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Tax Sources and Revenue Growth in Nigeria

Bolaji, Saudat Adewumi
Department of Accountancy Adeseun Ogundoyin Polytechnic, Eruwa Oyo State, Nigeria

ABSTRACT

This work evaluates two tax sources relative to revenue growth in Nigeria. It specifically examined the effect of Petroleum Profit Tax (PPT) and Company Income Tax (CIT) on revenue growth in Nigeria in the wake of developing enterprises and concentrated economy. This study employed ex – post facto research design. Data were sourced from Central Bank of Nigeria Statistical Bulletin and Federal Inland Revenue Service covering the period of 1999: Q1- 2018:Q4. The statistical technique used was Fully Modified Ordinary Least Squares (FMOLS) at 5% level of significance. The *tau* and *z* statistics from Engle – Granger single equation cointegration test confirmed the existence of long – run relationships among the variables and this necessitated the adoption of FMOLS technique. FMOLS results revealed that Petroleum Profit Tax (a_1 = 0.3871; $p<0.05$) had no significant effect on revenue growth. Also, Company Income Tax ($?_1$ = -0.1463; $p<0.05$) had negative significant effect on revenue growth. However, the two moderating variables, tax knowledge and level of economic activities, were found to be significant on revenue growth of Nigeria. It was concluded that tax sources have significant effect on revenue growth of Nigeria, in the long – run, except Petroleum Profit Tax. It was recommended that government should track all companies through banks and Bank Verification Number (BVN) to monitor activities and transactions of all registered companies to reduce tax evasion and encourage tax avoidance in Nigeria.

Keywords – Tax Sources, Revenue Growth (RGR), Petroleum Profit Tax (PPT), Company Income Tax (CIT), Moderating Variables – Tax Knowledge (TKN) and Level of Economic Activities (LEA)

INTRODUCTION

The idea of tax collection has been in existence since time immemorial to provide administrative support to the government. The tax system is adopted by governments to garner funds for the welfare of the citizens. It is a means of redistributing income between the rich and the poor. Different levels of government employ tax revenues to take care of defense, construction of roads, buildings as well as operating schools, hospitals, to offer the poor food and medical care to the people. Without taxes to finance economic and non-economic activities, the existence of any government is impossible (Adnan, 2009). Taxation is the primary practical sources of sustainable revenue globally for government to take care of its expenditure (Ifueko, 2012), with most of the economy dependent on taxation (Edwin, 2011). It is an age long event. The principal purpose of tax by the government is to raise revenue to finance its expenditure. In the Islamic perspective, tax (zakat) is a moral obligation for the sustenance of the poor as well the legitimate or valid functions of government (McGee, 2012).

The need for tax payments has been a phenomenon of global importance as it affects every economy irrespective of national differences (Oboh & Isa, 2012). Tax is a compulsory charge imposed by a public authority on the income and properties of individuals and companies as stipulated by the government Decree, Acts or Laws irrespective of the exact amount of service of the payer in return (Omotoso, 2001). Tax payment is not for the direct exchange of good and/or services but a transfer of resources and income from the private sector to the public sector in order to achieve some of the nation's economic and social goals (Okpe, 2000).

The provision of public services such as power, roads, efficient transportation system, healthcare facilities,

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schools, security of lives and properties and defence against internal and external aggression, are the exclusive responsibility of governments all over the world. According to Worlu and Emeka (2012), to meet these responsibilities, governments need to harness all sources of revenue available to it nationally and internationally. Reliance on external sources of revenue for developmental purposes has proved unproductive for many countries over the years and those countries which experienced rapid social and infrastructural development around the world were found to have leveraged on revenue from efficient tax system. Tax revenue is needed for public investment, including productive, social and other sector of the economy. Government use tax revenue to carry out their traditional functions such as the provision of public goods and services; maintenance of law and order; defense against external aggression; and regulation of trade and business to ensure economic maintenance.

Although tax structure varies considerably across countries, the primary objective of any tax structure is to attain maximum revenue with minimum distortions that would enhance the standard of living of the public through existence of basic amenities. Therefore, tax has a bearing on the government revenue which is the standard indicator for measuring the economic growth of a nation. The nature and level of taxes vary according to the economic policies adopted by the government of the day. Kusi (2011) states that many countries of the world depend mainly on taxation for generating required income to meet their financial needs. Pfister (2009) opines that taxation provides a predictable and stable flow of revenue to finance development objectives such as (1) meeting basic needs, (2) financing public goods, (3) redistribution, or (4) (dis)incentivizing certain types of conduct

Tax policies are often designed with the intention of stimulating economic growth – although economists differ drastically about which policies are most effective at fostering growth. Taxes can create incentives to promoting desirable behaviour and disincentives for unwanted behaviour. Taxation provides a means to redistribute economic resources towards those with low incomes or special needs. Taxes provide the revenue needed for critical public services such as social security, health care, national defense, and education. Hence, taxes are burden that must be borne by everyone to sustain and maintain a decent and orderly society (Okezie, 2013).

STATEMENT OF THE PROBLEM

The ineffective and inefficient tax administration has also led to low tax revenue. Lyndon and Paymaster (2016) opined that tax revenue mobilization as a source for financing developmental activities in Nigeria has been a different issue, primarily because of various forms of resistance, such as tax evasion, tax avoidance and other forms of corrupts practices. These activities are considered as sabotaging the economy and are readily presented as part of the reasons for present state of underdevelopment in Nigeria as tax revenue has been seen as major source of government revenue all over the world. However, unfortunately, it is evidenced that, the role of tax revenue in promoting economic growth in Nigeria is not felt, primarily because of its poor administration. In order words, the major challenges facing tax revenue in Nigeria include poor accountability, lack of awareness of the general public on the imperatives and maximum benefits of taxation, corruption of tax officials, tax avoidance and evasion by taxpayers, connivance of taxing officials with taxing population, poor method of tax collection, etc.

OBJECTIVES OF THE STUDY

The main objective of this study is to evaluate tax sources on revenue growth of Nigeria economy. Given the foregoing, the study seeks to answer the following research questions:

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- To what extent does Petroleum Profit Tax (PPT) affects revenue growth in Nigeria?
- How does Company Income Tax (CIT) influence revenue growth of the country?

The specific objectives are:

i) determine the effect of Petroleum Profit Tax (PPT) on revenue growth in Nigeria;

ii) examine the effect of Company Income Tax (CIT) on revenue growth in Nigeria,

RESEARCH HYPOTHESIS

Hence, the statements of research hypotheses formulated for the above purpose are:

$\boldsymbol{H_{01}}$: Petroleum Profit Tax has no significant effect on the revenue growth of Nigeria.

$\boldsymbol{H_{02}}$: Company Income Tax has no significant effect on revenue growth of Nigeria.

The above study focusing on PPT and CIT is significant because, the recent increase in VAT by Nigerian government from 5% to7.5% has led credence to the need to drive government expenditure with more of internally generated revenue in Nigeria. Hence the need to explore the various tax sources efficiently to enhance revenue growth and development through a better, effective and efficient tax revenue system. From this, policy makers and government officials in charge of tax revenue collection and utilization will use the outcome of this study to gauge its performance and determine its level/significance when compared with other revenue sources. Private and individual business owners will also need to cooperate with government to pay up their taxes in order to increase government revenue drive for provision of necessary infrastructural facilities that will aid their business. It will also add to knowledge in the area not covered by other research especially on tax- revenue growth.

SCOPE OF THE STUDY

The scope of this study covers the impact of tax sources on the revenue growth of Nigeria. As such, it is divided into three segments namely: geographical area of coverage, period of time and the data for the two aforementioned tax sources from which revenue could accrue. Other sources such as Value Added Tax (VAT), Custom and Exercise Duty (CED) and Education Tax (EDT) are recommended for further studies if only they may also have significant effect on revenue growth in Nigeria.

The geographical scope of this study is Nigeria which represents the study population and sample size. The period of time is twenty-six years (199 – 2018) on quarterly basis. This time period is considered relevant and reasonable to establish the effectiveness and consistency of tax sources on revenue growth of Nigeria with reference to the two aforementioned taxes as are very prominent in the Nigeria economy. The study is restricted to secondary data which were obtained from the statistical bulletin from Central Bank of Nigeria (CBN) and reports of Federal Inland Revenue. This provided data that was used to measure tax sources (independent variable – PPT and CIT only) and revenue growth (dependent variable) of Nigeria. The tax sources were measured by Petroleum Profit Tax (PPT) and Company Income Tax (CIT) and growth in real gross domestic product was used as a proxy for revenue growth over the period of study.

LITERATURE REVIEW

A. ***The Concept of Taxation and its Administration***

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Taxation is an instrument employed by the government for generating public funds (Anyaduba, 2008). It is a required payment imposed by the government on the income, profit or wealth of individuals, group of persons, and corporate organizations. Taxation is seen as a burden which every citizen must bear to sustain his or her government as a burden which every citizen must bear to sustain his or her government. Okon (2012) states that income tax can be regarded as a tool of fiscal policy used by government all over the world to influence a particular type of economic activity in order to achieve desired objectives. The primary economic goals of developing countries are to increase the rate of economic growth and hence per capita income, which leads to a higher standard of living. It can also be for the purpose of redistribution of wealth to ensure social justice (Ola, 2001). Therefore, taxes can be used as an instrument for achieving both micro and macroeconomic objectives especially in developing countries such as Nigeria. However, Musgrave and Musgrave (2004) contend that the dwindling level of tax revenue generation in the developing countries makes it difficult to use tax as an instrument of fiscal policy for the achievement of economic growth. Some governments like that of Canada, United States of America, Netherland, and The United Kingdom have substantially influenced their economic growth through tax revenue generated from Company Income Tax, Value Added Tax, Personal Income Tax, and Education Tax and have prospered through tax revenue (Otunba, 2008).

Ariwodola (2000), tax is a compulsory levy imposed by the government authority through its agents on its subjects or his property to achieve some goals. Tax is the transfer of resources from the private sector to the public sector. Okezie (2012) noted that tax is the price everyone must pay for an egalitarian society. The tax administration in any country does not only encompass the procedures of imposing these compulsory levies but also the establishment of tax laws and ensuring its compliance. Despite the millennia that have passed and the quantum of academic research work, Chandler (2013) opined that today's policymakers are still grappling with the questions of effective tax administration leading to adequate tax revenue. The Nigerian tax system is basically made of the tax policy, tax laws and tax administration. According to Odusola (2006) the Nigeria tax system is basically structured as a tool for revenue generation. In 1993, the Finance (Miscellaneous Taxation Provisions) Act No. 3 and Act No. 104 established the Federal Inland Revenue Service (FIRS) as the operational arm of the FBIR and reviewed the functions of the Joint Tax Board (JTB), respectively. However, the history of tax administration in Nigeria changed dramatically in 2007 with the granting of financial and administrative autonomy to the Federal Inland Revenue Service through the passage of the Federal Inland Revenue Service (Establishment) Act 2007 (FIRS Handbook 2012).

Some notable tax legislations in Nigeria according to Ayodele (2006) are as follows:

i. Personal Income Tax Act (PITA) CAP P8
ii. Law of Federations of Nigeria (LFN) 2004
iii. Company Income Tax Act (CITA) CAP .60. LFN 1990
iv. Petroleum Profits Tax Act (PPTA) of 2007
v. Value Added Tax (VAT) Act No. 102 LFN 1993
vi. Capital Gain Act CAP 42 LFN of 1990
vii. Stamp Duties Act CAP 411 LFN 1990
viii. Education Tax Act NO. 7 LFN 1993 and

Information Technology Development Act 2007 through/by National Information Technology Development Fund (NITDF) Levy

Based on the above legislation, all taxes in Nigeria are collected by Nigeria's Federal Inland Revenue Service (FIRS). According to FIRS, there are nine (9) types of taxes in Nigeria, but for the purpose of this work, two (2) of them shall be examined. The main reasons here are due to world focus on oil (Nigeria being a major Oil Producer – OPEC member), springing up of diverse companies under World Trade

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Organisation (WTO) that seeks to enable developing countries, and in particular least-developed countries (LDCs), to use trade as a means of fostering economic growth, sustainable development and poverty reduction).

- Petroleum Profit Tax (PPT)
- Companies Income Tax (CIT).

Others are:

Value Added Tax (VAT)

Personal Income Tax (PIT)

Withholding Tax (WHT)

Educational Tax (EDT)

Stamp Duties (STD) and

Capital Gains Tax (CGT)

B. ***Petroleum Profit Tax (PPT)***

The Petroleum Profit Tax is subject to any resident company or person in charge of a non-resident company who are exploring for petroleum or producing it. This also includes any liquidator, receiver, or agent of liquidator or receiver of any company carrying on petroleum operations in Nigeria.

The Petroleum Profit Tax is a type of pre-paid tax. You have to prepare and submit your annual tax return to JP Morgan Chase Bank, within five months of the end of each assessment year.

The payment is done mainly in two (2) segments of 12-13 phases. The first segment is the estimated annual return paid not later than February of each year. The tax due is then paid in 12 months installments throughout the year. In case the accumulated actual tax exceeds the tax paid, a 13th month payment can be made. If the opposite occurs you will get the refund.

C. ***Companies Income Tax (CIT)***

Under Companies Income Tax Act you have to pay Companies Income tax if you are a resident or non-resident company incorporated in Nigeria.

Companies and organizations prepare and submit their annual self-assessment tax return according to the FIRS specifications. This has to be done with the proof (e.g. e-ticket issued from the bank) of payment of the full amount or first installment of the Tax return.. The payments are made to designated banks.

For non-resident companies and organization- Companies make their tax payment through remittance. Their tax is deducted at the source and deposited to designated banks. These companies' tax is subject to Withholding Tax (WHT) deduction on their earning in Nigeria. This will be their tax upon filing tax return.

D. ***Empirical Review of Tax Sources, Revenue Growth of the Nigerian Economy***

i) The Concept of Revenue Growth

Revenue growth is the percentage increase in revenue, (i.e economic growth) between two successive

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periods. It can be calculated yearly, quarterly or by comparing the current quarter last year. To calculate total revenue growth, subtract the most current period's revenue by the revenue number from the same period in the prior year. This could be the current year's annual revenue and last year's annual revenue, this quarter and the prior quarter, or this quarter and the previous year's comparable quarter. All that matters is that you choose two time periods that are equal in length. These numbers can all be found at the top of the company's income statement, reported quarterly and annually. Next, divide that difference by the revenue number from the prior period. Multiply that by 100, and you'll have the percentage growth rate of total revenue between the two periods.

It should be noted that a country cannot handle revenue growth faster than what tax sources can support. If we think of sustainable revenue growth as a transmission in a car, the car can only reach certain maximum speed as well as at effective minimum speed in a particular gear. Sustainable revenue growth tells us how much additional annual revenue that a Ministry can handle according to the tax sources available within the country. This simply implies that for a government ministry or parastatal to generate and improve its revenue sources, the below responsibilities is incumbent on the Director General or State Permanent Secretary or as the case may be delegated on the following action plans:

1. Strong revenue growth will be a key factor in the valuation of impending tide of exploring sources of other taxes;

2. Shifting the Ministry's revenue growth mindset from statutory tax sources to contemporary technological sources.

3. Adapting a revenue growth model to tax payers' behaviours that would accommodate ability to pay theory.

ii) Tax Sources and Revenue Growth

(a) Petroleum Profit Tax and Revenue Growth

The literature on the growth implications of Petroleum Profits tax is surprisingly scarce given that petroleum accounts for the highest percentage of government revenue in oil producing countries of the world. While there is robust empirical literature on oil-led development, few researchers have addressed the relationship between Petroleum Profits tax and economic growth.

Ogbonna and Ebimobowei (2012), using macroeconomic data from 1970 to 2010 in Nigeria, investigated the effect of Petroleum Profits tax on economic growth. The study adopted the Johansen co-integration approach and the Granger causality tests to estimate the data for the study. The study found a statically significant long-run relationship between Petroleum Profits tax and economic growth in Nigeria. Specifically, the study concluded that Petroleum Profits tax was one of the most important direct taxes in Nigeria.

In a similar study, Ilaboya, (2012), examined tax composition and economic growth in Nigeria within the endogenous growth framework, using time series data from 1980 to 2011. The study adopted co-integration and error correction mechanism in addressing the direction of the relationship. The study found a statistically significant relationship between Petroleum Profits tax and economic growth. Specifically, the subcomponents of Petroleum Profits tax reported a robust coefficient of (1.5495) and a positive t-value of (7.6586) at the 1% level of significance.

Omojumite and Iboma, (2012) examined the productivity of the Nigerian tax system between 1970 and 2010. They formulated ten models (including a model which tested the relationship between Petroleum

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Profits tax and economic growth) for the study and used Ordinary Least Square method to estimate the data. To be able to capture changes in the Nigerian macroeconomic environment, the data set was disaggregated into three periods. The result of the analysis revealed that overall, the elasticity of all the tax system including the Petroleum Profits tax were less than one even though they displayed positive elasticity coefficients. In summary, the result revealed that the Nigerian tax system is less productive irrespective of the level of data aggregation.

Jibrin, Ejura and Ifurueze, (2012) analysed the impact of Petroleum Profits tax on economic development in Nigeria using time series data from 2000 to 2010. Simple regression was used to estimate the time series data. Among other results, the study found a statistically significant relationship between Petroleum Profits tax and economic growth in Nigeria.

Iyoha and Oriakhi, (2010) examined revenue generation enhancement strategies with emphasis on the government institutional development. Among others, they tested the relationship between Petroleum Profits tax and economic growth in Nigeria. The study covered the period from 1991 to 2006. The Ordinary Least Square estimation technique was employed. Surprisingly, the study found an insignificant impact of Petroleum Profits tax on Gross Domestic Product having reported a buoyancy coefficient of (1.1). According to them, the poor performance of the variable may be as a result of youth restiveness in the Niger-Delta region of Nigeria.

Oremade, (2010) examined the perception of Petroleum Profits tax compliance in Nigeria with the oil companies as a focal point. The study adopted a combination of qualitative and quantitative methods. Personal interview was adopted in the data collection. The results of the analysis revealed that there was lack of adequate data base on the Petroleum Profits tax revenue collection from the oil companies. It was also discovered that there was overwhelming influence of the oil producing companies in the administration of the Act imposing Petroleum Profits tax.

(b) Company Income Tax and Revenue Growth

Company income tax is a structure among the various tax structures in Nigerian economy. By virtue of section 8 (1) of the companies income tax Act 1990, taxes are payable as specified upon profits of any company accruing in, derived from, brought into, or received in Nigeria in respect of amongst others, any trade or business for whatever period of time the trade or business may have been carried out. The current rate of companies' income tax is 30% of assessable income. According to Akpotoboro (2009) deemed tax is primarily payable on profits at the companies income tax rate of 30%. However, as foreign companies liable to such tax do not ordinarily operate in Nigeria, and thus account to the Federal Board of Inland Revenue (FBIR) with full accounts, the law permits FBIR to deem a position of the foreign company's turnover or gross income as profit. Therefore the deemed income of the company will be 20% of the turnover. Such deemed income so assessed will itself be liable to tax at the current companies tax rate of 30%, which final assessment will amount to 6% of total income. Effectively, the company will be assessed for income tax at 1% of its turnover, as 5% would have been withheld. Section 57 CITA 1990 mandates companies operating in the Nigerian Stock Exchange to file monthly returns with the Federal Board of Inland Revenue not later than 7 days after the end of each calendar month.

Tax revenue mobilization as a source for financing development activities in Nigeria has been a difficult issue primarily because of various forms of resistance, such as evasion, avoidance corrupt practices attending to it. These activities are considered as sabotaging the economy and are readily presented as reasons for the underdevelopment of the country. Government exists in order to effectively collect taxes from available economic resources and make use of same to create economic prosperity such that available and willing human and other resources are gainfully employed, infrastructures provided, essential public services (such as the maintenance of law and order) are put in place etc, tax resistance only makes these

goods unattainable.

Theoretical Review

Theories that are propounded to explain the reasons behind people's actions and reactions on tax as a major source of revenue to government are many. Tax rules invariably enforce the pool of revenue available to government for the execution of policies and programmes. Various existing theories relating to tax and revenue were reviewed. These include expediency theory, ability to pay theory, deterrence theory, maximum social advantage theory, revenue productivity theory and responsive regulatory theory.

Empirical Review

Apart from developed and emerging economies that had been reviewed with respect to tax sources and revenue generation, Nigeria' as a developing economies is hereby reviewed.

Ihenyen and Mieseigha (2014) examined taxation as an instrument of economic growth in Nigeria. Using annual time series data sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin during the period 1980 through 2013, data of Corporate Income Tax (CIT), Value Added Tax (VAT) and Economic Growth (GDP) was estimated using the Ordinary Least Square (OLS) technique. The empirical result suggests that the hypothesized link among corporate income tax, value added tax and economic growth indeed exist in the Nigerian context. Thus the result offer tantalizing evidence that taxation is an instrument of economic growth in Nigeria. This conclusion points to the need for additional measures by government in ensuring that taxpayers do not avoid and evade tax so that income can be properly redistributed in the economy.

Again Adegbie and Fakile (2011) worked on Company Income Tax and Nigeria's economic development but made use of VAT as one of their proxies for the independent variable. They used the GDP to capture the Nigerian economy and Petroleum Profit Tax (PPT), Company Income Tax (CIT), Customs and Excise Duties and VAT to measure Company Income Tax. Findings revealed that there is a significant relationship between company income tax and Nigerian economic development and that tax evasion and avoidance are the major hindrances to revenue generation.

Chigbu, Akujuobi, and Appah, (2012) examined the causality between economic growth and Company Income tax in Nigeria for the period 1970-2009. To achieve the objective of the study, data was collected from the Central Bank of Nigeria (CBN) Statistical Bulletin and Federal Inland Revenue Service (FIRS). The data collected from the secondary sources were analysed using relevant econometric models such as Augmented Dickey-Fuller, Diagnostic Tests, Granger Causality and Johansen Co-integration. The results from the econometric analysis reveals that taxation as an instrument of fiscal policy affects the economic growth and taxation granger cause economic growth of Nigeria. On the basis of the econometric result, the study concluded that taxation is a very important instrument of fiscal policy that contributes to economic growth of any country. On the basis of the conclusion useful recommendations were provided that will improve the generation of revenue from taxation that would stimulate the economy of Nigeria positively.

Worlu and Nkoro (2012) studied the impact of revenue from Companies Income tax on the economic growth of Nigeria, judging from its impact on infrastructural development from 1980 to 2007. To achieve this objective, relevant secondary data were collected from the Central Bank of Nigeria (CBN) Statistical Bulletin, Federal Inland Revenue Service (FIRS) and previous works done by scholars. The data include; gross domestic product(GDP), infrastructure, petroleum profit tax(PPT), company income tax(CIT), custom and excise duties, foreign direct investment(FDI), domestic investment(DI), interest rate(INT) and consumer price index(CPI) are collected for the period of 1980 to 2007. The data collected were analyzed using the three stage least square estimation technique. The results show that tax revenue stimulates economic growth

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through infrastructural development.

Onaolapo, Fasina, and Adegbite (2013) studied empirically the effect of petroleum profit tax (PPT) on Nigeria economy, secondary data were obtained from central bank of Nigeria statistical bulletin covering the period of 1970 to 2010. In concluding the analysis, multiple regressions were employed to analyze data on such variables Gross Domestic Product (GDP), petroleum profit tax, inflation, and exchange rate were all found to have significant effects on the economic growth.

And also Ogbonna and Ebimobowei (2012) studied the effects of Petroleum Income Tax on the Nigerian economy for the period 2000 to 2009 using the gross domestic product (GDP), per capita income (PCI), and inflation (INF) as the explained variables, and oil revenue, petroleum profit tax/royalties (PPT\R), and licensing fees (LF) as the explanatory variables. The sample covers all the economic sectors of the country, including the oil sector and the non-oil sector. This study relied mostly on secondary data from Central Bank of Nigeria's Statistical Bulletin, Nigerian National Bureau of Statistics, and the Nigerian national Petroleum Corporation. Simple regressions models and Statistical Package for Social Sciences were used in this study to evaluate the data collected. The results show that oil revenue has a positive and significant relationship with GDP and PCI, but a positive and insignificant relationship with INF. Similarly, PPT has a positive and significant relationship with GDP and PCI, but a negative and insignificant relationship with inflation. It was also found that LF has a positive but insignificant relationship between GDP, PCI and INF, respectively. Based on these findings, this study concludes that petroleum income (oil revenue and PPT/R) has positively and significantly impacted the Nigerian economy when measured by GDP and PCI for the period 2000 to 2009. This study therefore suggests that the effect of petroleum income on the Nigerian economy was positive for the period reviewed.

Saheed, Abarshi and Ejide (2014) examined the empirical relationship between Economic growth and petroleum taxation. In an attempt to investigate the effect of petroleum taxation on economic growth, a simultaneous equation model was used to establish a relationship between the variables Domestic Consumption and production of crude oil, petroleum taxation and government policies. The result obtained from the analysis revealed that a strong positive relationship exist between domestic consumption, Petroleum profit tax (PPT), government policy and economic growth (GDP).

Also, Success**,** Success and Ifurueze (2012) examined the impact of Petroleum Profit Tax on the economic development of Nigeria for the period 2000- 2010. The method of analysis used was ordinary least square method. Results showed that Petroleum Profit Tax impact positively on gross domestic product of Nigeria and it is statistically significant. Others on PPT, GDP and Revenue Growth are Olatunji and Adegbite (2014); Ojong, Ogar and Oka (2016); Arowoshegbe, Uniamikogbo and Aigienohuwa (2017).

VII RESEARCH GAP

Previous studies on tax – economic growth in Nigeria have not critically considered the importance of tax sensitization and public awareness as a cogent factor in improving revenue growth of Nigeria. This becomes an issue to be given adequate attention as knowledge about it will likely snowball the payment without any coercion on the part of government. Aside this, the level of economic activities plays a significant role in revenue growth through tax payment as this promote business cycle, either during boom or recession, has serious implication on ability to pay principle of taxation.

Mutually exclusive is the fact that accruable revenue from oil and corresponding taxes on one hand are diversified without checks into "individual hands" in Nigeria, which hitherto, could have been used for economic growth. On the other hand, political leaders since the practice of democracy in 1979 had legislated and approved of four (4) refineries in Nigeria such that statutory taxes will be paid from such refineries. There will also be a reduction or elimination of exportation of crude oil, which has continually been

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affecting our foreign exchange earnings and consequent subsidies over imported oil. All these were not allowed to work in Nigeria.

It is, however, on the above premise that this study investigated the effect of tax sources on revenue growth of Nigeria

METHODOLOGY

The ex-post facto research design was adopted for this study. The justification for the use is that required data is believed to be of integrity but sourced from secondary materials as earlier mentioned, i.e. from the Central Bank of Nigeria Statistical Bulletin and National Bureau of Statistics. The period covered was 1999 to 2018 using quarterly data amounting to eighty (80) observations. The revenue growth was measured with growth in GDP while the independent variables include Petroleum Profit Tax (PPT) and Company Income Tax (CIT).

The data were analysed thoroughly with the three moderating variables – using procedural steps to determine the effect of tax sources on revenue growth in Nigeria. Descriptive statistics to describe and summarise the data in a meaningful way, Stationarity test was estimated using Augmented Dickey Fuller (ADF) to determine the characteristic nature of the variables so as avoid spurious regression and estimation of cointegration test, Engle-Granger single equation as well as Fully Modified Ordinary Least Squares (FMOLS) were conducted to test the long run relationships among the variables of interest and to evaluate their effect whether significant or otherwise.

The model specification centred on the impact of tax sources on revenue growth in Nigeria. To achieve the objectives stated earlier, the functional form of model for this study was

$$RGR_t = f(TSC_t, CSF_t)$$

The components of the macroeconomic factors (MEF) is shown as

$$TSC_t = f(PPT, CIT)$$

Where

RGR – Revenue Growth

TSC_t – Tax Sources Component as Macroeconomic Factors (MEF_t)

Furthermore, the components of country – specific factors (CSF_t) was depicted in the equation as

$$CSF_t = f(TKN, LEA)$$

where

TKN – Tax Knowledge and LEA- Level of Economic Activities

Modelling the impact of PPT and CIT, we have

$$RGR_t = a_0 + a_1 InPPT_t + a_2 TKN_t + a_3 LEA + e_t$$

and

$$RGR_t = B_0 + B_1 lnCIT_t + B_2 TKN_t + B_3 LEA + e_t$$

Where

RGR – Revenue Growth
a ,B_0 = intercept term
a, B_1 – a , B_{10} = parameters to be estimated
e = stochastic error term
ln = Natural Logarithm.

The Descriptive Statistics of the Variables

RGR being Dependent while PPT and CIT are Independents Variables is shown in Table 1.1 above:

The variables (RGR, PPT and CIT) described above with the two moderating variables of tax knowledge (TKN) and level of economic activities (LEA) covering the period of 1999: Q1 – 2018:Q4 indicated that revenue growth measured with percentage change of current GDP from the previous GDP has an average value of 9104.22 with a standard deviation of 7.1401 which shows that there is a dispersion of the data from the mean value. The positive kurtosis of 2.3157 reveals that RGR is mokurtic and Jacque-Bera (JB) shows that the null hypothesis of normal distribution of RGR is rejected.

TABLE 1.1

DESCRIPTIVE STATISTICS OF VARIABLES

	RGR	**PPT**	**CIT**	**TKN**	**LEA**
Mean	9104.22	4621793	573184.02	15.1412	0.4217
Std. Dev.	7.1401	685.40	452.11	1.2261	0.0848
Skewness	0.5968	1.6572	1.2611	0.5916	4.2537
Kurtosis	2.3157	43.0524	32.8433	4.5408	5.1463
Jarque-Bera	5.9153	153.2711	20.2231	10.2221	47.2183
Probability	0.0519	0.2176	0.0152	0.0423	0.0076
Sum	682808.1	183.2171	98.4276	0.1462	4.2158
Sum Sq. Dev.	4.06E+9	31297.55	15001	0.0510	0.5031
Observations	80	80	80	80	80

***Source**: Author's Computation, 2019*

Also, Petroleum Profit Tax (PPT) has a mean value of 4621793 with a standard deviation of 685.40. The kurtosis of 43.0524 shows that it is leptokurtic in nature while JB shows the variable is normally distributed at 5%. The Company Income Tax (CIT) showed a mean value of 573184.02 with a standard deviation of 452.11. The kurtosis of 32.8433 indicates that CIT is leptokurtic and JB reveals that the variable is normally distributed.

The outcome of the stationarity test using Augmented Dickey Fuller (ADF) in order to know the properties of the data used is indicated in Table 1.2 below. The ADF results showed that all the variables were not

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stationary at level. This revealed that all the variables were significant at first difference at 0.05 level of significance. This implies that their t-statistic is greater than the critical values and their respective p-values are within the acceptable bound. So far the unit root test shows that the level of stationary is at difference of 1. Therefore, the study used FMOL.

TABLE 1.2

STATIONARITY TEST OF THE VARIABLES

Variable	**At Level**	**At First Difference**	**Order of Integration**
RGR	-2.735	-4.602**	I(1)
lnPPT	-1.983	-5.841	I(1)
lnCIT	-1.324	-3.194	I(1)

***Source**: Author's Computation, 2019*

The outcome of stationarity level showing order of integration one, I(1), necessitate the test of cointegration to confirm any possibility of long-run relationship among the variables. Given this order of integration, an appropriate technique used is Engle – Granger single equation cointegration test.

Table 1.3 shows the cointegration test for the variables used in terms of their hypothesis in order to ascertain if long-run relationship actually exists. The null hypothesis of no long-run relationship among the variables exists and the decision rule is to reject the null hypothesis if the reported statistics (i.e. *tau and z*) are statistically significant and if otherwise, accept the null hypothesis.

Engle – Granger Single Equation Cointegration Test

The result presented in **Table 1.3** showed that both *tau and z* statistic are statistically significant for the four models. This is evident from each of their p-value being below 0.05 level

TABLE 1.3

ENGLE – GRANGER SINGLE EQUATION COINTEGRATION TEST

Model	tau-statistic	p-value	z-statistic	p-value
PPT and RGR	-9.2683	0.0001	-38.0057	0.0082
CIT and RGR	-5.1735	0.0186	32.4911	0.0331

***Source**: Author's Computation, 2019*

Following the result in Table 1.3 above, it is clear that the null hypotheses for the two models were rejected and this implies that there exist long – run relationships among the variables of interest. This finding definitely necessitated the use of Fully-Modified Ordinary Least Squares (FMOLS) technique for this study.

The hypotheses formulated for this study were tested and are here below explained in (1) and (2):

1. *i) Effect of Petroleum Profit Tax on Revenue Growth in Nigeria*

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The effect of Petroleum Profit Tax (PPT) on revenue growth (RGR) in Nigeria was examined through FMOLS and this was presented in Table 2.1. The empirical finding revealed that

TABLE 2.1

FMOLS COINTEGRATING REGRESSION

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
PPT	0.3871	0.2389	1.6203	0.1577
TKN	12.8292	2.1448	5.9815	0.0036**
LEA	-7.1924	1.8827	-3.8203	0.0089**
C	3.7311	1.2433	3.0010	0.0495**
R-squared	0.7628			
Adjusted R-squared	0.6803			
F-statistic (Prob.)	58.7716 (0.0000)			

Source: *Author's Computation, 2019*

{*, **} reject null hypothesis at 1% and 5% level of significance respectively.

Petroleum Profit Tax (PPT) has no significant effect, though positive, on revenue growth of Nigerian economy. The intuitive interpretation is that PPT has not significantly influence the revenue growth of Nigerian economy despite oil being the mainstay of the economy. It is, however, noted that tax knowledge (TKN) was positive and significant on revenue growth (RGR). This implies that a unit increase in tax knowledge will increase revenue growth by 12.8292 in Nigeria. Also, level of economic activities significantly, though negative, influences revenue growth in Nigeria. What can be deduced from this is that a unit increase in financial deepening will result to reduction in revenue growth in Nigeria. More so, holding all these variables constant still shows that revenue will improve by 3.7311 units in Nigeria.

The diagnostic statistic of Adjusted R-square shows that the model was explained by 68.03% of variables included and this implies that model is of good fit. Based on the empirical result, the hypothesis which states that petroleum profit tax has no significant effect on revenue growth is accepted.

The post – estimation diagnostic and stability tests were carried out to ascertain the reliability of the model. The model employed Breusch Godfrey Serial Correlation and Normality tests as shown in Tables 2.2 – 2.3.respectively.

TABLE 2.2

BREUSCH-GODFREY SERIAL CORRELATION LM TEST

F-statistic	2.6173	Prob. F(4,59)	0.2948*
Obs*R-square	9.3527	Prob.Chi-Square (4)	0.1712

Source: *Author's Computation, 2019*

{*, **} reject null hypothesis at 1% and 5% level of significance respectively.

TABLE 2.3

HETEROSCEDASTICITY TEST – BREUSCH-PAGAN-GODFREY

F-statistic	4.0214	Prob. F(7,63)	0.3110*
Obs*R-square	24.2277	Prob.Chi-Square (7)	0.2300

***Source**: Author's Computation, 2019*

{*, **} reject null hypothesis at 1% and 5% level of significance respectively.

The result in Table 2.2 of residuals not serially correlated is accepted. This implies that we failed to reject the null hypothesis and conclude that the residuals are serially uncorrelated. Also, the null hypothesis in Table 2.3 of homoscedasticity of residual failed to be rejected because the p-value of 0.3110 is not significant at 5%.It is, therefore, concluded that the residuals are homoscedastic at 5% level of significance.

1. *ii) Effect of Company Income Tax on Revenue Growth in Nigeria*

The effect of company income tax (CIT) on revenue growth (RGR) in Nigeria was examined through FMOLS and this was presented in Table 2.4. The empirical finding revealed that company income tax (CIT) has negative and significant effect on revenue growth of Nigerian economy.

TABLE 2.4

FMOLS COINTEGRATING REGRESSION

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
CIT	– 0.1463	0.0502	-2.9132	0.0074
TKN	4.5547	1.3665	3.3332	0.0020
LEA	-16.9041	5.5815	-3.0286	0.0031
C	0.7275	0.0673	10.8177	0.0000
R-squared	0.7912			
Adjusted R-squared	0.7384			
F-statistic (Prob)	63.0681 (0.0000)	colspan=”2?>		

***Source:** Author's Computation, 2019*

{*, **} reject null hypothesis at 1% and 5% level of significance respectively.

The intuitive interpretation is that CIT has significant influence on the revenue growth of Nigerian economy. It is, however, noted that tax knowledge (TKN) was positive and significant on revenue growth (RGR). This implies that a unit increase in tax knowledge will increase revenue growth by 4.5547 units in Nigeria. Also, level of economic activities significantly, though negative, influences revenue growth in Nigeria. What can be deduced from this is that a unit increase in financial deepening will result to reduction in revenue growth in Nigeria. More so, holding all these variables constant still shows that revenue will improve by 0.7275 unit in Nigeria.

The diagnostic statistic of Adjusted R-square shows that the model was explained by 73.84% of variables

included and this implies that model is of good fit. Based on the empirical result, the hypothesis which states that company income tax have no significant effect on revenue growth is rejected.

The post – estimation diagnostic and stability tests were carried out to ascertain the reliability of the model. The model employed Breusch Godfrey serial correlation and normality tests as shown in Tables 2.5 – 2.6

TABLE 2.5

BREUSCH-GODFREY SERIAL CORRELATION LM TEST

F-statistic	1.8216	Prob. F(4,59)	0.1253*
Obs*R-square	5.6273	Prob.Chi-Square(4)	0.0917

***Source**: Author's Computation, 2019*

{*, **} reject null hypothesis at 1% and 5% level of significance respectively.

TABLE 2.6

HETEROSCEDASTICITY TEST – BREUSCH-PAGAN-GODFREY

F-statistic	3.7169	Prob. F(7,63)	0.2603*
Obs*R-square	18.3811	Prob.Chi-Square(7)	0.1357

***Source**: Author's Computation, 2019*

{*, **} reject null hypothesis at 1% and 5% level of significance respectively.

The result in Table 2.5 of residuals not serially correlated is accepted. This implies that we failed to reject the null hypothesis and conclude that the residuals are serially uncorrelated. Also, the null hypothesis in Table 2.6 of homoscedasticity of residual failed to be rejected because the p-value of 0.2603 is not significant at 5%.It is, therefore, concluded that the residuals are homoscedastic at 5% level of significance.

SUMMARY AND CONCLUSION

Tax payment is a civic duty imposed by law on all citizens and its collection and administration should be thoroughly monitored to enhance budget implementation of any government. The implementation of government plans can only be achieved where growth in revenue generation is consistently accomplished. This study, therefore, was to examine the effect of tax sources on revenue growth in Nigeria.

Previous studies were reviewed to establish extent of findings in developed, developing and Nigeria but few studies in Nigeria considered revenue growth as dependent variable while majority also ignored tax knowledge and level of economic activities which this study considered necessary and theories related to the study were also reviewed.

The research design adopted by this study was *ex – post facto* using secondary data covering 1999:Q1 – 2018:Q4 amounting to 80 observations to evaluate the effect of tax sources on revenue growth since the return to democratic dispensation in Nigeria which also brought to fore high increase of government expenditure since 1999 and this study employed FMOLS technique for estimation.

Some pre – estimation tests were carried out in which ADF unit root was one which informed the use of FMOLS. This study, therefore found that:

(i) Petroleum Profit Tax (PPT) has no significant effect on revenue growth (RGR) in Nigeria;

(ii) Company Income Tax (CIT) has negative significant effect on revenue growth (RGR) in Nigeria;

The *tau* and *z* statistics from Engle – Granger single equation cointegration test confirmed the existence of long – run relationships among the variables and this necessitated the adoption of FMOLS technique. FMOLS results revealed that Petroleum Profit Tax (a_1 = 0.3871; $p<0.05$) had no significant effect on revenue growth. Also, Company Income Tax (B_1 = -0.1463; $p<0.05$) had negative significant effect on revenue growth.

However, the two moderating variables, tax knowledge and level of economic activities, were found to be significant on revenue growth of Nigeria.

It was concluded that tax sources have significant effect on revenue growth of Nigeria, in the long – run, except Petroleum Profit Tax. It was recommended that government should track all companies through banks and Bank Verification Number (BVN) to monitor activities and transactions of all registered companies to reduce tax evasion and avoidance in Nigeria

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