth is recorded when the annual average level of the macro-indicators is higher than the average level of growth of the population (June, 2015; Abdouli & Hammami, 2017). Gross domestic product (GDP) is a monetary measure of the market value of all final goods and services produced in a period, be it quarterly or yearly (Eneje, 2018). The growth of Nigeria as a developing nation has been rated by the World Economic Global Competitive Index of 2015) as the 38th out of 144 countries with \$286.5 billion US dollar using gross domestic product as an indicator. Gross Domestic Product (GDP) is an economic measure of a nation's total income and output for a given time period usually a year. GDP was used as a proxy for economic growth in this study. The GDP in Nigeria has been on the rise from 2010 to 2015 except in 2016. It rose from ₦54,612.3 billion in 2010 to ₦59,929.89 billion in 2012, ₦69,023.9 billion in 2015 but fell to ₦67,931.24 billion in 2016 (NBS Report, 2016) with a progressive increase in the tax revenue performance from ₦2,839.30 billion in 2010 to ₦5,007.70 billion in 2012, however in 2015, there was decline in tax revenue performance to ₦3,741.6 billion in 2015, which later rose to ₦3,307.4 billion in 2016 (FIRS Annual Report, 2016). Nigeria's over dependence on oil for foreign exchange and budgetary revenues has adversely affected the sustainable growth of the nation. This has, in turn, made the need to diversify the revenue base of the country very obvious.

Taxation is one of the viable sources of revenue generation required in order to provide essential services for people living in a particular geographical area. It has been a phenomenon of global significance as it affects every economy regardless of national differences (Obob & Isa, 2012). As submitted by Okwara and Amori, (2017) taxation could have a positive or negative effect on both the individual and government depending on the tax structure. For instance, for individuals who pay tax, low income tax rate constitutes an incentive to work or save, while high income tax rate serves as a disincentive to work or save. On the other hand, for the government, high tax rates provide the most reliable, important and dominant source of revenue for promoting the economic growth of the nation.

Tax is proxy for fiscal policy and there are possible mechanisms by which it can affect economic growth. First, taxes can inhibit investment rate when levied in form of corporate and personal income taxes or capital gain taxes. Second, taxes can slow down growth in labour supply by disposing labour leisure choice in favour of leisure. Third, tax policy can affect productivity growth through discouraging effect on research and development expenditures. Fourth, taxes can lead to a flow of resources to other sectors that may have lower productivity. Finally, high taxes on labour supply can distort the efficient use of human capital even when they have high social productivity (Raed &

Ahmad, 2016). The primary aim of taxation is to generate revenue capable of financing government expenditure at all levels of government. This is done by imposing taxes on individuals, groups, businesses and corporate bodies by the constituted authorities (Eze, Celina & Atuma, 2018). Tax is proxy for fiscal policy and there are possible mechanisms by which it can affect economic growth. First, taxes can inhibit investment rate when levied in form of corporate and personal income taxes or capital gain taxes. Second, taxes can slow down growth in labour supply by disposing labour leisure choice in favour of leisure. Third, tax policy can affect productivity growth through discouraging effect on research and development expenditures. Fourth, taxes can lead to a flow of resources to other sectors that may have lower productivity. Finally, high taxes on labour supply can distort the efficient use of human capital even when they have high social productivity (Raed & Ahmad, 2016). The primary aim of taxation is to generate revenue capable of financing government expenditure at all levels of government. This is done by imposing taxes on individuals, groups, businesses and corporate bodies by the constituted authorities (Eze, Celina & Atuma, 2018). There are inconsistencies in tax laws making it difficult for the tax authorities to administer and even for the tax payer to follow. The initial plan of the federal government was to maintain a uniform tax system but the economic situation of each state has given room for divergent systems. The most significant point worthy of note in this regard is that taxation, which is supposed to be an instrument of economic growth is not currently yielding as much as it should in Nigeria. The impact of tax payment is not generally felt by payee, some do not understand some tax laws and this ignorance has birthed doubt and confusion which further spurs some to want to cheat or completely evade tax (Ogwuru & Agbaraevoh, 2017). Tax revenue has accounted for a small proportion of total revenue generated over the years when compared with the bulk of revenue generated by the Federal Government. However, the role of taxation in promoting economic activity and growth is not felt primarily because of its poor administration. This is a major challenge since it has been observed globally that there is a paradigm shift to tax revenue as a better alternative source of revenue generation and the need for Nigerian government to generate adequate revenue from taxation has become a matter of urgency and importance (Anyamaobi & Onyema, 2018)

Research Problem

The Nigerian economy is majorly dependent on oil, as it currently cannot finance social and economic growth in the absence of a large oil revenue base. In Nigeria, oil accounts for about 90-95% of the export revenue, over 90% of foreign exchange earnings and about 80% of government revenue. The oil industry is thus the hub of the Nigerian economy, and needs to be sustained if the country is to achieve real economic growth. Eneje (2018) opined that Nigeria has delivered a huge sum of revenue from oil with crude oil trading over \$100 per barrel during the 2 quarter of 2014, and Nigeria reached a position of the largest economy in Africa, was comfortable but unable to manage the windfall. The over 60% drop in oil price to \$40 per barrel was clearly unanticipated by the Nigerian government yet it effected over 80% fall in the income per barrel of oil produced in Nigeria, a gallop decline in revenue generation, the 2016 budget deficit of over N2trillion, depreciation of Naira, slowing GDP growth, reduced inflow of foreign direct investment (FDI), rising inflation, growing unemployment, rising debt profile,

discontinuation of Federal Government capital projects and reduction in allocation to the States of the Federation with resultant effect of many states' inability to pay employee salaries (Bickersteth, 2016). The success or failure of any tax system depends on the extent to which it is properly managed and the extent to which the tax law is properly interpreted and implemented. However, over the years, it has been observed that the Nigerian tax system has inherent problems in its structure (Asaolu, Olabisi, Akinbode, & Alebiosu, 2018). It also lacks the capacity to diversify the revenue portfolio for the country in a bid to safeguard against the volatility of crude oil prices and to promote fiscal sustainability and economic viability at lower tiers of government (Wahab & Diji, 2017). All of these deficiencies are still in place in spite of the fact that the tax system has undergone series of reforms in Nigeria.

They further stated that the Nigerian tax system has undergone several reforms geared at enhancing tax administration with minimal compliance and enforcement costs. The success or failure of any tax system depends on the extent to which it is properly managed and the extent to which the tax law is properly interpreted and implemented. However, over the years, it has been observed that the Nigerian tax system has inherent problems in its structure (Asaolu, Olabisi, Akinbode, & Alebiosu, 2018). It also lacks the capacity to diversify the revenue portfolio for the country in a bid to safeguard against the volatility of crude oil prices and to promote fiscal sustainability and economic viability at lower tiers of government (Wahab & Diji, 2017). All of these deficiencies are still in place in spite of the fact that the tax system has undergone series of reforms in Nigeria. In the words of Unegbu and Irefin, (2011), the Nigerian tax system has undergone several reforms geared at enhancing tax administration with minimal compliance and enforcement costs

The empirical nexus between tax revenue and economic growth has been a contentious issue especially in developing countries. The empirical literatures depict different, disaggregated and inconclusive findings. For instance, the result of the studies of impact of taxation and economic growth indicated a positive relationship (Apata, 2015; Ayeni, Ibrahim & Adeyemi, 2017; Eyisi, Chioma & Bassey, 2015; Ibannichuka & Uguru, 2016; Ofoegbu, Akwu & Oliver, 2016; Okwara & Amori, 2017; Raed & Ahmad, 2016) while some other studies reported a negative relationship between the two variables (Akhor & Ekundayo, 2016; Chigbu & Njoku, 2015; Keho & Njogu, 2015; Ojong, Ogar & Oka, 2016).

It remains unclear why empirical evidence in developing countries like Nigeria often yield conflicting findings. These conflicting conclusions show that the effect of tax revenue on economic growth is not yet resolved. The inconclusive evidence has left the issue of growth effect of taxation open to further research. Following the aforementioned gap created by the mixed views in findings and conclusion reached by different researchers, this study aims at filling the gap by combining tax revenue proxied with variables like petroleum profit tax, companies' income tax, value added tax, and custom and excise duties, and then investigating its effect on economic growth in Nigeria. A good relationship between government revenue and economic growth of a nation is very important. However, the contribution of tax revenue in Nigeria has not met the expectations of Government. This is evident in table 1.1 which reflects the tax revenue to GDP ratio between years 2000-2016. Another major economic challenge

confronting Nigeria as a nation is the need to optimize taxation revenue for economic and social growth while aiming to reach development targets. The most glaring difficult challenge is how to find the optimal balance between a tax regime that is business and investment friendly while at the same time leveraging enough revenue for public service delivery which in turn makes the economy more attractive to investors. A number of studies have been done on tax revenue and economic growth in connection with other variables. Among these are Eyisi, Chioma and Bassey (2015), Raed and Ahmad (2016), Ibannichuka, Akanni, and Ikebujo (2016), Ogwuru and Agbaraevoh (2017), and Inga (2018). The review of literature shows that the problem of tax revenue and Nigeria economic growth has not been adequately addressed and there is a huge deficit of research work in that area. Inga, (2018) and Ogwuru, and Agbaraevoh, (2017) therefore suggested that further studies should be initiated on tax revenue and Nigeria economic growth

Table 1.1 Tax Revenue to GDP Ratio: 2000 – 2016

Year	GDP (N Billions)	Tax Revenue (N Billions)	Percentage (%)
2000	25,169.54	455.30	1.81
2001	26,658.62	586.60	2.20
2002	30,745.19	433.90	1.41
2003	33,004.80	703.10	2.13
2004	36,057.74	1,194.80	3.31
2005	38,378.80	1,741.80	4.54
2006	40,703.68	1,863.20	4.58
2007	43,385.88	1,846.90	4.26
2008	46,320.01	2,972.20	6.42
2009	50,042.36	2,197.60	4.39
2010	54,612.26	2,839.30	5.20
2011	57,511.04	4,628.50	8.05
2012	59,929.89	5,007.60	8.36
2013	63,218.72	4,805.90	7.60
2014	67,152.79	4,714.50	7.02
2015	69,023.93	3,741.60	5.42
2016	67,931.24	3,307.40	4.87

Source: National Bureau of Statistics (NBS, 2017)

Every economy of the world needs revenue in order to develop sustainably and thereby take its position in the comity of nations. Tax Revenue as a percentage of GDP has been consistently low in Nigeria, the highest was about 8% for the years 2011 and 2012. The

Tax Justice Network (2012) emphasized that tax revenue is the most important, most beneficial, and most sustainable source of finance for development for a country. A good relationship between government revenue and economic growth of a nation is very important. Another major economic challenge confronting Nigeria as a nation is the need to optimize taxation revenue for economic and social growth while aiming to reach development targets. The most glaring difficult challenge is how to find the optimal balance between a tax regime that is business and investment friendly while at the same time leveraging enough revenue for public service delivery which in turn makes the economy more attractive to investor

The quest for economic growth and development compelled Nigeria to seek finance through external debt. The first major external loan of US\$28 million by Nigeria was acquired from World Bank in 1958 to finance railway construction. Ever since then, there has been accumulation of loans aimed at various development projects without satisfactory results. The rising debt profile is closely related to the fact that the contribution of tax revenue has been minimal. The Central Bank of Nigeria's (CBN, 2017) figures show that Nigeria's External Debt amounted to US\$11.4 billion as at December 2016 while Domestic Debt was N11.06 trillion. Debt servicing in 2017 was N1.66 trillion, while debt service as a percentage of revenue was 33.66%. This implies that more concerted efforts are needed to increase tax revenue in Nigeria (Budget, 2017). This has been realised in Nigeria, and over the years, several tax reforms have been implemented to improve the efficiency and effectiveness of the tax system in Nigeria. Nigeria recorded a government debt equivalent to 21.30 percent of the country's Gross Domestic Product in 2017. Government Debt to GDP in Nigeria averaged 32.42 percent from 1990 until 2017, reaching an all-time high of 75 percent in 1991 and a record low of 7.30 percent in 2008.

Research Objective

The main objective of the study was to examine the effect of taxation on the growth of the Nigerian economy. The specific objectives were set to:

- i. examine the effect of petroleum profit tax on Nigeria economic growth;
- ii. ascertain the effect of companies' income tax on Nigeria economic growth;
- iii. evaluate the effect of value added tax on Nigeria economic growth;
- iv. investigate the effect of Customs and excise duties on Nigeria economic growth;
- v. examine the effect of total tax revenue on Nigeria economy growth and
- vi. ascertain the moderating effect of external debt on the relationship between total tax revenue and economic growth in Nigeria.

Research Hypotheses

The following hypotheses were tested in this study:

- H₀1: Petroleum Profit Tax has no significant effect on Nigeria economic growth.
H₀2: Companies' Income Tax has no significant effect on Nigeria economic growth.
H₀3: Value Added Tax has no significant effect on economic growth in Nigeria.
H₀4: Custom and excise duties have no significant effect on Nigeria economic growth.
H₀5: Tax revenue generated has no significant impact on Nigeria economic growth.
H₀6: External debt has no significant moderating effect on the relationship between total tax revenue and economic growth in Nigeria.

Literature Review:

Several empirical studies have been carried out relating to the impact of petroleum profit tax on the economic growth of Nigeria. Yahaya and Bakare (2018), investigated the effect of petroleum profit tax and companies' income tax on economic growth in Nigeria and found that *petroleum profit tax (PPT) has positive significant impact on gross domestic product (GDP) in Nigeria; in congruence*, Gopar, Dalyop and Yussuf (2018) examined the impact of petroleum profits tax on economic growth in Nigeria. The work concluded that *Petroleum profits tax has a significant positive relationship with economic growth, but does not granger cause economic growth over the years under consideration. Furthermore*, Okon, Onyekwelu, and Iyidiobi (2016) examined the effect of petroleum profit tax on economic growth of Nigeria the study found that *PPT had positive and significant effect on Nigerian GDP in congruence*, Abdullahi, Madu, and Abdullahi (2015) also assessed the evidence of petroleum resources on Nigeria economy (2000-2009) the study revealed that petroleum has a direct and positive significant relationship with the Nigeria economy. This was re-investigated by Olatunji, and Adegbite (2016) who worked on the effect of petroleum profit tax interest rate and money supply on Nigeria economy from 1970 to 2010 the analysis revealed that short run effect of petroleum profit tax was positive and that of interest rate was positive on economic growth. A companies' income tax in Nigeria is administered exclusively by the Federal Inland Revenue Services. Empirical studies on companies' income tax and Nigeria economic growth are inconclusive, intriguing and divergent. More recently, researchers shifted attention to investigating if companies' income tax can bring about economic growth. The study of Eneje, (2018) is an appraisal of companies' income tax on the growth of the Nigerian economy. The study found that *companies' income tax has a positive effect on the growth of the Nigerian economy*. In congruence, Naomi and Sule, (2015) examined companies' income tax in the light of alternative financing for sustainable development in Nigeria and found that there is a positive and significant relationship between companies' income tax and revenue generation in Nigeria.

Furthermore, Odusola, A., (2006) examined the effect of reduced companies' income tax incentives on foreign direct investment in listed Nigerian manufacturing companies. The findings showed strong positive linear relationships between reduced companies' income tax incentives and economic growth. Not far from this, Adegbite (2015) examined the effect of corporate income tax on government revenue in Nigeria. It was revealed that government derives revenue from corporate tax through which they discharge their responsibility by providing funding for infrastructure, education and public health; this invariably enhances economic growth in Nigeria. This implies that, corporate income tax is positively significant to economic growth.

The attention of researchers has shifted to investigating the place of value added tax in relation to Nigerian economic growth. A study from Igga, (2018) investigated the role of value added tax (vat) role in the economic growth of the republic of South Sudan, it was found out that the majority of South Sudan demand for the introduction of VAT furthermore, Ogwuru, and Agbaraevo, (2017) examined impact of value added tax, companies' income tax and custom and excise duties on economic growth and development in Nigeria. *Results showed that there were positive and significant*

relationships between GDP and VAT. In coherence, Anyamaobi and Onyema (2018) investigated the impact of value-added tax on the growth of the Nigerian economy and the study found a significant relationship between value-added tax and the growth of the Nigerian economy. Moreover, Patrick, Zayol, Anwese, Terlumun, Kenneth, and Johnson (2017) examined the impact of value added tax on the Nigerian economic growth, the study found that value added tax (VAT) has a positive relationship with the Nigerian economic growth. In congruence, Nasiru, Haruna, and Abdullahi, (2016) evaluated the impact of value added tax on the economic growth of Nigeria from 1994-2014. The study found evidence of a significant positive impact of VAT on economic growth.

Custom and excise duties and Nigeria economic growth is a recurring theme in the literature which established diverse results. According to the study of Inga (2018) who examined the viability of customs tax (duty) in the economy of South Sudan the study found a positive effect of custom and excise duties on economic growth. In the same vein Ogwuru and Chinasa, (2017) examined the impact of custom and excise duties on economic growth and development in Nigeria the study found a positive relationship between of custom and excise duties on economic growth. In the same vein Adegbie (2011) who had a study on customs and excise duties contribution towards the development and growth of Nigerian economy.

The research by Kasidi and Said (2013) shows that external debt and debt service both have a significant impact on GDP growth with the total external debt stock having a positive effect. In coherence, Abdelhadi (2013) explored the relationship between external debt and economic growth in Jordan during the period of 1990-2011. The study shows that there is a positive and significant relationship between external debt and economic growth. In line with this, Zafar (2015) found external debt has a significant and negative impact on economic growth. Azam (2013) found a positive impact of external debt on economic growth of Indonesia. Contrarily, Tehereni, Sekhampu, and Ndovi, (2013) analysed the impact of foreign debt on economic growth in Malawi using time series. Data for the period 1975–2003. Their results show a statistically insignificant and negative relationship between external debt and economic growth for the case of Malawi. This is in line with research of Abdelhadi (2013) who explored the relationship between external debt and economic growth in Jordan during the period of 1990-2011. The study found a positive effect of external debt on economic growth. Furthermore, Azam, Emirullah, Prabhakar, and Khan (2013) analyzed the impact of external debt on the economic growth of Indonesia. The main finding of their study shows that external debt has a negative impact on economic growth. Tran (2013) analyzed the impact of foreign debt on economic growth in Malawi using time series. Data for the period 1975–2003. Their results show a statistically insignificant and negative relationship between foreign debt and economic growth for the case of Malawi.

Theoretical Review

This study was hinged on the theoretical framework generated by the Socio-political Theory. The socio - political theory states that social and political objectives should be the main factors in selecting taxes, consequently, a tax system should not be designed to serve individual members of the society but should be used to cure the ills of the larger

society. However, contrary to this view, Knut Wicksell (1896) in his Benefits Received Theory stated that there exists an exchange relationship between the state and taxpayers. While the state provides certain goods and services to the members of the society; the tax-payers contribute to the cost of these supplies in proportion to the benefits received (Bhartia, 2009). In the same vein, Expediency Theory propounded by Anyafo (1996) advocates that tax revenue be used as a policy tool by government to remedy economic and social problems of the society. Ability to Pay Theory propounded by Pigou (1996) states that one should be taxed according to the ability to pay. It is simply an attempt to maximize an explicit value judgment about the distributive effects of taxes. Bhartia (2009) argued that a citizen is to pay taxes just because he can, and his relative share in the total tax burden is to be determined by his relative paying capacity. Wagner (1883) in his attempt to explain the pattern of government expenditure propounded "The Law of Increasing State Activity", which states that as an economy develops over time, activities and functions of government increase. Peacock and Wiseman (1961) question the applicability of the central idea in Wagner's (1883) law to all societies at all times. After a critical appraisal of all these theories, the Ability to Pay Theory and Wagner law were found to be most suitable for the purpose of addressing the concerns and preoccupations of this study. As a result, this study will be anchored on ability to pay theory and Wagner law.

Gaps in the study

Scholars have worked on studies combining tax revenue, external debt, and economic growth with some other variables such as the work of Kasidi and Said (2013) investigated the impact of external debt on economic growth in Tanzania using time series of 1990-2010. In a similar study Korkmaz (2015) examined the relationship between external debt and economic growth in Turkey. Furthermore, study by Christensen and Schanz (2018) on the central banks and debt: Emerging risks to the effectiveness of monetary policy in Africa. Abdouli and Hammami, (2017). An econometric study of the impact of economic growth, human capital and environmental degradation on FDI inflows in the African Mediterranean countries. Salami, Apelogun, Omidia, and Ojoye (2015). The review of literature shows that the problems of tax revenue, external debt and Nigeria economic growth has not been addressed and research works are limited in this respect coupled with the fact that many studies in Nigerian ever attempted to determine tax revenue, external debt and Nigeria economic growth, researchers. Therefore, Christensen and Schanz (2018) suggested that tax revenue, external debt and economic growth should be investigated by other researchers. Hence this study was designed to examine the moderating effect of external debt on the impact of tax revenue of the economic growth of Nigeria to bridge the missing link.

Methodology

This research work adopted *ex-post facto* design. *Ex-post facto* relies on secondary data obtained after the occurrence of the event which the researcher has no control over because they have already occurred and cannot be manipulated. The study evaluated the effect of Tax Revenue on Nigerian economic growth from 1997-2017 moderated by external debt. The population of the study was a total of 21 observations which was arrived at thus; a period of study covering 1997 to 2017. The choice of the period was

informed by the developments in the Nigerian economy traceable to the difficulty of the government in raising revenue needed to discharge its pressing obligations. Time series data was used in carrying out this study obtained mainly from secondary sources. Validated data were collected from secondary sources which include: Central Bank of Nigeria's Annual Reports and Statistical Bulletin, World Development Indicators, Federal Inland Revenue Service's Annual Report, National Bureau of Statistics and other credible secondary sources. The total enumeration sampling technique was adopted. The sample size for this study covered the period of 1997 to 2017, which is 21 years and six variables representing 21 observations, which provided a good ground for observing the trend over a longitudinal period and it served as a good basis for generalisation. The research adopted descriptive and inferential statistic. The descriptive statistical approach of central tendencies and dispersion such as mean, median, standard deviation were used to organize, summarize and present the data in an informative way to capture the behaviour of the variables. For inferential analysis, the study employs the Autoregressive Distributed Lag (ARDL) approach to determine the extent to which each of independent variable affects the dependent variable. Autoregressive. Multiple regression was used to analyse the data for testing the hypotheses.

Model Specification:

$$Y = f(X)$$

Where Y= Economic Growth- Dependent Variable

Where X = Tax Revenue - Independent Variable

Therefore,

$$X = (x_1, x_2, x_3, x_4,)$$

Where:

Independent variables

x_1	=	Petroleum Profit Tax (PPT)
x_2	=	Companies' Income Tax (CIT)
x_3	=	Value Added Tax (VAT)
x_4	=	Custom and Excise Duties (CUS)

Dependent variable

Y = Economic growth (to be proxied by Gross Domestic Product - GDP)

Y = EG = GDP

Y = GDP

Moderating variable

Z=External Debt (EXD)

Functional Relationship

GDP = f(PPT) _____	Equation 1
GDP = f(CIT) _____	Equation 2
GDP = f(VAT) _____	Equation 3
GDP = f(CUS) _____	Equation 4
GDP = f(TREV) _____	Equation 5
GDP = f(TREV, EXD) _____	Equation 6

where:

GDP	= Gross Domestic Product	
PPT	= Petroleum Profit Tax	
CIT	= Companies' Income Tax	
CUS	= Customs and excise duty	
TREV	= Total Tax Revenue (PPT, CIT, VAT, CUS)	
EXD	= External Debt	
$GDP_t = \hat{a}_0 + \hat{a}_1 PPT_t + \mu_t$		Model 1
$GDP_t = \hat{a}_0 + \hat{a}_2 CIT_t + \mu_t$		Model 2
$GDP_t = \hat{a}_0 + \hat{a}_1 VAT_t + \mu_t$		Model 3
$GDP_t = \hat{a}_0 + \hat{a}_1 CUS_t + \mu_t$		Model 4
$GDP_t = \hat{a}_0 + \hat{a}_1 PPT_t + \hat{a}_2 CIT_t + \hat{a}_1 VAT_t + \hat{a}_1 CUS_t$		Model 5
$GDP_t = \alpha_0 + \hat{a}_1 TREV + \hat{a}_2 EXD + \mu_t$		Model 6

Conceptual Model

Independent Variables

Dependent Variable

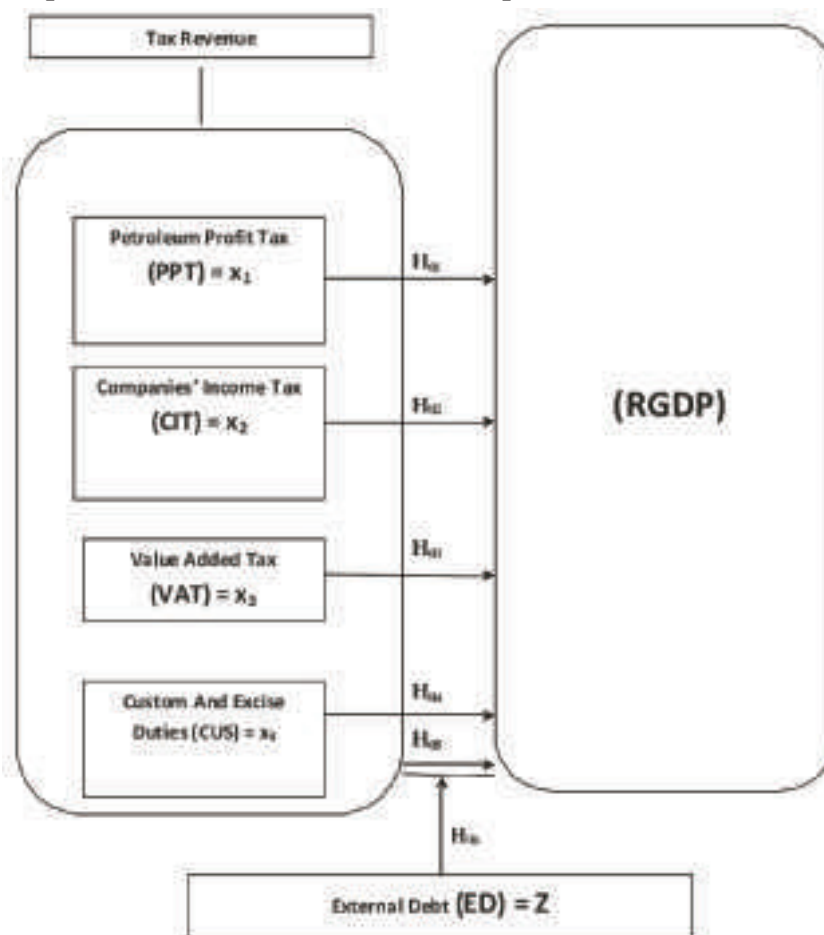


Figure 2.1: Researcher's Conceptual Model (2019)

Findings:

Descriptive Statistics

The descriptive statistics summarizes the basic statistical features of the variables under consideration. The variables under consideration are; gross domestic product (GDP), Petroleum Profit Tax (PPT), Value Added Tax (VAT), Companies' Income Tax (CIT), Customs Tax (CUS) and External Debt (EXD)

Table 1: Summary Statistics

	GDP (N'B)	PPT (N'B)	CIT (N'B)	VAT (N'B)	CUS (N'B)	EXD (N'B)
Observations	21	21	21	21	21	21
Mean	45208.18	1243.26	471.49	396.46	297.65	2147.19
Median	43385.88	1157.80	327.00	301.70	241.40	1631.52
Maximum	69023.93	3201.30	1207.30	967.70	628.00	5787.51
Minimum	23231.12	24.60	26.00	34.00	57.68	438.89
Std. Dev.	16676.14	979.58	426.23	319.20	178.83	1657.72

Source: Author's Computation 2019, underlying data from FIRS Annual Reports, CBN Statistical Bulletin and National Bureau of Statistics

NOTE: GDP represents Gross Domestic Product, PPT represents Petroleum Profit Tax, VAT represents Value Added Tax, CIT represents Companies' Income Tax, CUS represents Customs Tax and EXD represents External Debt

The results of the descriptive analysis for the variables considered are presented in Table 1. The result shows that there are 21 observations for each of the series. From the table, the average value of gross domestic product (GDP) is N45,208.18b while the mean value is N43,385.88b. this reflecting asymmetry in the distribution of GDP during the period of this study. The minimum and maximum values of the series are N23,231.12b and N69,023.93b respectively with a standard deviation of 16676.14. These indicate that the series varies during the period. The Petroleum Profit Tax (PPT) during the period takes its values between N24.60b and N3201.30b with an average value of N1243.26b and median value of N1157.80b. The mean and median values of the series that are approximately the same indicate that the series is symmetrical. Also, the minimum, maximum and standard deviation values indicate that there are wide gaps among the PPT values recorded during the period. Companies' Income Tax (CIT) figures recorded during the period of this study ranges from N26.00b and N1207.30b. These mean that the lowest CIT ever recorded during the period of this study was N26.00b while on the other extreme it was N1207.30b. The standard deviation value of 426.23 with the lowest and highest figure ever recorded indicates that the figures actually vary significantly during the period under study. However, the average and median values recorded are N471.49b and N327.00b respectively.

The Value Added Tax (VAT) has a minimum value of N34.00b and a maximum value of N967.70b with N396.46b and N301.70b as the average and median values respectively. From the results, the gap that exists between the average and median values is an indication that the series is asymmetrical. Furthermore, the standard deviation value of

319.20 with the minimum and maximum values depict that the figure of VAT for the period of this study diverge significantly. The ranges of the values that Customs Tax (CUS) has are N57.68b and N628.00b with an average value of N297.65b and median value of N241.40b. Looking at the figures critically, the mean and median are found not to be the same. This implies that the series are not symmetrical. Moreover, the estimated value of the standard deviation is 178.83 indicating that the series has some variability. With respect to External Debt (EXD), the result shows minimum and maximum values of N438.89b and N5,787.51b respectively with an average value of the N2,147.19b and median value of N1,631.52b. However, the standard deviation value of N1,657.72 reveals notable variations and diverse variability in the series.

Inferential; Statistics

Test of Hypothesis one (H₀₁): Petroleum Profit Tax has no significant effect on Nigerian economic growth.

Table 2: ARDL Model for the Relationship between Gross Domestic Product and Petroleum Profit Tax

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LOG(GDP(-1))	0.871156	0.028778	30.27190	0.0000
LOG(PPT)	0.005524	0.009864	0.560024	0.5832
LOG(PPT(-1))	0.029076	0.010461	2.779347	0.0134
C	1.195526	0.259907	4.599826	0.0003
R-squared	0.996382	Mean dependent var		10.67851
Adjusted R-squared	0.995704	S.D. dependent var		0.377716
S.E. of regression	0.024757	Akaike info criterion		-4.382551
Sum squared resid	0.009807	Schwarz criterion		-4.183404
Log likelihood	47.82551	Hannan-Quinn criter.		-4.343675
F-statistic	1468.888	Durbin-Watson stat		1.898922
Prob(F-statistic)	0.000000			

Source: Author's Computation 2019, underlying data from FIRS Annual Reports, CBN Statistical Bulletin and National Bureau of Statistics.

NOTE: GDP represents Gross Domestic Product and PPT represents Petroleum Profit Tax

$$GDP_t = \hat{\alpha}_0 + \hat{\alpha}_1 PPT_t + \mu_t \dots \dots \dots \text{Model 1}$$

GDP=1.195526 +0.029076 PPT.

From table 2, the co-efficient of determination (R²) indicates that about 99.6% of the variations in GDP is explained by Petroleum Profit Tax (PPT). Also, it shows that the data are so close to fitted regression line. The Durbin-Watson statistic value of 1.9 (approximately 2) indicates that the model is free from serial correlation. As shown in the result, in the long-run, the relationship between gross domestic product (GDP) and Petroleum Profit Tax (PPT) is positive as expected and statistically significant at 5% level of significance [Coef. = 0.269; The t-statistic is 2.773947 and P-value = 0.0134]. The significance of the coefficient indicates that the Petroleum Profit Tax (PPT) has

effect on the gross domestic product (GDP) in the long-run. Alternatively, it indicates that one percent increase in PPT increases GDP by 0.269 percent in the long run during the period of this study.

The null hypothesis was rejected and the alternate accepted.

Test of Hypothesis 2: Companies Income Tax has no significant effect on Nigerian economic growth.

Table 3 ARDL Model for the Relationship between Gross Domestic Product and Companies' Income Tax

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LOG(GDP(-1))	0.480671	0.111333	4.317424	0.0005
LOG(CIT)	0.067682	0.046868	1.444108	0.1680
LOG(CIT(-1))	0.085783	0.056624	1.514980	0.1493
C	4.720566	1.002227	4.710077	0.0002
R-squared	0.996862	Mean dependent var		10.67851
Adjusted R-squared	0.996274	S.D. dependent var		0.377716
S.E. of regression	0.023057	Akaike info criterion		-4.524812
Sum squared resid	0.008506	Schwarz criterion		-4.325666
Log likelihood	49.24812	Hannan-Quinn criter.		-4.485937
F-statistic	1694.265	Durbin-Watson stat		1.616997
Prob(F-statistic)	0.000000			

Source: Author's Computation 2019, underlying data from FIRS Annual Reports, CBN Statistical Bulletin and National Bureau of Statistics. NOTE: GDP represents Gross Domestic Product and CIT represents Companies' Income Tax

$$GDP_t = \beta_0 + \beta_2 CIT_t + \mu_t \dots \dots \dots \text{Model 2}$$

$$GDP = 4.720566 + 0.085783CIT$$

Based on the result from the table 3, the R-squared value is 0.997. This indicates that about 99.7% of the variations in GDP is explained by Companies' Income Tax (PPT). The Durbin-Watson statistic value of 1.62 (approximately 2) indicates that the model is free from serial correlation. The F-statistics (1694.27; P - value = 0.000) is highly significant at 5% level of significance. This further indicates a good fit. From Table 3, the long run position shows a coefficient of 0.085783 which shows that 1% increase in CIT will lead to 8.5% increase in GDP. At 0.05 level of significance, t.statistic is 1.514980 while the p-value of the t-statistic is 0.1493 which is higher than 0.5 level of significance. Therefore did not reject the null hypothesis.

Test of Hypothesis 3: H_{03} : Value Added Tax has no significant effect on economic growth in Nigeria.

From table 4, the coefficient of determination (R-squared) value is 0.999 suggesting that about 99.9% of the variances in GDP is explained by Value Added Tax (VAT). The F-statistics (6494.76; P - value = 0.000) is highly significant at 5% level of significance and

this further indicates that the model is fit. The Durbin-Watson statistic value of 1.96 (approximately 2) depicts that the model is free from serial correlation.

Table 4: ARDL Model for the Relationship between Gross Domestic Product and Value Added Tax

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LOG(GDP(-1))	0.410859	0.050418	8.149013	0.0000
LOG(VAT)	-0.055506	0.030582	-1.814977	0.0883
LOG(VAT(-1))	0.250348	0.038432	6.513959	0.0000
C	5.262502	0.446195	11.79417	0.0000
R-squared	0.999179	Mean dependent var		10.67851
Adjusted R-squared	0.999026	S.D. dependent var		0.377716
S.E. of regression	0.011790	Akaike info criterion		-5.866237
Sum squared resid	0.002224	Schwarz criterion		-5.667090
Log likelihood	62.66237	Hannan-Quinn criter.		-5.827361
F-statistic	6494.756	Durbin-Watson stat		1.959498
Prob(F-statistic)	0.000000			

Source: Author's Computation 2019, underlying data from FIRS Annual Reports, CBN Statistical Bulletin and National Bureau of Statistics. NOTE: GDP represents Gross Domestic Product and VAT represents Value Added Tax

$$GDP_t = \beta_0 + \beta_1 VAT_t + \mu_t \dots \dots \dots \text{Model 3}$$

$$GDP = 5.262502 + 0.250348VAT.$$

From table 4, the long run coefficient of VAT is 0.250348 positive, which shows that 1% increase in VAT will lead to 25% increase in GDP. At 0.05 level of significance, the t-statistic is 6.513959, while the p-value of the t-statistic is 0.0000 which is lower than 0.05. The study therefore rejected the null hypothesis. This shows that Value Added Tax has significant effect on the economic growth of Nigeria.

Test of Hypothesis 4: Custom and excise duties have no significant effect on Nigeria economic growth.

From the result in table 5, the co-efficient of determination (R²) indicates that about 99.5% of the variations in GDP is explained by Customs Tax (CUS). Besides, it shows that the data are closely fitted to the regression line. The Durbin-Watson statistic value of 1.91 (approximately 2) indicates that the model is free from serial correlation. The F-statistics (1170.59; P = 0.000) is highly significant at 1% level of significance. These confirm the usefulness of the model.

Table 5: ARDL Model for the Relationship between Customs Tax and Gross Domestic Product

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LOG(GDP(-1))	0.787685	0.059849	13.16130	0.0000
LOG(CUS)	0.027888	0.038169	0.730648	0.4756
LOG(CUS(-1))	0.081482	0.039743	2.050204	0.0571
C	1.711919	0.459749	3.723596	0.0018
R-squared	0.995465	Mean dependent var		10.67851
Adjusted R-squared	0.994614	S.D. dependent var		0.377716
S.E. of regression	0.027720	Akaike info criterion		-4.156472
Sum squared resid	0.012294	Schwarz criterion		-3.957326
Log likelihood	45.56472	Hannan-Quinn criter.		-4.117597
F-statistic	1170.587	Durbin-Watson stat		1.911352
Prob(F-statistic)	0.000000			

Source: Author's Computation 2019, underlying data from FIRS Annual Reports, CBN Statistical Bulletin and National Bureau of Statistics. NOTE: GDP represents Gross Domestic Product and CUS represents Customs Tax

$$GDP_t = \beta_0 + \beta_1 CUS_t + \mu_t \dots \dots \dots \text{Model 4}$$

$$GDP_t = 1.711919 + 0.081482 CUS$$

From table 5, the coefficient of the long run effect of customs and excise duties is positive with 0.081482. This shows that 1% increase in customs and excise duties will to 8.1% increase in Gross Domestic Product. At a degree of freedom 0.05, the t-statistic is 2.050204 while the p-value is .0571 which is higher than 0.05. Therefore, the null hypothesis was not rejected. This means that in the long run, Custom and excise duties have no significant effect on Nigeria economic growth.

Test of hypothesis 5: H_0 : Tax revenue generated has no significant impact on Nigeria economic growth.

Based on the result from table 6, the Adjusted R-squared value is 0.998919. This indicates that about 99.9% of the variation in GDP is jointly explained by Petroleum Profit Tax (PPT), Value Added Tax (VAT), Companies' Income Tax (CIT) and Customs Tax (CUS). The Durbin-Watson statistic value of 2.164 (approximately 2) indicates that the model is free from serial correlation. The F-statistics (2508.996; P - value = 0.000) is highly significant at 1% level of significance. This further indicates a good fit.

Table 6: ARDL Model for the Relationship between Gross Domestic Product and Tax Indicators

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LOG(GDP(-1))	0.391937	0.063663	6.156407	0.0000
LOG(PPT)	-0.001364	0.005770	-0.236416	0.8171
LOG(CIT)	0.032367	0.044532	0.726827	0.4813
LOG(VAT)	-0.056955	0.052002	-1.095231	0.2949
LOG(VAT(-1))	0.210543	0.049180	4.281084	0.0011
LOG(CUS)	-0.012736	0.020709	-0.614991	0.5500
LOG(CUS(-1))	0.034342	0.022666	1.515129	0.1556
C	5.398412	0.561219	9.619089	0.0000
R-squared	0.999317	Mean dependent var		10.67851
Adjusted R-squared	0.998919	S.D. dependent var		0.377716
S.E. of regression	0.012419	Akaike info criterion		-5.649966
Sum squared resid	0.001851	Schwarz criterion		-5.251673
Log likelihood	64.49966	Hannan-Quinn criter.		-5.572215
F-statistic	2508.996	Durbin-Watson stat		2.164364
Prob(F-statistic)	0.000000			

Source: Author's Computation 2019, underlying data from FIRS Annual Reports, CBN Statistical Bulletin and National Bureau of Statistics. NOTE: GDP represents Gross Domestic Product, PPT represents Petroleum Profit Tax, VAT represents Value Added Tax, CIT represents Companies' Income Tax, and CUS represents Customs and excise duties

$$GDP_t = \beta_0 + \beta_1 PPT_t + \beta_2 CIT_t + \beta_3 VAT_t + \beta_4 CUS_t + \dots \text{Model 5}$$

$$GDP_t = 5.398412 - 0.001264PPT + 0.032367CIT + 0.210543VAT + 0.034342CUS.$$

From table 6, the long run effect shows that the coefficient of PIT is negative with - 0.001364 which means that 1% increase in PIT will lead to 0.14% decrease in GDP, and also the p-value is 0.8171 which is insignificant at 0.05% level of significant. The coefficient of CIT is positive with 0.032367 which means that 1% increase in CIT will lead to 3.2% increase in GDP, and also it is insignificant with p-value of 0.4813. The coefficient of CUS is positive with 0.034342 which means that 1% increase in CUS will lead to 3.4% increase in GDP, and also the p-value of 0.1556 is insignificant at 0.05 level of significant. The coefficient of VAT is positive with 0.210543. This means that 1% increase in VAT will lead to 21% increase in GDP. Also at 0.05 level of significance, VAT is significant at the p-value of 0.0011. Overall, at 0.05 level of significant, the F-statistics is 2508.996 with p-value of 0.000000 lower than 0.05. This means that the study rejected the null hypothesis which means that Tax revenue generated has no significant impact on Nigeria economic growth.

Test of Hypothesis 6: H_{06} : External debt has no significant moderating effect on the relationship between total tax revenue and economic growth in Nigeria.

Table 7: ARDL Model for the Relationship between Gross Domestic Product and Tax Indicators and External Debt

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LOG(GDP(-1))	0.376797	0.063028	5.978240	0.0001
LOG(PPT)	-0.007855	0.006352	-1.236622	0.2420
LOG(CIT)	0.026468	0.039854	0.664133	0.5203
LOG(VAT)	-0.053727	0.049403	-1.087534	0.3001
LOG(VAT(-1))	0.239149	0.039143	6.109650	0.0001
LOG(CUS)	0.000696	0.033701	0.020644	0.9839
LOG(EXD)	-0.010060	0.008179	-1.229984	0.2444
LOG(EXD(-1))	0.014296	0.006217	2.299595	0.0421
C	5.544886	0.558762	9.923525	0.0000
R-squared	0.999451	Mean dependent var		10.67851
Adjusted R-squared	0.999051	S.D. dependent var		0.377716
S.E. of regression	0.011633	Akaike info criterion		-5.767744
Sum squared resid	0.001489	Schwarz criterion		-5.319664
Log likelihood	66.67744	Hannan-Quinn criter.		-5.680274
F-statistic	2502.402	Durbin-Watson stat		2.197370
Prob(F-statistic)	0.000000			

Source: Author's Computation 2019, underlying data from FIRS Annual Reports, CBN Statistical Bulletin and National Bureau of Statistics. NOTE: GDP represents Gross Domestic Product, PPT represents Petroleum Profit Tax, VAT represents Value Added Tax, CIT represents Companies' Income Tax, CUS represents Customs and excise and EXD represents External Debt

$$GDP_t = \beta_0 + \beta_1 TREV + \beta_2 EXD + \mu_t \dots \dots \dots \text{Model 6}$$

$$GDP = 5.544886 - 0.007855PPT + 0.026468CIT + 0.239149VAT + 0.000696CUS + 0.014296EXD$$

Based on the result from table 7, the Adjusted R-squared value is 0.999. This indicates that about 99.9% of the variation in GDP is jointly explained by Petroleum Profit Tax (PPT), Value Added Tax (VAT), Companies' Income Tax (CIT), Customs Tax (CUS) and External Debt (EXD). The Durbin-Watson statistic value of 2.197 (approximately 2) indicates that the model is free from serial correlation. The F-statistics (2502.402; P - value = 0.000) is highly significant at 5% level of significance. This further indicates a good fit.

While the individual coefficients remain as analysed in hypothesis 5, the coefficient of external debt in the long term is positive with 0.014296 which means that 1% in external debt will have a 1.4% increase in GDP. At 0.05% level of significant, the p-value is significant at 0.0421 lower than 0.05. From the overall result, in the long run, at 0.05 level of significance, the F-statistic is 2502.402 while the p-value of is 0.00000 lower

than 0.05. The study therefore rejects the null hypothesis and accept the alternate, which means that External debt has significant moderating effect on the relationship between total tax revenue and economic growth in Nigeria.

Discussion:

The findings from the regression result revealed that positive relationship exists between Petroleum Profit Tax (PPT) and gross domestic product (GDP) both in the short-run [Coef. = 0.006; P-value = 0.583] and long-run [Coef. = 0.269; P-value = 0.000]. However, the study only finds significant among the variables in the long-run at 1% levels of significance. These mean that Petroleum Profit Tax (PPT) improves economic growth in the long run. The estimated positive but insignificant coefficients of Petroleum Profit Tax (PPT) in the short-run maybe as a result of the fact that the PPT recorded in the given short time is not enough to significantly affect the country's economy. This finding is in conformity with the *a priori* expectation and also consistent with the findings of Abdullahi, Madu, and Abdullahi (2015), Olatunji, and Adegbite (2016), Yahaya and Bakare (2018), Gopar, Dalyop and Yussuf (2018). The result further revealed that the estimated coefficients of current value Companies' Income Tax (CIT) is positive and statistically insignificant within the conventional alpha level of 10% - 1% in the short-run [Coef. = 0.068; P-value = 0.168]. Conversely, the estimated coefficient of the Companies' Income Tax (CIT) in the long-run is positive and statistically significant at 1% alpha level [Coef. = 0.296; P-value = 0.000]. Then again, it shows that economy of the country proxied by gross domestic product (GDP) grows with higher Companies' Income Tax (CIT) in the long-run. In congruence, Naomi and Sule, (2015), Olaleye, Riro, and Memba (2016) and Eneje, (2018) among others observed positive and significant effect of Companies' income tax on Nigerian economic growth in the long-run. However, the findings are not in tandem with Saidu, (2015) and Golpira, Abdolreza, & Rui-Li (2016) as they found negative relationships. It is evident that in the short-run; the coefficient of Value Added Tax (VAT) is positive and statistically significant at 5% level [Coef. = 0.068; P-value = 0.042].

Besides, the study finds positive and highly significant coefficient for the Value Added Tax (VAT) in the long-run at 5% level [Coef. = 0.296; P-value = 0.000]. The implication of these results is that Value Added Tax (VAT) significantly affects gross domestic product (GDP) both in the short-run the long-run. The positive and significant effects of Value Added Tax (VAT) in the in tandem with the empirical findings by Fredrick and Okeke (2015), Nasiru, Haruna, and Abdullahi, (2016) and Ogwuru, and Agbaraevo, (2017), who found that Value Added Tax (VAT) exhibits positive and significant relationship with gross domestic product (GDP) but contrary to the findings by Kohaliand Noor, (2016), and Okwara and Amori (2017) who find negative relationships. The findings of this study as from the results confirmed that Customs Tax (CUS) has significant effect on economic growth in Nigeria. This is evident in the significant coefficients of the variable both in the short-run [Coef. = 0.068; P-value = 0.095] and long-run [Coef. = 0.296; P-value = 0.000]. This means that Customs Tax (CUS) have significant effect on economic growth. This seems to support the findings of Ogwuru and Chinasa, (2017) and Abomaye-Nimenibo, et al (2018) who also finds no positive and

significant evidence on the response of gross domestic product (GDP) to Customs Tax (CUS). However, the results failed to support the findings of Onakoya and Affitinni (2016) and Munyoro, Chiinze, and Dzapasi (2016). They both found that Customs Tax (CUS) has negative relationship with economic growth. In the case of the major tax type levels in a single model, the study finds positive and insignificant coefficient for Tax Revenue (TREV) in the short-run [Coef. = 0.007; P-value = 0.7162]. However, it is positive and significant in the long-run [Coef. = 0.328; P-value = 0.000]. This is in alignment to the Jones, Ihendinihu and Nwaiwu (2015), Uniamikogbo and Aigienohuwa (2017), and Asaolu, Olabisi, Akinbode and Alebiosu (2018) since the aforementioned tax type level are positive and statically significant. For the last model that reflected moderating effect of external debt on the relationship between tax revenue and economic growth, the study finds that in the short run; the current value of Tax Revenue (TREV) and External Debt (EXD) have positive but insignificant relationships with gross domestic product (GDP) [Coef. = 0.005; P-value = 0.802 and Coef. = 0.004; P-value = 0.559 respectively]. However, in the long - run the relationship between Tax Revenue (TREV) and economic growth is positive and statistically significant at 1% level of significance [Coef. = 0.320; P-value = 0.000] while External Debt (EXD) exhibits positive but insignificant relationship with gross domestic product (GDP) [Coef. = 0.017; P-value = 0.550].

Implications to Research and Practice

The results of this study have implications for regulatory authorities, Federal Inland Revenue Service, Tax Payers and Researchers. The results will enable the regulatory authorities like Central Bank of Nigeria, Federal Government of Nigeria to study the long term effect of the results and formulate policies that will make taxation a strong weapon to stabilize the economy in the period of borrowing to finance government budgets. It will also help the government to focus on tax justice. It will assist the Federal Inland Revenue Service to reorganize its internal resources towards generating taxes and advises the government on the need for tax justice. The Tax payers will learn the need to comply with tax laws when they realise the tax justice in their tax payment. The researchers will have access to the study for data collection and background to various research works in this area.

Conclusion

Using annual time series data, which covers a period of 21 years (1997 to 2017), this study establishes that tax revenue (measured by Petroleum Profit Tax (PPT), Companies' Income Tax (CIT), Value Added Tax (VAT), Customs Tax (CUS)) affects economic growth and it is a determinant of long-run economic growth. On the other hand, the study finds that Value Added Tax (VAT) and Customs Tax (CUS) are the determinants of short-term economic growth in Nigeria. The study discovered that external debt could be used to moderate the effect of tax revenue on Nigeria economic growth which will propel the government of the nation to focus on production activities for long term development of the economy and service the external debt. This discovery shows that government depended on oil revenue which has been dwindling has not really supported the long-term growth of the economy. Therefore, this study discovered that diversifying to oil

revenue will promote growth in revenue and also influence the payment of external debt. The study also discovered that through diversification from oil revenue to non-oil revenue will promote Nigeria from a mono-product economy to a multiproduct economy for long term growth. That is to say, diversification to non-oil revenue will result into industrial development of the nation.

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ARE TAX INCENTIVES STIMULATING SMEs' COMPETITIVENESS IN NIGERIA? A CRITICAL EXAMINATION

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Abstract

A major objective of tax incentives is to stimulate the competitiveness of small and medium-scale enterprises (SMEs) to contribute meaningfully to economic development. However, it appears this objective has not been achieved as many SMEs in Nigeria struggle for their survival. Are the tax incentives given by the government actually meeting the objective? This study therefore investigated the extent of utilisation of various tax incentives by SMEs in Nigeria and examined the impact of these incentives on the competitiveness of SMEs. Data were collected through the administration of structured questionnaire to purposively selected respondents who are knowledgeable in tax incentives. Data collected were subjected to psychometric tests, and were analysed using Pearson correlation analysis and OLS multiple linear regression technique. The results showed that SMEs in Nigeria enjoy tax incentives such as capital allowance, reinvestment allowance, investment tax credit, reduced company income tax, tax holiday, and free trade zones and export incentives to a moderate extent. The study also revealed that tax incentives have fairly stimulated the competitiveness of SMEs in the areas of employment creation, investment opportunities, and production capability amongst others.

Key words: Tax incentives, small and medium-scale enterprises, competitiveness, economic development

Introduction

The goal of a tax system is to achieve specific economic objectives of government and encourage individuals and corporate in taxable activities (Asaolu et al., 2015). This is generally done through the introduction of effective and flexible instruments such as tax incentives. Tax incentives have been a good aid to reducing increased tax avoidance and evasion schemes adopted by taxpayers. Government introduced tax incentives in order to reduce the perceived exploitative nature of the tax system, thereby encouraging taxpayers to participate in taxable activities. Tax incentives are special exclusions, exemptions or deductions granted by the government to businesses to encourage them to carry out their responsibilities and contribute meaning to economic development. Adedotun (2001) and Dopemu and Monday (2018) describe tax incentive as a deliberate reduction in (or total elimination of) tax liability in order to encourage a particular economic unit or corporate bodies to act in some desirable way.

Tax incentives make sectors like oil and gas, agriculture, solid minerals, tourism, energy, telecommunications more attractive. Incentives attract, retain and increase investment in these sectors, and assist companies or individuals carrying on identified activities. Tax

incentives according to Auerbach and Hines (1988), can take the form of a taxpayers' right of election, capital allowance, tax holiday, re-investment allowance, investment tax credit proportionate to the amount of capital investment, accelerated depreciation among many others. The intentions of the government for establishing tax incentives remains widely accepted and there is no dispute to the fact that many listed benefits will be derived from granting such incentives.

Tax incentives result in a number of advantages which includes among many; establishing a favorable investment climate, providing the desired assurance against confiscation and non-convertibility, and increasing the profit prospect of a new venture thereby enabling a firm to recover its capital cost faster so that the risk of investment is reduced considerably. Tax incentives make available tax-free incomes which are re-invested to increase profitability. Government grants tax incentives to businesses so as to promote regional investment, sectoral investment, performance enhancement, and transfer of technology (Summers & Delong, 1991 cited in Oghoghomeh, 2014). These incentives also draw attention to the profit prospects of investing in certain types of businesses, especially the small and medium-scale enterprises (SMEs), that a country seeks to promote. Tax incentives is a viable tool for stimulating the competitiveness of the SME sector in many economies.

SMEs, on the other hand, are widely acknowledged as the major drivers of sustainable economic growth and development. SME sector constitutes the largest proportion of businesses in both developed and developing economies (Monday et al., 2015; Sriram & Mersha, 2010). SMEs promote industrial development through the utilization of local resources, production of intermediate goods and the transformation of rural technology. They create employment for the teeming masses, help to diversify the economy through exports and international trade, and are able to implement new ideas and form new partnerships more easily than large-scale companies.

Despite these remarkable roles, SMEs in Nigeria are finding it pretty tough to survive and remain competitive. Multiple taxation has been identified as a major constraint inhibiting the growth of SMEs in the country (National Policy for MSME, 2013). It thus appears that the tax incentives provided by the government has no significant impact on the competitiveness of Nigerian SMEs. There is the need to investigate whether or not the tax incentives stimulate SME competitiveness in Nigeria. Besides, few studies (Chukwumerije & Akinyomi, 2011; Jiakponna, 2012; Saidu, 2014; Uwuigbe et al., 2016; Feyitimi et al., 2016) have examined the impact of tax incentives on the performance and growth of SMEs in Nigeria, but have failed to investigate the extent to which SMEs utilize the various tax incentives granted by the government. These necessitate the study.

The broad objective of this study was to critically examine the impact of tax incentives on competitiveness of small and medium-scale enterprises in Nigeria. To achieve this objective, this study specifically investigated the extent of utilisation of various tax incentives by SMEs, analysed the relationship between tax incentives and productivity of SMEs, and determined the impact of the incentives on the profitability of SMEs in Nigeria.

Based on the foregoing specific objectives, the following hypotheses were formulated and tested in the study:

H₀₁: There is no positive relationship between tax incentives and productivity of SMEs.

H₀₂: Tax incentives do not have significant impact on the profitability of SMEs.

Literature Review

Taxation

Tax is a compulsory levy imposed by government through its agencies on the income, consumption and gains of individuals and organizations. These levies are made on personal income such as salaries, business profits, interests, dividends, discounts and royalties (Chukwumerije & Akinyomi, 2011). According to Jiakponna (2012), tax is a major source of public revenue, a compulsory payment for which the government need not offer explanation. It is an obligatory transfer of money from private individuals or groups of individuals to a public authority. Taxes are used by the government to provide security, social amenities and create conditions for the economic well-being of the society (Salawu, 2019).

Amadiogwu (2008) defines taxation as a means through which the generality of the nation (both individuals and organizations) are made to contribute a portion of their incomes and gains for societal administration. Taxation is the demand made by the government of a nation for compulsory payment of money by the citizens of the country with the aim of raising revenue, satisfy collective wants of the people and regulate economic and social policies (Aguolu, 1999). Taxation drives sustainable development and the growth of emerging economies especially where natural resources are relatively scarce (Dickson & Persley, 2013).

Taxation is broadly classified into two:

- i. Direct Taxation:** Any tax in which the burden is borne by an individual or organization directly is referred to as a direct tax. Once the tax is remitted directly by the subject to the relevant tax authority, the tax is said to be direct. In Nigeria, various direct taxes exist including: personal income tax, company income tax, capital gain tax among others.
- ii. Indirect Taxation:** This tax is levied on goods and services consumed by individuals. This is tax levied on one part of the economy with the intention that it be passed on to another (Simon, 1998). The tax is usually not remitted to the relevant tax authority by those who bear the final burden of the tax. Indirect tax includes among many others: Value Added Tax (VAT), Export duties and Excise duties.

Tax Incentives

Incentive refers to anything that encourages one to do something. According to Holland and Vann (1996) and Saidu (2014) many developing and transitional countries in the world offer incentives for investment, the incentives are not meant for direct investors, but it relates to real investment in financial assets and often directed to foreign investors,

in a situation where there is insufficient domestic capital for desired level of development and that international investment brings with it modern technology and management techniques.

Tax incentives are deductions, exemptions or exclusions from tax liabilities, offered as encouragement to engage in special activities such as investment in manufacturing sector for a specific period (Olaleye et al., 2016). It is the use of government spending and tax policies to influence the level of national income (Saidu, 2014). Tax incentives refer to reduction in the effective tax burden on the favored activity as against that currently imposed upon it in the hope that the reduction in government revenue due to tax foregone will be compensated by a resulting increase in total revenue from such broaden economic basis (Adedotun, 2001; Ohaka, 2010). According to Abdulrahman and Kabir (2017), tax incentives encourage the springing up and gradual growth of new enterprises by the reduction of profit tax, which in turn encourages production, influences the production level and curbs unemployment in the society, thereby contributing significantly to economic development.

Tax incentives can be classified as both the general and specific incentives. The general incentives are applied to stimulate and attract both foreign and domestic investments in all sectors of the economy, and they include re-investment allowance, capital allowance investment tax credits, and pioneer status. Specific tax incentives are mapped out by government to stimulate the growth in the manufacturing sector and reposition it as the engine of growth in the economy (Dopemu & Monday, 2018). Mustapha (2018) identified two broad classes of tax incentives namely: cost-based tax incentives such as tax credits and accelerated depreciation allowances, and profit-based tax incentives such as tax holidays or reduced tax rates.

There are four costs associated with incentives. They include: revenue cost, compliance cost, resource allocation cost, and corruption cost. Revenue cost refers to lost government tax revenue resulting from the tax incentives. Compliance cost is associated with enforcing the tax incentives and monitoring who is receiving the incentives and ensuring that the conditions for granting the incentives have been fulfilled. Resource allocation cost refers to the situation where the tax incentives lead to too much investment in a certain area of the economy and too little investment in other areas of the economy. Corruption cost relates to the abuse of tax incentives by the people. Corruption cost will occur where there are no guidelines or minimal guidelines for qualification (Easson & Zolit, 2003).

Types of Tax Incentives in Nigeria

Tax incentives are available to both individuals and organizations in Nigeria. Some of these incentives are listed and explained below:

- i. Pioneer status (Tax holidays)
- ii. Capital Allowance
- iii. Investment Tax Credits
- iv. Reduced company income tax
- v. Reinvestment allowance
- vi. Free trade zones and export incentives

vii. Loss relief

viii Rural Investment Allowance

- a. **Pioneer Status (Tax Holiday):** New firms are considered by the tax authorities and exempted from paying specified tax rates. This is often given to encourage investment in certain sectors of the economy and to encourage productivity. The Industrial Development (Income Tax Relief) Act, Cap 17 Laws of the Federation of Nigeria, 2004 grants tax holidays to companies that satisfy the required conditions for being called “Pioneer Industries”. A company holding a pioneer certificate shall be on tax holiday for an initial period of three years, commencing on the production date of the company unless restricted in any manner by the council or cancelled. The council may at the end of the three years extend the tax relief period for an additional two-year period.
- b. **Capital Allowances:** Capital Allowance (CA) is granted for capital expenditure made in relation to assets used for the purpose of trading, profession or vocation. It is a write-off of the capital cost of the asset. CA is granted to encourage investment in capital expenditures. Although firms tend to apply different rates as the normal depreciation, the tax authorities recognize only the given CA rates so as to promote uniformity in the derivation of assessable profits. CA rate is restricted to 75% of assessable profit for the year of assessment for companies in the manufacturing sector and 66% for others, except companies in the agro-allied industries. Companies in the agro-allied industries are granted 100% on leased assets, while an additional investment allowance of 10% is granted on leased assets for agricultural plants and equipment (Dopemu & Monday, 2018).
- c. **Investment Tax Credits:** Investment Tax Credits (ITC) permits companies or individuals to deduct a specific percentage of certain investment cost in addition to CA deducted thereby reducing tax liability (Dopemu & Monday, 2018). ITCs are earned when qualified buildings or equipment's are acquired for use in the firm. Klemm (2009), Ohaka and Agundu (2012), Ohaka and Dagogo (2015) emphasize that ITCs are only earned in the year of purchase and only applies to newly acquired properties. Such properties are qualified for a 10% rate on the capital expenditure to reduce the federal income tax liability in the first year; any unused credits can be extended and used to reduce federal income tax in future years. Unused ITCs can be carried forward 10 years and carried back 3 years (Ohaka & Dagogo, 2015). Auerbach and Hines (1988) submit that 40% of unused ITCs granted in a tax year may be claimed in the year it was actually earns and this grant is for the purpose of enhancing performance of the firm and boosting overall national economic growth.
- d. **Reduced Company Income Tax (RCIT):** This is a tax incentive whereby companies that have turnover of less than ₦1.0 million in the manufacturing sector pay company income tax (CIT) of 20% instead of 30% in the first five years of their operations. Also, dividends from such companies are tax free for the first five years. In addition, dividends from manufacturing companies in the petrochemical and liquefied natural gas sub-sector are tax free (Dopemu & Monday, 2018).

- e. Re-investment Allowance (RIA):** This is an incentive given to already existing manufacturing companies that incur capital expenditure for purposes of approved expansion of production capacity, modernization of production facilities and diversification into related products (Klemm & Stefan, 2012). It is an allowance available to a company which has been in operation for at least 12 months and had incurred capital expenditure on a factory, plant or machinery for the purpose of acquiring or retaining a qualifying project (Ohaka & Agundu, 2012). The allowance is available as a percentage of the expenditure incurred on qualifying projects, and its deduction is restricted to a percentage of the statutory income. The quantum of the deduction varies depending on some pre-conditions like the activity engaged, geographical location where the expenditure is incurred, and whether a certain level of production process efficiency is achieved. According to Dopemu (2017), RIA is in form of an allowance involving 60% of qualifying capital expenditure incurred by the companies for several years. The allowance can be utilized to offset 70 percent of the statutory income in the year of the assessment. Thus, RIA is a means of encouraging manufacturing companies to re-invest profits, expand and contribute to the growth of the economy.
- f. Free Trade Zones and Export Incentives:** According to the Nigerian Investment Promotion Council, NIPC (2009), export incentives and free trade zone consist of the following incentives:

 - a. Duty Drawback Scheme:** This provides for refund of duties/charges on raw materials including packing and packaging materials used for the manufacture of products upon effective exportation of final products. The scheme allows for a 60% refund on duties/charges, which is automatically granted to the exporter at the initial screening by the Duty Draw Back Committee (DDBC). The refund amount is liquidated after the final processing of the application, while the Committee is authorized to approve the request for claim of any payment where applicable.
 - b. Duty Drawback Facility:** This scheme provides for both fixed and individual drawback facilities. The fixed drawback facility is for those exporters/producers whose export products are listed in the fixed drawback schedule to be issued from time to time by the Committee, while the individual drawback is for exporters/ producers that do not qualify under the fixed drawback facilities. It is therefore a straight forward traditional drawback mechanism under which duty is paid on all inputs. The duties are consequently rebated on inputs used for export production.
 - c. Trade Liberalization Scheme:** This is an export liberalization incentive primarily geared towards export activities within the ECOWAS sub-region. The aim is to considerably enlarge intercommunity trade activities in the region through the elimination of tariff and non-tariff barriers in trade emanating from member countries. The scheme offers preferential access to the ECOWAS market from Nigeria.

- g. Rural Investment Allowance:** Companies Income Tax Act (CITA) provides for rural investment allowance in respect of capital expenditures incurred by companies established in rural areas in relation to providing lacking infrastructural facilities such as electricity, water supply and tarred road or communication for at least 20 kilometers away from facilities provided for by the government (Chukwu, 2012). The rates as provided in section 34 (2) of CITA 2009 are as follows:

Table 1: CITA Rates of Rural Investment Allowance

Lacking Facilities	Allowance
Areas where there are no facilities at all	100%
No Electricity	50%
No Water	30%
No Tarred road	15%
No Telephone	5%

- h. Loss Relief:** Where a company is faced with losses, such a company can claim a loss relief by setting off such loss from the profit if any of the future accounting periods given that such loss arise from the respective business activity. Where a series of losses occur from year to year, the cumulative loss can be used to reduce the profits in future years of assessment if any. There used to be a restriction of the carry forward of loss to a maximum of 4 years, but currently this restriction has been removed and losses can be carried forward into the foreseeable future until they can be offset against profits.

Benefits of Tax Incentives

Saidu (2014) and Dopemu and Monday (2018) highlight the benefits of tax incentives in business organisations and the society at large as follows:

- i. Tax incentives improve the commercial profitability of investment by making available tax-free income within the tax holiday period, which are re-invested in assets and the establishment of other industries.
- ii. Tax incentives serve as inducement to invest in certain sectors of the economy.
- iii. They help to establish a favorable investment climate and provide the desired assurance against confiscation and against non-convertibility especially in developing countries including Nigeria where there are different problems like currency restrictions, instability of government and the risk that foreign capital investment may be expropriated.
- iv. Tax incentives generate employment and motivate self-employed to incorporate into limited liability companies.
- v. They also increase the profit prospects of new ventures and enable firms to recover their capital costs much faster, so that the risks of investment are reduced considerably.

Small and Medium-scale Enterprises in Nigeria

The National Policy on MSMEs (2013) in Nigeria adopts a classification for SMEs based on dual criteria, employment and assets. Small-scale enterprises are business organisations whose total assets (excluding land and building) are between ₦5 million and ₦50 million, with a workforce of between 10 and 50 employees. Medium-scale enterprises are those business organisations whose total assets (excluding land and building) are between ₦50 million and ₦500 million, with a total workforce of between 50 and 200 employees. Therefore, SMEs are those enterprises/registered firms whose total assets (excluding land and building) are above five million naira, but not exceeding five hundred million naira, with a total workforce of between 10 and 200 employees.

SMEs contribute to improved standards of living, provide employment for the teeming masses, bring about substantial local capital formation and achieve high level of productivity and capability. They are recognised as the principal means of achieving equitable and sustainable industrial diversification and dispersal (Udechukwu, 2003).

The National Policy on MSME (2013) which was the product of the collaborative research between National Bureau of Statistics (NBS) and Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) identified the main challenges and constraints confronting the operations of SMEs in Nigeria to include:

- i. lack of access to finance
- ii. weak infrastructure
- iii. inconsistency of government policies
- iv. lack of work space,
- v. multiple taxation
- vi. Obsolete technology

Empirical Studies in Nigeria

To have a good understanding of how tax incentives have stimulated business and economic performance in Nigeria, empirical studies carried out in Nigeria were thoroughly reviewed. Olabisi (2009) investigated tax incentives as a catalyst for economic development in Nigeria. The study focused on 12 selected companies in Lagos state using cross-sectional survey design. Structured questionnaires were administered in gathering primary data. Descriptive statistics and Chi-Square analysis were used to the data. The study showed that tax incentives impact investment decisions positively and promotes economic development as well.

Ohaka (2010) investigated the impact of tax Incentives on corporate financial performance of quoted (large-scale) manufacturing firms in Nigeria. The study employed cross-sectional survey design on 58 manufacturing companies. Data were collected using structured questionnaire and analysed using paired samples t-test. The study found that tax incentives made significant difference on each of the financial performance measures such as return on investment (ROI), return on equity (ROE), and profit after tax (PAT).

Chukwumerije and Akinyomi (2011) assessed the impact of tax incentives on the performance of SMEs. The data used for the study were obtained from 11 food and

beverages companies in Rivers state, Nigeria via structured questionnaire. Data analysis was done using frequency distribution and Chi-Square analysis. The study showed that tax incentives have a significant positive effect on the performance of SMEs by helping to improve profit after tax and capital employed of small-scale industries in Nigeria.

Jiakponna (2012) examined the impact of tax incentives on growth and development of small and medium-scale industries in Nigeria. Primary data was obtained through the administration of questionnaires, personal interviews and observation. Correlation coefficient, Chi-Square were used for data analysis. This research revealed that tax incentives increase capital base, level of working capital and reduces the rate of unemployment. Tax incentives expands the scope of business activities thereby increasing the level of employment.

Ohaka and Agundu (2012) examined tax incentives for industrial synergy in Nigeria. Questionnaire were administered to 100 quoted (large-scale) manufacturing companies in Nigeria. Correlation, regression analysis and Z-test were used to determine the relationship between tax incentives and corporate financial performance. The findings revealed that tax incentives positively affect corporate financial performance and boosts manufacturing industry investment in the Nigerian economy.

Azeez (2013) investigated the impact of tax incentives on the contribution of manufacturing sector to economic growth in Nigeria. The study employed a time series data for the period of 1991 to 2000. Data was analysed by ordinary least squares (OLS) multiple linear regression. The results revealed that that tax incentive had a negative impact on manufacturing sector's contribution to GDP. However, with the combined influence of the controlled variables like exchange rate, interest rate, and bank credit facilities, tax incentives had positive and significant impact on the growth of the manufacturing sector.

Oriakhi and Osemwengie (2013) examined the impact of tax incentives on revenue productivity of the Nigerian tax system. A secondary data in the form of time series data for the period of 1981 to 2009 was sourced. The findings showed that well-articulated tax incentives would not only promote economic activity but also stimulate foreign investments into the economy thereby improving revenue productivity and tax base of Nigeria's tax system.

Saidu (2014) examined the impact of tax incentives on economic growth and industrial development in Nigeria. This study employed cross-sectional survey design. Primary data were obtained using structured questionnaire administered to medium-sized companies in the Northeastern Nigeria. Data was analysed by Chi-Square statistic and analysis of variance (ANOVA) methods. The study revealed that tax incentives encourage direct and indirect foreign and local investment which enhances micro and macro-economic growth and development.

Olaleye et al. (2016) examined the effect of reduced company income tax incentives on foreign direct investment in listed (large-scale) Nigerian manufacturing companies. Primary data was obtained using questionnaire. The population of the study comprised 74 quoted manufacturing companies in Nigeria. OLS Linear Regression Model and

Analysis of Variance (ANOVA) were used to analyze the data. The study showed that tax incentives encourage foreign direct investment in Nigeria.

Uwuigbe et al. (2016) investigated the influence of tax incentives on the growth of manufacturing firms in Nigeria. The study employed cross-sectional survey design of 20 small and medium manufacturing companies which gave a study sample size of 100 accountants and tax officers. Data were analysed using descriptive statistics and OLS multiple regression techniques. The findings revealed that manufacturing SMEs in Nigeria are privileged to enjoy certain tax incentives from the government, and the incentives had significant positive effect on the productivity and growth of the SMEs.

Feyitimi et al. (2016) examined the relationship between tax incentives and the growth of SMEs in Nigeria. Data were collected through the administration of questionnaires, interviews and observations in the form of time series data from 2004 to 2011. Percentage and OLS regression model were employed to analyse the data. The study found that there was a positive significant correlation between tax incentives and profitability of SMEs.

Abdulrahman and Kabir (2017) investigated tax incentive as a real modifier for industrial growth and development in Nigeria. Large-sized firms were used for this study. Primary data was gathered using questionnaire, and simple percentage and Chi-Square analysis were used to analyze the data. The study revealed that tax incentives granted by the government is considered as an industrial and economic booster and that industries that benefit from tax incentives will develop better and faster than industries that do not benefit from tax incentives.

Dopemu and Monday (2018) conducted a research on the impact of tax incentives on business growth in Nigeria. The study made use of secondary data obtained from the Nigerian Stock Exchange (NSE) factbook, Federal Inland Revenue Service (FIRS) and financial statements of 55 quoted manufacturing companies for the period 2009 to 2015. Panel regression model was used to express the relationship between tax incentives and growth of the firms. The study revealed that tax incentive (capital allowance) had a positive significant impact on the growth (return on equity) of the listed manufacturing companies.

Ugwu (2018) investigated the contribution of tax incentives towards foreign direct investment (FDI) inflow into Nigeria, Ghana and South Africa as well as the effect of such FDI inflows on those countries' exports after their adoption of IFRS for the period 1999-2015. Secondary data and ex-post- facto research design was used. The study adopted mixed methods in data analysis – descriptive survey approach and time series data of least squares regression approach. The findings revealed a positive association between tax incentives and FDI, and that FDI had no significant effect on the exports of Nigeria, Ghana and South Africa.

From the above previous studies, it is clear that few researches have been conducted on the impact of tax incentives on performance and growth of small and medium-scale enterprises in Nigeria. These few available studies failed to critically examine the extent to which SMEs in Nigeria utilize the various tax incentives provided by the government as well as analyzing the impact of the incentives on SME competitiveness in terms of

profitability of investment, employment ability and efficient use of resources. This study therefore sought to proffer solution to the lacuna.

Methodology

Research Design

A cross-sectional survey design was employed and it was descriptive since it attempted to unravel the essential elements of tax incentives and SME competitiveness. The design was considered appropriate in this study because survey research studies the whole population by selecting a sample from which inferences about the population could be drawn. Besides, survey research aids generalization of findings. This study collected data from sample of SMEs in Lagos State which, according to the National Policy on MSMEs (2013), constitutes more than 75% of small and medium enterprises in Nigeria. Lagos State is widely acknowledged as the commercial hub of the nation. In this research, primary source of data collection was used. The aim was to collect detail and factual information from owners/managers of SMEs. This study was carried out between July, 2018 and April, 2019.

Sample

The target population of this study comprised of registered SMEs in Lagos State which totaled up to 3,864. Using Yamane's formula, 362 SMEs was obtained as the sample size. In order to account for non-response which is often associated with survey research, the sample size of this study was rounded up to 400 SMEs. Judgement sampling technique was used to select the respondents who were owners or managing directors or top management staff of the firms. It is believed that this caliber of respondents have wealth of experience concerning tax activities in the selected firms. From each firm, one respondent was selected giving the sample size of the study as 400 respondents.

Measurement of Variables and Models

The independent variable was tax incentives and the dependent variable was competitiveness of SMEs. Tax incentives construct was measured with capital allowance, reinvestment allowance, investment tax credit, reduced company income tax, tax holiday, free trade zones and export incentives. Competitiveness which refers to a firm's ability to sustain its long-term performance better than its competitors, was measured using the productivity and profitability of SMEs.

The relationships between tax incentives and SME competitiveness measures are demonstrated in the cross-sectional economic models:

$$PRODTY_i = \alpha + \beta_1 CA_i + \beta_2 RIA_i + \beta_3 ITC_i + \beta_4 RCIT_i + \beta_5 THOL_i + \beta_6 FTZE_i + \varepsilon_i \dots (1)$$

$$PROFIT_i = \alpha + \beta_1 CA_i + \beta_2 RIA_i + \beta_3 ITC_i + \beta_4 RCIT_i + \beta_5 THOL_i + \beta_6 FTZE_i + \varepsilon_i \dots (2)$$

Where:

PROD = Productivity of SMEs; PROF = Profitability of SMEs; CAP = Capital Allowance; RIA = Reinvestment Allowance; RCIT = Reduced Company Income Tax; THOL = Tax Holiday; FTZE = Free Trade Zones and Export Incentives; α = Constants; β_i = Slopes of estimated parameters; and ε_i = Error term.

Apriori Expectation: $\beta_1 > \beta_2 > \beta_3 > \beta_4 > \beta_5 > \beta_6 > 0$

Research Instrument and Validation

The major research instrument used was the structured questionnaire. The questionnaire was administered directly to the owners/managers of the firms. The questionnaire was divided into four Sections; A, B, C and D. Section A provided information on the Social-Demographic characteristics of the respondent such as age, gender, marital status, educational qualification, and years of experience. Section B captured the extent to which SMEs utilize available tax incentives using close ended questions of multiple-choice response and a 5-point rating scale of “Not at all (1)” to “Extensively (5)”. Section C evaluated the relationship between tax incentives and the productivity of SMEs using a 5-Point Likert scale of “Strongly disagree (1)” to “Strongly agree (5)”. Section D evaluated the impact of tax incentives on the profitability of SMEs using 5-Point rating scale of “No impact (1)” to “Great impact (5)”.

The nature of the study was explained to the respondents; hence the respondents' confidentiality of any information provided was assured. Respondents were provided with detailed instructions as to how the questionnaires should be completed and returned. The rationale behind providing clear instructions and assuring confidentiality of information was based on the fact that this significantly reduces the likelihood of obtaining biased responses.

The research instrument (questionnaire) was validated using appropriate validity and reliability tests. The validity test comprised face validity, content validity and construct validity. The reliability test was test-retest and Cronbach's Alpha coefficient. For face validity, the questions in the questionnaire were given to colleagues to view it in accordance with the research objectives. Content validity was conducted by viewing the questionnaire items in the light of adequacy of international and national literature.

After carrying out face and content validity, test-retest reliability was conducted by administering the questionnaire to five SMEs who were not part of the selected firms. This assisted in rephrasing questions that were not well structured in order to generate the right responses. The Cronbach's Alpha Coefficient which measures the internal consistency of the constructs was afterwards carried out. Generally, reliability coefficient ranges between the values of 0.00 and 1.00, and coefficient of at least 0.5 is considered good. From the analysis in Table 2, the results showed that the values of Cronbach's Alpha coefficients ranged between 0.518 and 0.739, indicating high reliability of the measurement scales of the research instrument.

Table 2: Reliability Analysis (Cronbach's Alpha)

Construct	Number of Items	Cronbach's Alpha
Tax Incentives	6	$\alpha = .518$
SME Productivity	5	$\alpha = .739$
SME Profitability	4	$\alpha = .702$

Furthermore, construct validity was carried out by conducting a factor analysis. A strong condition of validity is that all scale items load significantly on their variable and have a loading of at least 0.5. As shown in Table 3, the Kaiser-Meyer-Olkin (KMO) test of

sampling adequacy for the various scales presented a value of above 0.5, revealing that the samples were appropriate for the study. All the extracted factors account for more than 50% of the total variance. Results of the factor analysis showed that all the loadings exceed the 0.5 cut-off point. This implies that the loadings can be considered to be significant; thus, indicating that the various questionnaire items loaded correctly in the appropriate construct.

Table 3: Validity test (Construct Validity)

Construct	Variable	Factor Loading	Eigen-value	% of variance	KMO test
Tax Incentives	INCV 1	.553	1.817	30.283	.553
	INCV 2	.737	1.135	18.910	
	INCV 3	.578	.977	16.281	
	INCV 4	.697	.870	14.493	
	INCV 5	.669	.715	11.910	
	INCV 6	.770	.487	8.123	
SME Productivity	PROD 1	.533	2.462	49.243	.785
	PROD 2	.677	.826	16.527	
	PROD 3	.768	.687	13.745	
	PROD 4	.753	.559	11.174	
	PROD 5	.750	.466	9.311	
SME Profitability	PROF 1	.761	2.120	53.004	.733
	PROF 2	.686	.736	18.407	
	PROF 3	.665	.641	16.027	
	PROF 4	.792	.502	12.561	

DATA ANALYSIS AND DISCUSSION

Data collected were first subjected to thorough editing and coding using the latest SPSS 21.0 supported with EpiData. Afterwards, the data were analyzed using the descriptive and inferential statistics. The descriptive statistics were frequency, percentage, mean, and standard deviation which were used to analyze the research objectives, while the inferential statistics employed in the study include Pearson correlation analysis and multiple linear regression technique which were used to test the hypothesis of the study. Of 400 copies of the questionnaire administered, 270 copies were completely filled and returned. Thus, the response rate was 67.5% which could be adjudged to be reasonably high. The analysis and discussion of data was based on the retrieved copies of the questionnaire.

Socio-Demographic Characteristics of Respondents

The analysis in Table 4 shows the respondents' socio-demographic characteristics which consisted of age, marital status, highest educational qualification, and years of experience in the companies. The age distribution that all the respondents were above 20 years of age. Considering the marital status of the respondents, a high percentage of 68.5% of the respondents were married, 12.6% were single, 13.7% were divorced, and 5.2% were widow/widower. These results showed that the respondents are matured and responsible; so, they could provide information about tax incentives without intimidation.

It can also be seen from the analysis that 28.2% had HND qualification, 54.8% had B.Sc. qualification, and 17% had postgraduate qualification, revealing that a substantial proportion of the respondents have at least a first degree. This is an indication that the firms were composed of highly educated people with sound understanding of the questions. In addition, the analysis showed that 78.9% of the respondents had put in at least 6 years of service in the companies. This shows that the respondents were knowledgeable in the tax operations of the firms. Therefore, data supplied by these respondents were accurate and reliable to a large extent.

Table 4: Distribution of Firms by Socio-Demographic Characteristics

Characteristics	Variable	Frequency	Percentage
Age	Below 20 years	0	0
	21-30 years	71	26.3
	31-40 years	86	31.9
	41-50 years	87	32.2
	50 years and above	26	9.6
	Total	270	100.0
Marital Status	Single	34	12.6
	Married	185	68.5
	Divorced	37	13.7
	Widow/Widower	14	5.2
	Total	270	100.0
Educational Qualification	HND	76	28.2
	B.Sc.	148	54.8
	Postgraduate	46	17.0
	Total	270	100.0
Years of Experience	1-5 years	57	21.1
	6-10 years	113	41.9
	11-15 years	73	27.0
	16-20 years	18	6.7
	21 years and above	9	3.3
	Total	270	100.0

Tax Incentives Available to the Selected SMEs

The analysis in Table 5 reveals the level of awareness of tax incentives by the SMEs. Multiple response method was used to analyse the data for this sub-section. The results showed that 60.4% of the SMEs are aware of Capital Allowance, 60.4% are also aware of Reinvestment Allowance, 62.2% confirmed that Investment Tax Credit were provided, 65.2% also agreed to Reduced Company Income Tax being made available, and 63% and 49.6% of the SMEs confirmed the availability of Tax Holiday and Free Trade Zones and Export Incentives respectively. This showed that a substantial proportion of the SMEs are aware of the tax incentives provided by the government to enhance business growth and economic development. However, to be aware of the availability of tax incentives is quite different from the utilization of the incentives.

Table 5: Distribution of SMEs by Level of Awareness of Tax Incentives

Tax Incentives	Frequency	Percentage
Capital Allowance	163	60.4
Reinvestment Allowance	163	60.4
Investment Tax Credit	168	62.2
Reduced Company Income Tax	176	65.2
Tax Holiday/ Pioneer Status	170	63.0
Free Trade Zones and Export Incentives	134	49.6

*Multiple response analysis

The analysis in Table 6 shows the extent of to which the SMEs utilize the tax incentives under consideration. The results revealed that to a substantial extent, 51.5% of the SMEs utilized the provisions of Capital Allowance, 44.8% enjoyed Reinvestment Allowance, 51.1% accessed Investment Tax Credit, 51.8% utilized Reduced Company Income Tax, 59.2% utilized the provisions of Tax Holiday, and 53.7% utilized Free Trade Zones and Export Incentives. From this analysis, the tax incentives considered in this study were fairly utilized by the SMEs in the country. This was confirmed by a moderate mean value of 3.402 (std. dev. = 1.204) on a maximum possible scale of 5.00.

Table 6: Distribution of SMEs (in %) on Utilization of Tax Incentives by SMEs

Tax Incentives	1	2	3	4	5
Capital Allowance	11.5	14.4	22.6	27.4	24.1
Reinvestment Allowance	15.9	20.7	18.5	27.	17.4
Investment Tax Credit	6.7	12.6	29.6	33.0	18.1
Reduced Company Income Tax	6.3	15.2	26.7	34.4	17.4
Tax Holiday/ Pioneer Status	7.0	6.7	27.0	37.0	22.2
Free Trade Zones and Export Incentives	7.8	13.7	24.8	30.4	23.3
Mean	3.402				
Standard Deviation	1.204				

1 = Not At All, 2 = Little Extent, 3 = Fair Extent, 4 = Large Extent, 5 = Extensively

Relationship between Tax Incentives and Productivity of SMEs

The analysis in Table 7 shows the relationship between tax incentives and productivity of SMEs in terms of job creation, investment expansion, production capacity, and efficient utilisation of asset resources. The results showed that 48.2% of the respondents agreed that tax incentives provided the firms with the ability to employ more personnel/labor, 53.3% attested that tax incentives enable the firms to efficiently use assets, 50.7% agreed that tax incentives has contributed to the expansion of their firms, 54.1% also agreed that tax incentives stimulates their firms to invest in new products, and 47.8% indicated that their firms' production capacity had increased as a result of tax incentives. These results revealed a fair positive relationship between the tax incentives and productivity of the SMEs. This was confirmed by a moderate mean value of 3.254 (Std. dev. = 1.361) on a maximum possible scale of 5.00. This means that the current tax incentives available

have not helped small and medium-scale enterprises to achieve much in the areas of employment opportunities, investments, and production capacity.

Table 7: Distribution of SMEs (in %) on the Relationship between Tax Incentives and SME Productivity

Tax incentives aid my...	1	2	3	4	5
company's ability to employ more people	13.7	20.7	17.4	33.0	15.2
firm to efficiently use assets	13.7	11.1	21.9	33.7	19.6
firm's expansion	14.4	16.3	18.5	28.1	22.6
firm to invest in new products	15.2	16.7	14.1	26.7	27.4
firm's production capacity	18.1	18.1	15.9	24.8	23.0
Mean	3.254				
Standard Deviation	1.361				

1 = Strongly Disagree, 2 = Disagree, 3 = Indifferent, 4 = Agree, 5 = Strongly Agree

Hypothesis One Testing:

Before testing the hypothesis one (H_{01}) of the study, an inferential statistics (Pearson Correlation analysis) was carried out to determine whether or not, a statistically significant linear relationship exists between pairs of tax incentives' variables (capital allowance, reinvestment allowance, investment tax credit, reduced company income tax, tax holiday, and free trade zones and export incentives).

The analysis in Table 8 showed that, at 5% level of significance, Capital Allowance had positive significant relationship with Reinvestment Allowance, Investment Tax Credit, Reduced Company Income Tax, and Tax Holiday with the exception of Free Trade Zones and Export Incentives. Reinvestment Allowance was also found to be positively significant to all other tax incentives except Free Trade Zones and Export Incentives. Investment Tax Credit had positive significant relationship with the other tax incentives with the exception of Free Trade Zones and Export Incentives. In the same vein, Reduced Company Income Tax had positive significant relationship with all of the tax incentives except Tax Holiday. The results showed the absence of multicollinearity, and also there existed statistically significant linear relationship between the pairs of tax incentives' variables. This suggested that SMEs would perform better when each of the tax incentives is adequately utilized.

Table 8: Correlation Matrix of Variables of Tax Incentives

	CA	RA	ITC	RCIT	TH	FTZ
CA	1					
RA	.415**	1				
ITC	.145*	.132*	1			
RCIT	.185**	.164**	.133*	1		
TH	.126*	.303**	.261**	.041	1	
FTZ	.117	-.026	-.019	.189**	.079	1

**, * Correlation is significant at the 0.01 and 0.05 levels (2-tailed) respectively

Having established the linearity among the tax incentives, an ordinary least squares (OLS) multiple linear regression analysis was conducted to examine the relationship between the six types of tax incentives and the productivity of SMEs as depicted in Model 1, and this was used to test hypothesis one (H01) of the study. The analysis in Table 9 shows the multiple regression of the relationship between tax incentives and the productivity of SMEs. The results revealed that each of the tax incentives (capital allowance, reinvestment allowance, investment tax credit, reduced company income tax, tax holiday/ pioneer status, and free trade zones and export incentives) were positively related to productivity of the SMEs. This implies that as the intensity of each of the practice increases, SMEs productivity in terms of employment creation, investment opportunities, production capacity and facility expansion, also increases.

It could also be seen in Table 9 that capital allowance ($t = 5.545$, $p < 0.05$), tax holiday ($t = 2.304$, $p < 0.05$) and free trade zones and export incentives ($t = 4.107$, $p < 0.05$) were statistically significant to SME productivity. This suggested that capital allowance, tax holiday, and free trade zones and export incentives are critical drivers of SME productivity. Moreover, the F-statistic confirmed that the relationship between tax incentives and SME productivity was significant ($F = 14.534$, $p < 0.05$). The coefficient of correlation (R) of 49.9% depicted a positive relationship between tax incentives and productivity of the SMEs; hence, H01 was rejected. This is consistent with the findings of Jiakponna (2012) and Uwuigbe et al. (2016) who found that SMEs in Nigeria are privileged to enjoy certain tax incentives from the government and such SMEs experienced higher productivity and growth in areas of increase in productive assets, capital investment and working capital formation.

Table 9: Multiple Regression of Relationship between Tax Incentives and SME Productivity

Predictor	Coefficient	s.e	t-stat	Sig.	VIF
(Constant)	.213	.422	.506	.614	
CAP	.363	.065	5.545**	.000	1.259
RIA	.074	.065	1.127	.261	1.342
ITC	.031	.071	.430	.667	1.107
RCIT	.007	.070	.105	.917	1.097
THOL	.171	.074	2.304*	.022	1.181
FTZE	.267	.065	4.107**	.000	1.071
Analysis of Variance					
Source	SS	df	MSS	F-stat	Sig
Regression	135.703	6	22.617	14.534**	.000
Residual	409.264	263	1.556		
Total	544.967	269			
Correlational Statistics					
Response	Multiple R	R ²	Adjusted R ²	SEE	DW
PRODTY	.499	.249	.232	1.247	1.971

**, * Significance at the 1% and 5% levels of significance (2 tailed).

Impact of Tax Incentives on the Profitability of SMEs

The analysis in Table 10 shows the impact of tax incentives on the profitability of SMEs in terms of profit margin, return on investment, return on assets, and market share. With regards to the impact of tax incentives on SME profitability, the results showed that 53.7% of the SMEs indicated significant impact on their profit margin; 45.5% indicated significant impact on return on investment (ROI); 47% indicated significant impact on return on asset (ROA); and 45.2% indicated significant impact on market share. This implies that tax incentives had fair impact on the profitability of the SMEs. A moderate mean value of 3.340 (Std. dev. = 1.300) on a maximum possible scale of 5.00 confirmed that the tax incentives had fair impact on the profitability of the SMEs.

Table 10: Distribution of SMEs (in %) on the Impact of Tax Incentives on SME Profitability

Profitability item	1	2	3	4	5
Profit margin	8.5	17.4	20.4	27.0	26.7
Return on investment	7.0	10.7	36.7	17.0	28.5
Return on Assets	11.5	20.7	20.7	22.6	24.4
Market share	17.4	15.9	21.5	26.3	18.9
Mean	3.340				
Standard Deviation	1.300				

1 = No Impact, 2 = Little Impact, 3 = Moderate Impact, 4 = High Impact, 5 = Great Impact

Hypothesis Two Testing:

Since the linearity of each pair of the independent variables had been established (see Table 8), the OLS multiple linear regression was conducted to show the impact of tax incentives on SME profitability as depicted in Model 2. This also helps to test hypothesis two (H02) of this study. The analysis in Table 11 shows the multiple linear regression analysis of the impact tax incentives on SME profitability. The results revealed that capital allowance ($t = 3.540$, $p < 0.05$), reinvestment allowance ($t = 4.508$, $p < 0.05$), and free trade zones and export incentives ($t = 3.303$, $p < 0.05$) had significant impact on the profitability of the SMEs. This suggested that capital allowance, reinvestment allowance, and free trade zones and export incentives are critical for increased profitability of the SMEs. Also, the overall impact of tax incentives on SME productivity was significant ($F = 14.667$, $p < 0.05$).

Furthermore, the intensity of tax incentives explained a significant proportion (25%) of the variation in the profitability of the SMEs. These results showed that tax incentives had significant impact on the profitability of the small and medium-scale enterprises in Nigeria. Therefore, H02 was rejected. Although the tax incentives were moderately utilised, they had positive and significant impact on the profitability of the SMEs.

The findings of this study are consistent with those of Chukwumerije and Akinyomi (2011) and Feyitimi et al. (2016) who revealed that the tax incentives provided by the Nigerian government have significant impact on SME profitability which has a resultant

influence on productivity of SMEs. They posited that tax incentives are pivotal to the expansion and sustenance of growth in the SME sector and that well managed SMEs are sources of employment opportunities and wealth creation.

The effect of multicollinearity in Models 1 and 2 was assessed by conducting the Variance Inflation Factor (VIF) of each independent variable. The analysis in Tables 9 and 10 showed that each independent variable was less than 10 which was satisfactory. Also, the value of the Durbin Watson (DW) was approximately 2.00 (satisfactory), indicating no autocorrelation between the residuals from the regression. Therefore, the Models 1 and 2 expressed fitness.

Table 11: Multiple Regression of Relationship between Tax Incentives and SME Profitability

Predictor	Coefficient	s.e	t-stat	Sig.	VIF
(Constant)	.439	.397	1.104	.270	-
CAP	.218	.062	3.540**	.000	1.259
RIA	.278	.062	4.508**	.000	1.342
ITC	.003	.067	.044	.965	1.107
RCIT	.064	.066	.958	.339	1.097
THOL	.086	.070	1.233	.219	1.181
FTZE	.202	.061	3.303**	.001	1.071
Analysis of Variance					
Source	SS	df	MSS	F	Sig
Regression	121.447	6	20.241	14.677**	.000
Residual	362.719	263	1.379		
Total	484.167	269			
Correlational Statistics					
Response	Multiple R	R ²	Adjusted R ²	SEE	DW
PROFIT	.501	.251	.234	1.174	1.690

**, * Significance at the 1% and 5% levels of significance (2 tailed).

CONCLUSION AND RECOMMENDATION

The study showed that tax incentives (Capital Allowance, Reinvestment Allowance, Investment Tax Credit, Reduced Company Income Tax, Tax Holiday, and Free Trade Zones and Export Incentives) provided by the Nigerian government fairly stimulate SME competitiveness to be able to compete favorably in the global dynamic market. Although a good number of SMEs were aware of government tax incentives, the extent of utilization of the incentives by small and medium-scale enterprises in the country could be described generally as moderate. The study also revealed a positive relationship between the tax incentives and the productivity of the SMEs in Nigeria. With tax incentives provided to SMEs, they would be able to carry out their economic responsibilities such as employment creation, investment opportunities, production capacity and facility expansion, and contribute meaningfully to economic development. More so, the study showed that tax incentives have significant impact on the profitability of SMEs.

Therefore, providing tax incentives to SMEs could serve as catalyst for economic development in Nigeria.

Based on the findings of this study, the following recommendations were made:

1. Government should provide more efficient means of disseminating information about available tax incentives to SMEs.
2. The provisions guiding the utilization of tax incentives should be explained in such a manner that ambiguity and misinterpretation is avoided.
3. Government should provide more tax incentives to encourage startup ventures as well as existing ones. The percentage of the existing incentives should be increased to boost the competitiveness of SMEs.
4. Tax authority should educate SMEs more on the objectives of tax incentives scheme so that they will reconcile their personal objectives with that of the government.

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CAUSALITY LINK BETWEEN EXTERNAL DEBT AND ECONOMIC GROWTH IN NIGERIA

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Abstract:

Increasing level of External debt in Nigeria creates a fiscal deficits and budgetary constraints. Hence, this study examined the effect of External Debt on Economic Growth for the period 1986 -2017. Secondary data were extracted from Central Bank Statistical Bulletin (2017), Central Bank of Nigeria Statistical online database and Debt Management Office database. Gross Domestic Product at constant price that proxied Economic Growth was the dependent variable while External debt Stock, External debt repayment, Exchange rate and Inflation served as independent variables. With the aid of Eview 9 software, Multiple regression and Granger Causality test were conducted. Granger causality test shows there is a uni-directional causality between external debt stock and economic growth for this time frame of study. This paper recommends that external debt should be basically sourced for economic projects that will be self financing and not always for political/social issues.

Keywords: External Debt, Granger Causality, Economic Growth

Introduction

Adepoju, Salau, and Obayelu (2007) considered external debt as a medium used by countries to bridge their deficits and carry out economic projects that are able to increase the standard of living of the citizenry and promote sustainable growth and development. Hameed, Ashraf and Chaudary (2008) stated that external borrowing ought to accelerate economic growth especially when domestic financing is inadequate. External debt also improves total productivity of factors of production through an increase in output which in turn enhances Gross Domestic product (GDP) growth of a nation.

External debt may be defined as debt owed to non-residents repayable in terms of foreign currency, food or service (World Bank, 2004). The effect of external debt on investment and economic growth of a country has remained questionable for policy makers and academics alike. There has not been consensus on the impact of external debt on economic growth. External debt may be used to stimulate the economy but whenever a nation accumulates substantial debt, a reasonable proportion of public expenditure and foreign exchange earnings will be absorbed by debt servicing and repayment with heavy opportunity costs (Albert, Brain and Palitha, 2005).

It is widely recognized in the international community that excessive foreign indebtedness in most developing countries is a major impediment to their economic growth and stability (Audu, 2004). Developing countries like Nigeria have often contracted large amount of external debts that has led to the mounting of trade debt arrears at highly concessional interest rates.

Nigeria has two major categories of external creditors; official and private creditors. Her official creditors include the International Fund for Agricultural Development (IFAD), African Development Fund (ADF), the International Bank for reconstruction and development (IBRD), the African Development Bank (AFDB), Economic Community of West African States (ECOWAS) fund and the European Investment Bank. The above listed are Nigeria's multilateral creditors which also include the World bank and International Monetary Fund (IMF) which were very active lenders in the 1970s/1980s. The bilateral creditors include the Paris Club and Non-Paris Club creditors. The Paris Club is an informal group of official creditors which was created to aid debtor countries going through payment difficulties by finding sustainable and lasting solutions. Also part of Nigeria's debt profile are private creditors which are made up of promissory note holders and the London Club group.

External borrowing has a significant impact on the growth and investment of a nation up to a point where high levels of external debt servicing sets in and affects the growth as the focus moves from financing private investment to repayments of debts. Pattilo, Poirson and Ricci (2002) asserted that at low levels debt has positive effects on growth but above particular points or thresholds accumulated debt begins to have a negative impact on growth. Furthermore Fosu (2009) observed that high debt service payments shifts spending away from health, educational and social sectors. This obscures the motive behind external borrowing which is to boost growth and development rather than get drowned in a pool of debt service payments which eats up most of the nation's resources and hinders growth due to high interest payments on external debt.

The divergent outcomes of research on the impact of external debt on economic growth necessitates the need for this study. This study also makes use of recent data by covering the research period 1986-2017.

The main objective of this study is to determine the direction of causality between external debt and economic growth in Nigeria.

Literature review:

Theoretical review

(Ademola, Olaleye and Olusuyi (2013) explained the theory of Debt laffer curve which emphasizes the relationship between the amount of debt repayment and the size of the debt. When the effect is so strong, the debtor is said to be on the wrong side of the laffer curve, the idea of the Laffer curve also implies that there is a limit to which debt incurred can stimulate growth. Once the debt exceeds the threshold point, it becomes a burden as the cost of debt servicing brings strain to the amount of resources available for productive investments, thereby crowding out investment which ultimately retards

growth. Investment which ultimately retards growth. This therefore implies that a reduction in the current debt service should lead to an increase in current investment for any given level of future indebtedness.

According to Ogbeifin (2007), external debt arises as a result of the gap between domestic savings and investment. As the gap widens, debt accumulates and this makes the country to continually borrow increasing amounts in order to stay afloat. This study hinged its argument on the theory of Laffer curve.

Empirical review

Nigeria's external debt moved from US\$ 0.763Billion in 1977 to US\$ 5.09 in 1978 and US\$ 8.855 in 1980 representing 73.96% between 1978 and 1980 (DMO). By 1985, external debt of Nigeria was US\$19Billion. By December 2014, external debt stood at over US\$34 Billion. This has continued to grow in that by 2005, president Obasanjo argued that Nigeria needed debt relief as it is clear that she cannot service and pay her debts. This was granted in 2006. Debt has started accumulating again with debt as at June 2015, it stood at US\$10.317 Billion (Debt Management Office).

Pattillo, Helene and Luca (2004) investigated the channels through which external debt affects growth, especially whether debt affects growth through factor accumulation or total factor productivity growth. It also tested for the presence of non linearities in the effect of debt on the different source of growth. The study covered 61 developing countries over the period of 1996-1998. The result showed that negative impact of high debt on growth operates through a strong negative effect on physical capital accumulation and on total factor productive growth.

Kasidi and Said (2013) investigated the impact of external debt on economic growth in Tanzania using time series of 1990-2010. The study revealed that there is significant impact of the external debt and debt service on GDP growth.

Ogege and Ekpudu (2010) examined the impact of debt burden on the Nigerian economy using time series data from 1970-2007. Ordinary least square (OLS) was used to test the relationship between debt burden and growth of the Nigeria economy. The result showed a negative relationship between debt stock of internal and external; and gross domestic product, meaning that an increase in debt stock will lead to a reduction on the growth rate of Nigerian economy.

Ayadi and Ayadi (2008) examined the impact of the huge external debt, with its servicing requirements on economic growth of the Nigerian and South African economies. The Neoclassical growth model which incorporates external debt, debt indicators, and some macroeconomic variables was employed and analyzed using both Ordinary Least Square (OLS) and Generalized Least Square (GLS) techniques of estimation. Their findings revealed that debt and its servicing requirement has a negative impact on the economic growth of Nigeria and South Africa.

However, Momodu (2012) examined the correlation between debt servicing and economic growth in Nigeria. The study sought to find a relationship between the Gross Domestic product (GDP) and Gross Fixed Capital Formation of Current Market Prices

(GFCF) using Ordinary Least Square multiple regression method. The study revealed that debt payment to Nigerian creditors has significantly impacted on the GDP and GFCF.

Many of the previous studies had concentrated their searchlight on effects and not on the direction of causality between external debt and economic growth in Nigeria.

Data and Methods of Research

The secondary data of external debt stock, external debt repayment, exchange rate, inflation and gross domestic product used in this study were Central Bank Statistical Bulletin (CBN, 2017), Central Bank of Nigeria Statistical online database and Debt Management Office database. Gross domestic product (GDP) was used as a proxy for economic growth which is a common choice in literature and its data were derived from Central Bank Of Nigeria Statistical Bulletin (2017). Other data were sourced from Debt management office (DMO) and CBN online database. The data were analyzed using the Econometric Model of Multiple Linear Regressions with the aid of Eview software package. The model specification is as presented below:

$$GDP = f(\text{External Debt variables}) \dots\dots\dots(1)$$

The expression above can be written explicitly as:

$$GDP_t = \hat{\alpha}_0 + \hat{\alpha}_1 EDS_t + \hat{\alpha}_2 EDR_t + \hat{\alpha}_3 EXR_t + \hat{\alpha}_4 INF_t + U_t \dots\dots\dots(2)$$

The explicit form of the model in (3) stated in log-linearized form is presented as:

$$LGDP_t = \hat{\alpha}_0 + \hat{\alpha}_1 LEDS_t + \hat{\alpha}_2 LEDR_t + \hat{\alpha}_3 LEXR_t + \hat{\alpha}_4 LINF_t + U_t \dots\dots\dots(3)$$

Where:

- GDP_t = Gross Domestic product (Economic Growth)
- EDS_t = External debt stock
- EDR_t = External debt repayment
- EXR_t = Exchange rate
- INF = Inflation
- $LGDP_t$ = log of Gross Domestic product (Economic Growth)
- $LEDS_t$ = log of External debt stock
- $LEDR_t$ = Log of External debt repayment
- $LEXR_t$ = log of Exchange rate
- $LINF$ = Log of Inflation
- $\hat{\alpha}_0$ = Constant
- $\hat{\alpha}_1 - \hat{\alpha}_4$ = Coefficient of variable
- U_t = Error term

The model for granger causality test can be expressed as:

$$LGDP_t = \sum_{i=1}^n \alpha_i LEDS_{t-i} + \sum_{j=1}^n \beta_j LGDP_{t-j} + U1t \dots\dots\dots(4)$$

$$LEDS_t = \sum_{i=1}^n \lambda_i LGDP_{t-i} + \sum_{j=1}^n \theta_j LEDS_{t-j} + U2t \dots\dots\dots(5)$$

The above equation 4 and 5 is adapted for the main objective of this study which centered on the causality link between external debt and economic growth in Nigeria. According to Gujarati (2003) while explaining concept of Granger Causality “If event A happens before event B, then it is possible that A is causing B. However, it is not possible that B is Causing A. Then, one can say event A granger causes event B”.

Analysis of Data:

Table 1: Ordinary Least Square Regression Result

Dependent Variable: LGDP

Method: Least Squares

Date: 08/16/19 Time: 16:16

Sample: 1986 2017

Included observations: 32

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	26.97467	2.894331	9.319827	0.0000
LEDS	0.590056	0.084734	6.963598	0.0000
LEDR	-0.185178	0.133309	-1.389095	0.1762
LEXR	0.120426	0.021162	5.690672	0.0000
LINF	-0.253762	0.159160	-1.594379	0.1225
R-squared	0.733897	Mean dependent var	25.04974	
Adjusted R-squared	0.694474	S.D. dependent var	1.119044	
S.E. of regression	0.618545	Akaike info criterion	2.019707	
Sum squared resid	10.33014	Schwarz criterion	2.248728	
Log likelihood	-27.31531	Hannan-Quinn criter.	2.095621	
F-statistic	18.61608	Durbin-Watson stat	1.877973	
Prob(F-statistic)	0.000000			

Source: Researcher's Computation (2019)

Table 1 above shows the result of multiple regression that shows the effect of independent variables (external debt stock, external debt repayment, exchange rate and inflation) on the dependent variable (GDP).

The result revealed that external debt stock (LEDS), has a positive effect on economic growth. An increase in the LEDS will lead to about 59% increase in economic growth. The effect is statistically significant with P-value of 0.0000.

External debt repayment (LEDR) also has a negative effect on economic growth. An increase in LEDR will bring about 18.5% decrease in economic growth. The effect is not statistically significant with P-value of 0.1762

Exchange rate (LEXR) has appositve effect on economic growth. An improvement in exchange rate will lead to about 12% increase in economic growth. The effect is statistically significant with P-value of 0.0000.

Inflation has a negative impact on economic growth. An increase in inflation will bring about 29.5% decrease in economic growth. Though the effect is not statistically significant with P-value of 0.1225.

The multiple regression result gave coefficient of determination (R^2) of 0.733897. This implies the estimated model has a high forecasting power of 73.4%. The Durbin-Watson value of 1.87 which is very close to 2 is an indication of the absence of auto-correlation. The Prob [F-statistics] is 0.0000. This shows that all the independent variables taken together have significant effect on economic growth. Hence, for this study, external debt has significant effect on economic growth.

Table 2: Causality Test

Pairwise Granger Causality Tests

Date: 08/16/19 Time: 16:34

Sample: 1986 -2017

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
LEDS does not Granger Cause LEDR	30	3.38577	0.0003
LEDR does not Granger Cause LEDS		15.17504	0.0000
LGDP does not Granger Cause LEDR	30	7.32029	0.0012
LEDR does not Granger Cause LGDP		0.05082	0.9505
LGDP does not Granger Cause LEDS	30	2.40484	0.1109
LEDS does not Granger Cause LGDP		8.28811	0.0300

Source: Researcher's Computation (2019)

Table 2 is the result of causality test using the pairwise approach which shows the Causal nexus between external debt stock, external debt repayment and GDP. In the first segment of the result, the p-value of 0.0003 and $0.0000 < 0.05$ implied that the 2 null hypotheses can not be accepted. Hence, there is a bi-directional causality between external debt stock and external debt repayment for the observed period.

Second segment revealed that improvement in economic growth granger cause increase in external debt repayment. There is a uni-directional causality from LGDP to LEDR with p-value of 0.0012.

The third segment of result shows that external debt stock (LEDS) granger causes economic growth with p- value of $0.0300 < 0.05$. However, economic growth does not granger cause external debt stock. There is a uni-directional causality from External debt stock to Economic growth.

Diagnostic test:

Table 3: Variance Inflation Factor

Variance Inflation Factors

Date: 08/16/19 Time: 22:08

Sample: 1986 2017

Included observations: 32

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	8.377152	700.6545	NA
LEDS	0.000448	23.05340	1.018445
LEDR	0.017771	666.8402	1.055749
LEXR	0.007180	10.46155	1.141865
LINF	0.025332	16.54980	1.122018

Source: Researchers' Computation (2019)

The result of the variance inflation (VIF) in table 3 shows that all the 4 explanatory variables are relevant to the study since the centered VIF are all below the benchmark of 10. This indicates the absence of multicollinearity in the model used.

Conclusion and Recommendation

The overall outcome of the regression as indicated by Prob(F-statistic) shows that external debts have significant effect on economic growth of Nigeria. Debt repayment therefore, negates economic growth through reduction in amount of available capital. Another fact is that external debt helps to exploit the potential of a country by allowing a nation to beat certain budget constraints. The study investigated the effect of external debt on economic growth and also examined the direction of causality between the two variables. The result shows that External Debt Stock granger causes Economic Growth with P- value of $0.0300 < 0.05$.

However, economic growth does not granger cause external debt stock. There is a uni-directional causality from External debt stock to Economic growth. the implication of this is that increase in external debt stock stimulates economic growth in Nigeria but repayment slows down rate of economic growth. Hence, Debt Management Office (DMO) should ensure that external debts are used for the purpose for which they were acquired. Especially on economic project that are self-financings and not on social/political jamboree that may continue to add to the existing external debt stock. Government should display a fiscal discipline which involves the habit of savings to withstand any shock from the economy instead of resolving into external borrowing. Government will be able to sustain economic activities with the accumulated savings. This will in turn avoid servicing of debt and recapitalization of arrears which adds pressure to the existing debt stock.

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BRIDGING TAX GAP IN NIGERIA THROUGH TAXATION OF DIGITALIZED COMPANIES: ANY PROSPECT?

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Abstract

The emergence of the digital economy and digitalized transactions has been a global concern as they have raised new challenges to tax authorities. Volumes of transactions are completed by entities online without physical presence in the country. National tax laws have not kept pace with the globalization of corporations and the digital economy, thus leaving gaps that have been exploited by multi-national corporations and the digitalized companies to avoid and evade taxes. The impact has been reported widening of tax gaps, dwindling tax revenues and effective tax rates and low economic growth. Taxation of digital companies is an emerging issue for which there is scarcely any empirical study anywhere but a lot of work and reports by OECD and G20 addressing the challenge are available. The study examined the prospects of bridging tax gap in Nigeria through the taxation of digitalised companies. Desk review and analytical research approaches were adopted. Literature on the areas of tax gap as well as digitalization and taxation challenges were reviewed. Sections of available legal framework on taxation of companies were also consulted and analysed in the context of taxation of digitalized companies. Reports of works by OECD and G20 were reviewed and assessed with a view to deriving policy direction from them that may inform action in the Nigerian context. Findings reveal lack of wholistic legal and tax administrative frameworks as well as intelligence gathering structures for the taxation of digital transactions in Nigeria. The study concluded that Nigeria can leverage on the works and recommendations of OECD, G20 and EU as well as recent practices in some jurisdictions in addressing the tax challenges of the digital economy. The following imperatives for the taxation of digitalized companies in Nigeria were recommended, namely collaboration and multilateral agreements for exchange of information, fully digitalized tax administrative system with corruption resistant tax structures, robust tax laws and taxation framework and strong and equitable tax systems that can enhance taxpayers' trust in government and tax authorities.

Keywords: Tax gap, Digitalised companies, Expediency theory, Tax-to-GDP ratio, Tax revenue

Introduction

The economic development of any nation depends largely on the provision of adequate infrastructure and the creation of a secure environment that can encourage enterprise. Failure to provide such enabling environment not only slows down economic growth but also undermines efforts to improve the standard of living of the population. There have

been growing concerns that governments in Sub-Saharan Africa (SSA) have performed poorly in this direction, Nigeria not being an exception. There are evidences of decayed or total lack of basic infrastructure in every sector of our economy – education, health, housing, road and other transport sector. The level of insecurity appears to have become unprecedented in the history of the country, and in all these, dwindling revenue is being implicated.

For many decades, Nigeria has relied heavily on oil revenue as a primary source of government revenue. The present instability in the oil sector has indicated that continued reliance on oil revenue is no longer sustainable. Therefore, it is imperative that recourse to taxation is the more reliable and conceivable means of revenue generation (Oyedele, 2016). In many jurisdictions around the globe, taxes are the major source of public revenue and countries' budgets and economic policies are often based on projected tax revenue. As Danquah and Osei-Assibey (2018, p.1) submitted, “in order to ensure sustained growth, it is desirable for every government to generate tax revenue to finance essential expenditures without recourse to excessive public sector borrowing, which often crowds out private sector investments.” Danquah & Osei-Assibey (2018) and Coullbaly & Gandhi (2018) have submitted that over the past decade, the average tax revenue to GDP ratio in the developed world was approximately 35 per cent, 15 per cent in the developing countries, and an average of 13.8 per cent in sub-Saharan Africa.

These statistics bring to the fore the grave danger of increasing tax gaps in the emerging economies like Nigeria. This tax gap highlights the inability of tax administration in the developing and SSA countries to raise the required tax revenue to support adequate public expenditure. The case of Nigeria is worrisome as it currently has the lowest tax-to-GDP ratio in SSA of 5.9% (Fiawoo, 2018). The IMF 2018 country report number 18/64 recorded tax-to-GDP ratio of 5.3% for year 2016 (IMF, 2018). The tax-to-GDP ratio is indicative of the proportion of a nation's output that is attributable to tax revenue and is a widely used measure of the efficiency of a country's tax system. No doubt, there is significant level of non-compliance by both individuals and corporations, either operating in the shadow economy and outside the tax net or just apathetic to meeting their tax obligations. For example, IMF (2018) indicated that as at 2016, only 1.95% of registered Personal income tax payers were active, 5.62% of registered Companies income tax payers were active while 5.12% of registered VAT payers were active. In addition to this, Maiye and Isiadinso (2015) submitted that other factors that contribute to low ratio include narrow tax base, tax exemption and subsidy policies and loopholes in tax laws. The Nigerian case is exacerbated by lack of adequate database and records of eligible tax payers in the country resulting in a wide gap between taxable units/individuals and actual tax payers.

The emergence of the digital economy has raised new challenges to tax authorities as it has further widened the tax gap. Today, some enterprises earn a large percentage of their income in a nation with little or no taxable presence. Volumes of transactions are completed by entities without physical presence in the country and there are neither good systems in place to track such taxable transactions nor clear local laws to enable tax authorities to tax such transactions if ever captured within the tax net.

Ogungbenro (2015) had lamented that “national tax laws have not kept pace with the globalization of corporations and the digital economy, leaving gaps that can be exploited by multi-national corporations to artificially reduce taxes.” Thus, the problem created by the swift development brought about by the digital economy and its impact on tax revenue for countries is real. The Organization for Economic Cooperation and Development (OECD) could not be clearer on this problem when it stated that it would be difficult, if not impossible, to ‘ring-fence’ the digital economy from the rest of the economy for tax purposes because of the increasingly pervasive nature of digitalization (OECD, 2015). This assertion implies that such thing as “digital economy” or “new economy” does not exist but rather “that the economy itself had become digitalised and that this trend is likely to continue” (OECD, 2019, p.1). This translates to further erosion of countries’ tax bases and revenues and calls for immediate response in terms of tax laws, rules, policies and administration.

The reality and magnitude of the challenge of digitalization vis-avis tax revenues are currently seen on the global effective tax rates which are reported to have continuously been on the downward trend (Ogungbenro, 2015). Performance reports of many of these digital technology companies indicate that they outperform the traditional brick-and-mortar companies but unlike the traditional companies whose profits are taxed at value creation, it is “challenging to capture where value is created, what it is and how to measure it” (Jakurti, 2017, p.1). OECD and the G20 countries have taken bold steps to address this challenge. In 2013, these countries adopted a 15-point Action Plan to address Base Erosion and Profit Shifting (the BEPS Project). The action plan intends to ensure that profits are taxed where the economic activities that generated the income were performed and where value was created. Action plan one released in 2015 addresses the tax challenges of the digital economy and gives guidance on how countries may deal with these challenges (OECD, 2019). Unfortunately, Nigeria does not belong to any of these economic groups and currently has no robust legal framework to address this challenge.

This study examined the possibility and prospects of bridging tax gap in Nigeria through the taxation of digital companies considering the challenges thus far highlighted. The study draws from literature, especially the giant strides so far made by the OECD and G20 countries, to make policy recommendations on improving our legal framework and tax administration, including collaborating with other jurisdictions in dealing with the tax challenges occasioned by digitalization. How can profits made in Nigeria by companies with no physical establishment and taxable presence be captured and taxed? Who is the tax collection agent that should be accountable for VAT on goods and services subject to VAT in digital transactions? Does our existing VAT law envisage such a challenge? Can the country get around existing international tax rules and policies to improve on the prospects of taxing digital companies? These are some of the questions answered by this study.

The study contributes to knowledge in the following aspects: Firstly, it draws the attention of policy makers to the effect of increased tax gap and the associated negative impact on economic development that could be caused by non-taxation of digital companies.

Secondly, it underscores the urgency of amending our tax laws and the full digitalization of our tax administration in order to match the continuing trend in digital transactions. Finally, it fills part of the yawning gap in literature in this area of study.

The remainder of this paper is structured as follows: section 2 gives our approach to the study, that is, our methodology; section 3 presents the review of extant literature; section 4 provides an assessment of the prospects of taxing digital companies in Nigeria while section 5 concludes.

Methodology

This is a qualitative study and adopted a desk review and analytical research approaches. Extensive and in-depth reviews of available literature on the areas of tax gap as well as digitalization and taxation challenges are carried out. Sections of available legal framework on taxation of companies are also consulted and analysed in the context of taxation of digitalized companies. Reports of commissioned works by OECD and G20 are reviewed and assessed with a view to deriving policy direction from them that may inform action in the Nigerian context. From the reviews and analysis, the study drew conclusion and made recommendations for policy formulation and implementation with regard to taxation of digitalized companies in Nigeria.

Review of Literature

The literature review is presented in three sub-sections, namely conceptual, theoretical and empirical.

Conceptual Review:

Tax Gap

Tax gap is an integral part of any economy. No country is able to collect all potential taxes due to the economy, for it is either that the country's tax base is not broad enough to capture all potential tax payers or that tax payers will attempt to avoid and/or evade taxes or both. The shadow economy exists in every economy and in economies with weak institutions, it blossoms as a result of tax evasion and aggressive tax optimization practices. This increases the difference between collectible tax revenue and what is actually realized at any given period.

Tax gap is thus defined as “the difference between the tax that would be raised under a hypothetical, perfect enforcement of tax laws (potential tax) and the actual tax payments” (Danquah & Osei-Assibey 2018, p.2). Tax gap implies tax losses that are suffered by the economy and it is from this perspective that Deliotte (2016) refers to tax gap as the difference between taxes collected by government and what could ideally be collected. In a jurisdiction where there is a significant level of non-compliance by individuals and corporations and the size of informal sector is large, the gap could be very wide.

Rackowski (2015, p.4) defined tax gap as the “degree to which the taxpayer evades taxation, which results in undue reduction of the tax base and a decrease in due contribution to the state budget.” This definition takes a narrow perspective as there are factors beyond tax evasion that contribute to tax gap for example, corrupt and inefficient

tax administration. Some authors, (for example, Giles, 1999), define tax gap from the perspective of hidden income as the product of the amount of hidden income and appropriate tax rate. This definition poses the difficulty of determining appropriate tax rate and what constitutes hidden income. However, Raczkowski and Mroz (2017, p.2) regard tax gap as “the difference between due taxes which tax payers should have paid within a specified period of time and the amount of tax that has actually been contributed to the state budget.” The size and the growth of this gap, according to these authors, is a signal that the socio-economic policy is faulty and needs fixing. It is believed that reducing this gap is a function of tax administration of a given country.

Simply put, the tax gap is the difference between the amount of tax that should, in theory, be paid to the government, and what is actually paid.

Digitalised Companies

As OECD (2019, p.2) posited, “information and communications technology has become part of the foundational infrastructure for business and society, evidenced in a heavy reliance on efficient and widely accessible online communication networks and services, data, software, and hardware.” Digital devices, smart technology and connectivity have brought significant changes that have affected business models, relationships and markets. Digitalised companies are organizations that leverage on technology as a competitive advantage in its internal and external processes and operations. Such companies may be global; they are virtual, operate based on online multi-sided platforms that facilitate transactions between sellers of goods and services and consumers, which occur outside of traditional business structures and thus have significant economic presence in many jurisdictions but little or no physical presence (KPMG, 2018; OECD, 2019).

As information technology (IT) continues to reshape the infrastructure and operations of enterprises, digital company has continued to assume different meanings. At the emergence of the Web, for example, the term became associated with business activities or new business models that incorporated digital technology, such as the purchase of goods from online sites as we have with JUMIA in Nigeria or Amazon.com. Today, digitalized companies are known by their value creation process across different digitalized business models and according to OECD (2018) have the basic features of “scale without mass”, (that is, significant economic presence without physical presence), reliance on intangible assets and data and user contributions. It is expected that the term will continue to evolve as more business processes, products and business models are transformed by digitized information.

Theoretical Underpinning

The underpinning theories for this study are Adolph Wagner's socio-political theory (1872) and the expediency theory of Alfred G. Buehler, 1936.

The proponent of Socio-Political theory, Adolph Wagner believed that social and political objectives should be the overriding factors in selecting taxes to be paid by citizens. The theory does not agree that a tax system should be designed to serve

individuals, but should be used to cure the numerous ills of society as a whole. Though the society is made of individuals, it is a sovereign entity and thus more than the sum total of its individual members. The state therefore needs to preserve its existence and solve its problems. Therefore government's power of imposition of tax is not dependent on the conferment of benefit, but is essentially an exercise of sovereign power. Tax systems should thus be designed to serve as fiscal policy measures not only for the purpose of raising income for government but also for reducing income inequalities and unemployment in a nation state.

Modern extensions of this theory have emphasized broadening the tax net and the tax base, improving tax compliance level and refining tax administration and tax laws to embrace modern technology. In this regard, the socio-political theory finds appropriate application in this study.

In its earliest form, Buehler believed that expediency is a major principle in distributing the costs of governance and presented expediency as the principle of taxing as circumstances seem to warrant and with regard to the more immediate and pressing considerations. He noted that taxes are employed not only to raise revenue but also to regulate industry and promote economic, political and social ends.

Generally, the expediency theory holds that a basic consideration in every tax proposal is the practicability of its administration (imposition and efficiency of collection). Economic and social objectives of the state and the effects of a tax system should not be considered relevant in the design of a tax system (Bhartia, 2009). In the words of Chigbu, Akujobi and Appah (2012, p.31), "this proposition has a truth in it, since it is useless to have a tax which cannot be levied and collected efficiently. There are pressures from economic, social and political groups. Every group tries to protect and promote its own interests and authorities are often forced to reshape tax structure to accommodate these pressures." For example, there are currently strong arguments by concerned groups against digital services tax as they believe that users do not create value and that such tax violates existing tax rules.

The existing tax administrative structure in Nigeria may not be adequate to deal with the current situation.

Empirical Review

There are not many empirical studies in the area of tax gaps and the taxation of digital companies in Nigeria. Few empirical studies on tax gap and its measurement exist in other climes but not associated with taxation of digital entities. Taxation of digital companies is an emerging issue for which there is scarcely any empirical study anywhere but a lot of work and reports by OECD and G20 addressing the challenge are available. This section of our review is based on such existing works.

Tax Gap and Digitalisation

Maiye and Isiadinso (2018) in their examination of Nigeria's unchanging tax-to-GDP ratio submitted that the tax gap is a measure of the collectible tax revenue that is lost and when related to GDP of any nation gives an indication of the country's output that can be

attributed to tax receipts. Viewed from this perspective the tax-to-GDP ratio becomes a tool for gauging the efficiency of a country's tax policies and system. This study identified narrow tax base, unorganized informal sector, government tax incentives and exemption framework and loopholes in tax laws as the causative factors for wide tax gap and low tax-to-GDP ratio. While recommending the expansion of the tax base to capture the large informal sector, including digital and entertainment sectors, the study concluded that the current tax administrative system and the Nigerian economy as a whole need serious overhaul.

Tax avoidance and tax evasion have been equally identified as important factors contributing to the tax gap (Bekoe, Danquah, & Senahey, 2016; Danquah & Osei-Assibey, 2018; Ebeke, Mansour, & Rota-Graziosi, 2016). Some of these studies on tax revenue losses due to tax avoidance and tax evasion in developing countries distinguish between a domestic component (which they attribute to the growing domestic shadow economy) and an international component (in which the aggressive tax optimization strategies, including profit shifting, of the multi-national companies are implicated). These studies have not specifically evaluated the contribution of the emergent digitalized companies on the tax revenue losses.

The submission by Deloitte (2016) indicated the difficulty of ascertaining the exact level of tax gap in most developing countries, but stated that the ratio of non-oil tax revenue to GDP in Nigeria is lower than 10%. In addition to factors earlier identified, perceived lack of tax justice and poor records of taxable units are believed to be responsible. Again, this study has not dealt with the influence of digitalized companies on the tax gap.

Other studies on tax gap, (for example, Khlif and Achek, 2015; Raczkowski and Mroz, 2017) include factors such as insufficient efficiency of state authorities, unfair tax competition, supranational character of contemporary business activity due to globalization as well as cross-border character and exceptional mobility of the underground economy, as being responsible for the ever widening tax gap. However studies by Akpo, (2009), Everest-Phillip and Sandall(2007) and Modugu, Eragbhe and Izedonmi (2012) concluded that good governance and accountability result in voluntary tax compliance and reduction in tax gap. The tax implications of digitalization have not been specifically addressed by these studies.

OECD (2019) has asserted that it is doubtful whether the existing tax rules remain fit for purpose following the digital transformation of the economy. The identified main tax challenges of the digital economy which have progressively widened the tax gap include lack of nexus (or taxable presence in a jurisdiction), income characterisation, spread of multi-sided business models, in which the buyer and seller are in different jurisdictions, and the expansion of e-commerce. These features make it difficult to capture digitalized companies into the tax net using the existing tax laws and policies in Nigeria. Folarin, Arowolo and Olugbenro (2019) observed that the tax administration system is unable to adequately capture the arising large direct and indirect taxes payable on ecommerce transactions and this has left leakages in the tax system. Thus, there is the perception that

digital companies pay lower taxes than traditional companies and in some cases completely evade and/or avoid tax which defeats the fairness canon of taxation. In this regard, Hadzhieva (2019, p.16) documented that “the quest for fairness was justified by the EU Tax Commissioner Pierre Moscovici as he highlighted that digital companies pay an average of 9% effective tax rate in the EU compared to other firms that pay 21%.”

The calls for fairness, broadened tax base and increased tax revenue to fund government expenditure and properly regulate the economy have heightened the clamour for the taxation of digitalised companies.

Taxation of Digitalised Companies

Digitalisation has been acknowledged as an important source of entrepreneurship. In addition to lowering barriers to entry, it has affected the business environment as it brings down transaction costs, increases price transparency and improves productivity. Thus, digitalisation continues to transform our lives and economy as it continues to evolve. The rapid growth in information and communication technology (ICT) in Nigeria has brought with it a lot of opportunities and changes in the way businesses are transacted. It is much easier now to communicate with suppliers, customers, and employees using Internet based tools, and these developments in ICT are also leading to the emergence of new and transformed business models. A number of business deals are consummated using mobile devices and online payment platforms. This paradigm shift from a physical to an 'invisible' business framework comes with many challenges, one of which is tracking transactions for taxation purposes (Folarin, Arowolo & Olugbenro, 2019; OECD 2019). This is because digitalization currently enables both local and cross-border transactions to be completed without the tax authorities being aware of them.

This development became a concern globally as effective tax rates for digitalized companies took a nosedive and tax gaps in many jurisdictions started increasing. The debate is still ongoing as to the appropriateness of taxing the digital economy. Even among the proponents, there are still some issues that are not fully resolved. These include whether: Internet sales should be taxed; consumption of digital goods should be taxed; the consumer who purchased wireless devices and personal computers should be taxed; the providers of digital platforms, such as Google and Facebook, should be taxed at the country where revenues are generated, or whether they should benefit from international rules that allow them to take corporate tax exemptions in certain locations and whether Internet service providers should pay taxes the same way as telecommunication carriers (Katz, 2015).

Among the proponents of digital taxation, there are still two opposing groups in terms of digital taxation policy namely, countries that expect to maximize their revenue generation from the exponentially growing digital flows and are putting in place mechanisms to maximize collection in these domains of economic activity and countries that believe that lowering taxation on the digital companies not only benefits consumers and businesses, and consequently, economic growth, but also triggers spillovers that are larger than the foregone taxes (Katz, 2015).

However, the opponents submit that the arguments justifying digital service taxes are flawed. This section of the review examines these arguments and issues. From the proponents' angle, the 2018 interim report of the OECD/G20 Base Erosion and Profit Shifting project has taken the bold step of giving guidance on how to address the tax challenges arising from digitalisation, as a follow up on the 2015 Action 1 report. The guidance requires that policy makers should “restore confidence in the system and ensure that profits are taxed where economic activities take place and value is created”(OECD, 2018). This introduces a new rule, 'Significant Economic Presence' (SEP), rather than the restrictive 'Permanent Establishment' (PE) rule. This will necessitate changes in international tax rules, enhancements and amendments to domestic laws and treaty provisions that will enable profits to be reported where the economic activities that generate them are carried out and where value is created. In addressing the direct tax challenges raised by digital economy the Action 1 report, in addition to the creation of new nexus through significant economic presence, suggested withholding tax on certain digital transactions, and excise tax or levy (Hadzhieva, 2019).

It should be noted that these were options suggested with none being recommended. Other concerns addressed include how to allocate taxing rights on income generated from cross-border activities among countries (the 'nexus rules') especially with regard to scale without mass and reliance on intangible assets, two of the three basic features of digitalized businesses (OECD, 2019).

To address the area of indirect taxation, the implementation of the 2017 guidelines on VAT is currently being encouraged. The guideline posited that VAT neutrality in international trade is generally achieved through the implementation of the “destination principle” designed to “ensure that tax on cross-border supplies is ultimately levied only in the jurisdiction where the final consumption occurs, thereby maintaining neutrality within the VAT system as it applies to international trade” (OECD, 2017).

For lack of general consensus on how to tax digitalized companies and digital transactions, many countries have introduced unilateral tax measures in their different jurisdictions. Some experts in the field, for example Dancey (2019), have however warned that unilateral action will only result in increased complexity, uncertainty and double tax, which will impair cross border trade and impede growth. The European Union (EU) in a bid to protect the direct and indirect tax bases of member states came up with short term solutions. These include “equalization tax on turnover of digitalized companies which is a tax on all untaxed or insufficiently taxed income generated from all internet-based business activities, including business-to- business and business-to-consumer, creditable against the corporate income tax or as a separate tax; withholding tax on digital transactions, a standalone gross-basis final withholding tax on certain payments made to non-resident providers of goods and services ordered online and interim tax on revenues generated through online placement of advertisement, sales of collected user data and other digital services and digital platforms that facilitate interaction with users (Bauer, 2018; Adediran & Adeyemi, 2018).

Italy introduced a web tax with effect from January 2019. “The 3% tax is applicable to Internet services distinguished by minimum human intervention and use of technology,

provided both by Italian resident and non-resident entities to local business recipients. The new tax will be settled by the buyers of the service” (Hadzhieva, 2019, p.39). France, with effect from 2018 introduced 2% tax on the advertising revenue by resident or non-resident platforms broadcasting free or paid videos online, such as YouTube or Netflix as well as the GAFA (acronym for Google, Apple, Facebook and Amazon) tax to ensure these global internet giants pay a fair tax. UK has her 25% Diverted Profit Tax (DPT), conceived as a response to BEPS activities facilitated by digital businesses. This tax is payable upfront.

Other reactions include India's surcharge tax on payments to foreign companies for online advertising services when such companies have no PE in India as well as subjecting companies with SEP in India but with no physical presence to Indian tax. Israel's PE rule with effect from 2016 has been expanded to include non-resident online businesses which sell or provide services through Internet to Israeli residents. Such companies are subject to income tax and VAT (Isiadinso & Omoju, 2019; Hadzhieva, 2019). Many more countries have altered their nexus rules or introduced revenue and profit taxes to counteract the effect of the taxation challenges posed by digital companies.

There have been criticisms about these measures. It is contended that these new taxes breed legal uncertainty and defy clear classification for tax treaty purposes as they combine elements of taxes on profits with elements of consumption taxes. This is taken to signify hybridization, the mismatch of which Action 2 of the BEPS project cautions against (Ogunbenro, 2015). The majority of the unilateral measures are based on new nexus, equalisation levy and withholding tax, which were already mentioned under BEPS Action 1 as possible policy options without any of them being recommended. Again, some of the taxes, for example, UK's diverted profit tax and the French GAFA Tax, raise tax treaty compatibility, compliance, legal uncertainty, and double taxation issues. The new tax regimes that are revenue-based may actually be taxing companies with negative profit margins. Some also argue that the selective focus by UK “on digital companies that are big on “stock markets” mixes up market capitalization with corporate income. A focus on the world's “top 100 companies by market capitalisation” and the world's “top 5 e-commerce companies” hardly reflects the reality of the digital economy and profit levels among different firms. Hence, when the governments present low effective tax rates of digital corporations as the heart of the problem, they are conflating the digital economy with the alleged tax rates of a few firms” (Bauer, 2018, p.6; Hadzhieva, 2019). There is a further argument that tax on digital revenues stands in opposition to tax efficiency and neutrality and undermines digitalization. Many digital companies make huge investments in IT and software technology, advertising and product diversification to increase customer value-added so as to ensure sustainability. Taxes on their revenues put further pressure on the low or negative profit margins of the entities.

Kennedy (2019) described digital services taxes as a bad idea whose time should never come. According to this author, the argument that users are creating value and therefore that value should be taxed where users reside is flawed. Companies create much of the value through investments in improving software code and in research and development.

More so, taxing profits based on where users reside violates standing international agreements by taxing income more than once and imposing an ad valorem tax that primarily targets imports. It is further argued that taxing revenues may mean that companies cannot deduct such taxes from their CIT in their source country. The implication of this will be increase in the total taxes the companies pay with its negative impact on overall global digital innovation.

No matter how strong the arguments of the opponents may be, it does appear that digital taxes have come to stay. As Dancey (2019, p.1) submitted, “a sustainable and vibrant global economy is one that will be efficiently, effectively and fairly taxed.” What may be needed at this point is international harmonization of the isolated measures to avoid double taxation and double non-taxation as well as violation of existing tax treaties. How does Nigeria fit into this scheme and what are the prospects of taxing digitalized companies in Nigeria?

Assessment of the Prospects of Taxing Digitalised Companies in Nigeria

The challenges posed by the digital economy and the activities of digitalized companies, particularly with respect to tax base and impact on revenue, is not peculiar to Nigeria. In many jurisdictions tax policy is top at the agenda in a bid to counteract any negative effects of the new economy. However and as noted in section 1 of this study, Nigeria is not a member of any of these active economic groups and it has also been observed that unilateral actions may not produce the best results for the global economy. What then are the prospects of taxing digitalized companies in Nigeria?

We start our assessment from the angle of direct taxation. We observe that at the moment, there is no clear consensus on the most effective way of taxing digital transactions. The nexus rule for taxing the income of foreign companies is physical presence (permanent establishment). Section 13(2a) of our Companies Income tax Act (CITA) provides that “the profits of a company other than a Nigerian company from any trade or business shall be deemed to be derived from Nigeria if that company has a fixed base of business in Nigeria to the extent that the profit is attributable to the fixed base.” The implication of this section is that if a company derives whatever level of her income in Nigeria but has no fixed base or permanent establishment in Nigeria, as is the case with the highly digitalized companies such incomes are not subject to Nigerian CIT. It becomes a challenge to determine the exact point non-resident companies that provide services to Nigerians and earn fees/incomes, will be judged to have conducted business in Nigeria since they do not require to be physically present in Nigeria to conclude their transactions. In some cases also, the customers that complete the transactions on online platforms may not even be aware of the exact location of the digital goods and services they are consuming. In some other cases, the jurisdiction with the taxing right may be in dispute as the residence of the seller may be different from the location of the goods being sold. Another important challenge is that many of these digital transactions are initiated and concluded online without the knowledge of the tax authorities.

The FIRS in some circumstances has tried to get around this challenge by trying to extend the interpretation of existing legislation to tax digital transactions. The authority, for example, contends that the provision of S.9 (1) of CITA, that 'the tax for each year of

assessment be payable on the profits of any company accruing in, derived from, brought into or received in Nigeria' should be applicable to digital transactions of non-resident companies. The argument is that the income of digitalized companies is derived from Nigeria and therefore liable to tax in Nigeria. It is difficult to state how far this argument can go as it appears that provision of section 9(1) may be subject to the provision of section 13 (2a) of CITA which gives further guidance on how non-resident companies should be taxed.

It is necessary that there is clear legal guidance on how the profits of digitalized companies will be taxed in Nigeria.

In the indirect tax frontier, it is the practice that a Nigerian customer/taxpayer who transacts business with a non-resident company should deduct the applicable VAT and remit to FIRS. It becomes a challenge where VAT was not charged to the Nigerian customer by the non-resident company, as the Nigerian customer can deny obligation to account for the tax since he was not charged. More so, non-resident providers of products and services have no obligation to collect and remit VAT on concluded transactions since they have no physical presence in Nigeria. The reverse charge mechanism can come to the rescue since the customer will be mandated to account for VAT on the transaction. The reverse charge mechanism is particularly helpful where the goods and services are tax exempt in their country of origin as it will prevent double non-taxation. Our current VAT Act has no provision for reverse charge and will require amendment to close this gap. Given tax payers low compliance behaviour in the country, enforcement may also be a problem post-amendment of the Act and may require full digitalization of our tax administration, such that can track the transactions online and tax them digitally (Adediran & Adeyemi, 2018). The prospects of taxing digitalized companies in Nigeria will be brighter if we have proper legislation on taxation of digital transactions, especially if such legislation creates a platform whereby the tax authorities can work with banks to identify payments relating to digital transactions with non-resident companies that should be subject to tax. Furthermore, and as posited by (Isiadinso and Omoju, 2019), tax authorities should leverage the automatic exchange of information between jurisdictions and employ innovative technology to secure a proper database of the various online suppliers of goods and services.

OECD has equally advised that jurisdictions can improve their prospects of taxing digitalized companies through improving taxpayer education “aimed at providers of goods and services as this could make an important impact to ensure effective taxation of activities facilitated by online platforms” (OECD, 2019, p.5). When there is uncertainty among platform users about their tax liabilities, including whether the activity is taxable, and the income thresholds that are taxable, their voluntary compliance level may be low. Again when the tax payer education is combined with improving access to information by tax administrations, there could likely be improvement on effective self-reporting of tax obligations in respect of digital transactions. In the area of obtaining tax data about transactions facilitated through platforms, OECD (2019) has also counseled on introducing legislative measures which require platforms or other third parties to report

payments and the identity of data users and/or mandate compliance to information requests by tax administrations for information needed to improve compliance or to enhance selection of cases for audit. For non-resident digital companies, this will require exploring the possibility of a multilateral agreement between countries to facilitate access and exchange of such information on a more consistent basis. Though the country is not a member of OECD, leveraging on this guidance will improve the prospects of taxing digitalized companies and digital transactions in Nigeria.

Conclusion and Recommendations

The perceived negative impact of the digital economy on tax gaps and effective tax rates is real and is a global concern. It is not peculiar to Nigeria. Some economic and regional groups, for example, OECD and G20 have taken bold steps to mitigate and if possible contain the negative influence of the digital economy on tax revenue and economic development. Many countries have even taken unilateral steps to improve on their tax laws and policies in order to counteract the masquerading effect of digital companies and transactions on their economies, but not much has been done by the Nigerian government along this line. The country can however leverage on the recommendations of these bodies in addressing the tax challenges of the digital economy.

The way forward will require collaboration with other countries and economic groups especially in the area of exchange of information. As noted in section 4, the need for multilateral agreements between countries to facilitate access and exchange of information on digital transactions on a consistent basis cannot be over-emphasised. This will help in tracking digital transactions initiated by platforms outside the country. It is true that national governments have sovereignty over tax policy, and that nations have unique needs and public opinion contexts surrounding taxation, collaboration in this matter will benefit the global economy as it will avoid regulatory fragmentation and easy resolution of taxing rights when the issue arises.

Full digitalization of our tax administration system is important. A robust online platform is needed to address the realities of the time. The required system should be capable of tracking transactions online, facilitate exchange of information with other jurisdictions and financial institutions through which digital payments are made as well as minimize the tax compliance burden by tax payers. To drive this, capacity building through both soft and technical training of personnel is germane. Reliance on the use of consultants for sustainable capacity building should only be a stop gap measure. As observed by ICAEW (2019), digitalisation efforts in tax administration are in their infancy in Nigeria. However, Nigeria is currently investing heavily in the use of technology to drive its tax administration and processes but as Adediran and Adeyemi (2019) observed, much is needed to be done in the domains of intelligence gathering, developing a wholistic framework for taxing digital transactions and the seamless collection of taxes due.

Currently there are gaps in our tax laws requiring to be closed to be able to tax digitalized companies effectively. Amendments to our tax laws or more appropriately new legislation on taxation of the digital economy that will also provide clarity to taxpayers

on the taxation of digital transactions are urgently needed. The Federal Executive Council (FEC) in 2018 approved draft orders and bills proposed to amend existing laws and the issuance of country by country regulation by FIRS. This appears to mean that the government is determined to review existing tax laws in response to the dynamics of the global economy.

Finally, as posited by Dancey (2019) it is important to develop a tax policy that enhances trust. Equity in tax systems is necessary in maintaining public trust in government, tax authorities and other institutions throughout the economy. This is particularly necessary when it comes to the digital economy, where the inability of tax systems to keep pace with evolving business models has shaped public and government opinion in recent decades. Government and people are concerned about aggressive tax optimization/minimization, and whether multinational companies are paying enough tax. At the same time, citizens are concerned about transparency, inequity and complexity in the tax system, especially lack of tax justice on the part of government in using tax revenue to meet social needs of the citizenry. It is important then that taxing institutions and policies are redesigned through putting in place what Slemrod (2006) calls “corruption resistant tax structures” as this will be central to any efforts being made towards bridging the tax gap through taxation of digital companies in Nigeria. Corruption is a major challenge in Nigeria and the FIRS itself is no exception. (ICAEW, 2019) documented that the report of UN Office on Drugs and Crime research shows that 27.3% of interactions with tax and customs officers in Nigeria include a request for a bribe. There is need to do away with this label so as to enhance trust in the country's tax policies.

The imperatives for efficient and effective taxation of digitalized companies and digital transactions are summarized in figure 1 below.



Fig. 1: Conceptual Model

Source: Authors' Desk Research (2019)

Digital revenue streams will continue to grow over time and it is necessary that the taxation framework is got right the first time to prevent avoidable distortions in our economy.

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