

Tax Structure on Economic Growth: A Comprehensive Analysis of Direct and Indirect Tax in Nigeria

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ABSTRACT

This study examined the relationship between tax structure and economic growth in Nigeria, specifically analyzing the comparative impact of direct and indirect taxes. While taxation remains a fundamental fiscal instrument for resource mobilization, the optimal mix of tax revenue necessary to stimulate sustainable economic growth remains a contentious subject in the Nigerian context. The paper reviews theoretical underpinnings and empirical evidence regarding the efficiency, equity, and growth implications of direct taxes (such as Personal Income Tax and Company Income Tax) versus indirect taxes (such as Value Added Tax and Customs and Excise Duties). The analysis reveals that Nigeria's tax structure is heavily skewed towards indirect taxation, which, while buoyant, tends to be regressive and potentially distortionary to consumption. This study concludes that a re-balancing of the tax structure towards direct taxation, alongside broadening the tax base and improving compliance, is essential for fostering inclusive economic growth.

Keywords: Tax structure, direct tax, indirect tax, ARDL and Economic growth

INTRODUCTION

Taxation is the primary source of government revenue and a vital instrument for macroeconomic stabilization, wealth redistribution, and the promotion of economic growth. In developing economies such as Nigeria, dependence on tax revenue has become increasingly essential due to the instability of oil revenue and the necessity to address substantial infrastructure deficits (Ebimobowei, 2019). However, the mere accumulation of tax revenue does not automatically translate to economic growth; the composition and structure of these taxes play a determinative role.

Tax structure refers to the relative significance of various sources of tax revenue to the total tax collection. Economists classify taxes into two main categories: direct and indirect taxes. Direct taxes are imposed on income and earnings, while indirect taxes are imposed on products and services (Owolabi & Okwu, 2019). The primary challenge for Nigerian policymakers is to determine the tax structure that optimizes the Gross Domestic Product (GDP), enhances equity, and minimizes distortions (CBN, 2025).

Over the last five decades, Nigeria has seen a transformation in its tax structure. Historically, direct taxes have played a substantial role in revenue generation; however, current developments reveal a predominance of indirect taxes, especially Value Added Tax (VAT). The Finance Acts of 2019, 2020, and 2021 modified these tariffs to enhance government income in Nigeria. This research critically examines the influence of tax system on economic development in Nigeria.

In the present regime of the Tinubu administration especially the efforts of the Presidential Committee on Fiscal Policy and Tax Reforms there is a critical need to assess whether these reforms are achieving their intended economic objectives. In the absence of a thorough assessment of historical and current tax reforms and their effects, the Nigerian government jeopardizes the implementation of policies that may fail to effectively resolve the structural challenges within the economy. This study examines the impact of tax structure on economic

growth in Nigeria. Taxation serves as the principal source of government income and is an essential tool for macroeconomic stability, wealth redistribution, and the facilitation of economic development. In growing economies such as Nigeria, dependence on tax income has grown more essential due to the instability of oil revenue and the need to address significant infrastructure gaps (Ebimobowei, 2019). Nevertheless, the simple collection of tax revenue does not inherently result in economic growth; the nature and framework of these taxes are crucial factors.

Tax structure refers to the relative significance of various sources of tax revenue to the total tax collection. Economists often classify taxes into direct and indirect categories. Direct taxes are levied on income and profits, while indirect taxes are levied on goods and services (Owolabi & Okwu, 2019). The central problem for policymakers in Nigeria are identifying which tax structure minimizes distortions, enhances equity, and maximizes the Gross Domestic Product (GDP) (CBN, 2025).

Over the last five decades, Nigeria has seen a transformation in its tax structure. Historically, direct taxes contributed significantly to the revenue pool; however, recent trends indicate a dominance of indirect taxes, particularly Value Added Tax (VAT). The Finance Acts of 2019, 2020, and 2021 further adjusted these rates to boost government revenue in Nigeria. This study critically analyzes the impact of tax structure on economic growth Nigeria.

Under the current Tinubu administration, particularly regarding the initiatives of the Presidential Committee on Fiscal Policy and Tax Reforms, it is essential to evaluate the effectiveness of these reforms in meeting their economic goals. In the absence of a thorough assessment of historical and current tax changes and their effects, the Nigerian government jeopardizes the implementation of policies that may inadequately resolve the structural challenges inside the economy. This study examines the effect of tax structure on economic growth in Nigeria. However, the specific objectives are to: Evaluate the effect of Personal Income Tax (PIT) on economic growth in Nigeria, to investigate the effect of corporate income tax on Real Gross Domestic Product in Nigeria, also to determine the effect of Petroleum Profit Tax (PPT) on economic growth in Nigeria. To assess the effect of Value-Added Tax (VAT) on economic growth in Nigeria, finally, to examine the long-run effect of tax structure on economic growth in Nigeria

This study functioned as a policy framework for decision-makers and stakeholders in the Nigerian economy. It has contributed to empirical literature in the field of public sector economics and public finance. It has supplied reference materials for students and scholars in economics. This research examines the relationship between tax structure and economic development in Nigeria from 1986 to 2024. It is organized into five parts for rapid comprehension.

LITERATURE REVIEW

Tax Structure Tax structure

It depicts the structure of revenue of a government. It is generally studied as the share of total tax revenues coming from various sources. A “good” tax system is frequently rated by the criteria of equality, efficiency, simplicity and flexibility. In Nigeria, the tax structure comprises Petroleum Profit Tax (PPT), Company Income Tax (CIT), Personal Income Tax (PIT), Value Added Tax (VAT) and Customs and Excise Duties.

Direct and Indirect Taxes

Direct Taxes: these are taxes levied directly on the income or profit of individuals and corporations. They include Personal Income Tax (PIT), Company Income Tax (CIT), and Capital Gains Tax. The economic justification for direct taxes lies in the ability-to-pay principle; they are generally considered progressive, meaning higher earners pay a higher proportion of their income (James & Nobes, 2018).

Indirect Taxes: These are taxes levied on the consumption of goods and services rather than on income or profits. They include VAT, excise duties and import tariffs. Indirect taxes are often criticized for being regressive,

as they take a larger percentage of income from low-income earners who spend a higher proportion of their income on consumption compared to high-income earners (Adebisi & Gbegi, 2013).

Personal Income Tax (PIT) refer to the systemic changes made by a government to the legislative and administrative frameworks governing the taxation of an individual's earnings, including wages, investment income, and capital gains (Granger, 2013). These reforms aim to improve tax progressivity, simplify compliance, and enhance revenue mobilization through base broadening and the modernization of tax administration (OECD, 2025; PwC, 2025).

Petroleum Profit Tax (PPT) refer to the legislative and structural changes made to the fiscal regime governing the taxation of profits derived from upstream petroleum operations (exploration, drilling, and extraction). These reforms typically aim to modernize the industry, attract foreign direct investment (FDI), and ensure a "fair take" for the host government through the transition from high-rate, rigid tax systems to more flexible, tiered frameworks (Federal Inland Revenue Service [FIRS], 2024; Olaniwun Ajayi, 2025).

Corporate Income Tax (CIT) is a federal tax levied on the profits of all companies (excluding those engaged in upstream petroleum operations) that are either incorporated in Nigeria or operate as foreign entities within the country.

Value-Added Tax (VAT) refer to the deliberate modifications made by governments to the legislative framework, administrative procedures, and rate structures of a consumption tax levied at each stage of the supply chain (Investopedia, 2024). These reforms are typically designed to broaden the tax base, enhance revenue mobilization, and improve the efficiency of tax administration through modernization and digitalization (PwC, 2025; OECD, 2025).

THEORETICAL FRAMEWORK

The relationship between tax structure and economic growth is underpinned by several theories: However, two of the theories have been review in this study.

The Harrod-Domar Growth Model

This model emphasizes the role of savings and investment in driving economic growth. Within the context of taxation, high tax rates on income (direct taxes) may discourage savings, thereby reducing the funds available for investment. Conversely, indirect taxes on consumption are theoretically argued to encourage savings by making consumption more expensive, potentially aligning with the Harrod-Domar mechanism of capital accumulation (Musgrave & Musgrave, 2019).

The Laffer Curve theory

Theory Proposed by Arthur Laffer, this theory suggests a non-linear relationship between tax rates and tax revenue. It posits that there is an optimal tax rate beyond which higher rates will discourage production and economic activity, leading to a decline in total revenue. In the context of Nigeria, excessive corporate tax rates (CIT) may deter Foreign Direct Investment (FDI), while moderate indirect taxes may generate significant revenue without stifling demand.

EMPIRICAL REVIEW

There are many empirical studies on tax structure and economic growth across the globe. However, some of these studies have been reviewed as:

Biaze, Kpolode, and Ekidiribo (2025) evaluated value added tax (VAT) as a component of fiscal policy, which has been in effect since September 1, 1993, and became operational on January 1, 1994, at a rate of 5%. This rate was subsequently increased to 7.5%. The current fiscal reform proposes a VAT rate of 10%, representing a 2.5% increase from the previous rate, with a target of 15% by 2027. To analyze the impact of VAT reform on

economic growth, we utilized secondary data from 2020 to 2023, sourced from the Nigeria Statistical Bulletin and the Central Bank of Nigeria. The regression analysis revealed a statistically significant relationship between the explanatory and response variables, corroborating the findings of the study.

Obadan (2022) examined the effects of tax measures on income collection in Lagos State. The ordinary least squares (OLS) regression method was used to examine secondary data obtained from the Lagos State Internal Revenue Service (LIRS), consisting of taxpayer information and revenue status reports, using quarterly time series data from 1999 to 2021. The findings revealed a long-term relationship between tax reforms and revenue generation in Lagos State. The findings also revealed that the state relied more on tax reforms than on other sources of revenue generation. Consequently, it was determined that the states need to devise methods to augment income from other sources. The limitation is in its restricted emphasis on Lagos State, perhaps limiting the applicability of the results to the wider context of Nigeria. The research convincingly illustrates a long-term correlation between tax changes and revenue collection in Lagos; however, it fails to examine the implications of these results for other states or the national revenue context. The analysis is based on data from a single state, perhaps overlooking regional disparities in economic activity, tax administration, or compliance levels across Nigeria. Moreover, although the research underscores the state's significant dependence on tax reforms, it fails to examine the potential effects of alternative revenue sources, such as grants, natural resource revenues, or federal allocations, which could yield a more thorough comprehension of total revenue generation.

Mustapha, Olalekan, Damilola, Ayobami, and Ngozi (2025) examined the effects of tax changes on economic growth in Nigeria using time series data from 2013 to 2022. The research used an ex-post facto approach and regression analysis to assess changes in Value Added Tax (VAT), Petroleum Profit Tax (PPT), and Company Income Tax (CIT). The data indicated that improvements in PPT and CIT substantially enhance economic growth, but VAT reforms had a markedly adverse correlation. The research indicated that while tax changes are crucial for financing public services, poorly designed consumer taxes might impede growth. This study's limitation is in its concentration on the recent decade (2013-2022), perhaps overlooking the structural changes enacted by the forthcoming 2024/2025 tax legislation and the enduring effects of the Petroleum Industry Act (PIA).

Biaze, Kpolode, and Ekidiribo (2025) investigated the correlation between fiscal policy adjustments, particularly VAT, and economic development in Nigeria. Using secondary data from 2020 to 2023 extracted from the Central Bank of Nigeria (CBN) and the National Bureau of Statistics (NBS), the study analyzed the transition from 5% to 7.5% VAT and the proposed move to 10%. The results demonstrated a linear correlation between tax income and GDP, however showed that elevated VAT rates would inhibit consumption and escalate unemployment. The limitation is in the three-year timeframe, which is inadequate to fully observe the economic adaptation cycle to rate hikes under varying market circumstances.

Olubunmi, Ndiomaluke, and Oyerogba (2025) analyzed tax income sources and their influence on manufacturing sector production subsequent to the 2025 Tax Reforms Act. The researchers analyzed financial reports and sector-specific data to gauge how CIT reductions affected productivity. The results indicated that reduced corporation tax rates from the new legislation significantly enhanced industrial production by increasing company liquidity. The limitation is in its concentration on manufacturing; the results may not be relevant to the service or agricultural sectors, which have distinct tax issues such as double taxation and insufficient formalization.

Adewale, Afolabi, and Fasina (2025) evaluated the impact of tax modifications on federally collected income in Nigeria using a Vector Auto Regression (VAR) model from 2011 to 2023. The research focused on changes related to VAT, CIT, and NITDEF (National Information Technology Development Fund). The findings indicated that VAT and CIT changes substantially enhance government income, whereas PPT reforms had little effect owing to global oil price volatility. The gap is the focus on revenue collection rather than the direct impact of that revenue on GDP growth, leaving out the critical link of how government expenditure of tax proceeds affects the real economy.

Okoye (2025) conducted an empirical analysis of Capital Gains Tax (CGT) amendments and their impact on

the Nigerian stock market. The research, using data from the Nigerian Exchange Group (NGX), revealed that the 10% capital gains tax on share disposals augmented government income while exerting a little impact on market volatility. The deficiency is in its limited emphasis on the capital market, neglecting to examine the impact of CGT changes on the real estate sector and other non-financial assets that substantially contribute to national wealth.

Gbeke and Nkak (2021) analyzed the correlation between tax revenue and economic development in Nigeria using the Autoregressive Distributed Lag (ARDL) methodology on data spanning from 1995 to 2019. The research used VAT, PPT, and CIT as independent variables. The findings revealed that while CIT and Customs duties have a positive impact on growth, VAT and PPT were found to have negative effects during the period under study. The gap pertains to the data's age; the analysis fails to include the substantial administrative digitization (e-taxation) that has transpired after 2020, which has fundamentally altered compliance and revenue dynamics.

Olawuyi and Oluwabukola (2025) assessed the reorganization of the Federal Inland Revenue Service (FIRS) into the Nigeria Revenue Service (NRS). They assessed institutional effectiveness using a New Public Management (NPM) paradigm. The results indicated that centralizing tax administration decreased revenue leakages and enhanced budgetary sustainability. The deficiency is in the qualitative technique; the research lacks the quantitative rigor necessary to precisely quantify the extent to which this administrative change influenced the 2025 GDP growth numbers.

Nwaiwu (2023) examined the effects of tax changes on economic growth, using the Human growth Index (HDI) as a metric. The research examined PIT, CIT, and VAT data from 1994 to 2023 with the ARDL methodology. The results indicated that, over time, only the recent values of PIT and CIT significantly impacted HDI. The discrepancy is in the proxy used for development; while the Human Development Index (HDI) is extensive, it may be affected by several non-fiscal elements (such as health and education policies), complicating the isolation of the direct effects of tax measures.

Umoru and Anyiwe (2013) investigated the correlation between the National Tax Policy and economic growth using co-integration and error correction models. The findings indicated that direct taxation had a substantial positive correlation with growth, but indirect taxes did not. The disparity lies in its historical emphasis; the Nigerian economy has transitioned from being solely reliant on oil to possessing a more substantial services and telecommunications industry, making the conclusions of 2013 less relevant to the context of 2025.

Ihenyen and Mieseigha (2014) analyzed taxes as a financial mechanism for growth using OLS regression on data spanning from 1980 to 2013. They found a positive impact of CIT and VAT on GDP. The gap is the reliance on a single regression technique (OLS) which may not account for non-stationary data common in long-term macroeconomic time series, potentially leading to spurious results.

Ya'u, Umar, and Saad (2024) analyzed the causal relationship between PPT and economic growth using Granger causality tests. The findings validated that PPT is a significant predictor of GDP in Nigeria. The discrepancy lies in its characterization of PPT as a singular entity, neglecting to differentiate between the previous PPT framework and the newly instituted Hydrocarbon Tax (HT) under the PIA.

Odumu (2025) examined the tax-to-GDP ratio as an impediment to Nigeria's infrastructure. The results indicated that, notwithstanding changes, the ratio continues to fall short of the 15% benchmark necessary for self-sustaining development. The deficiency is in the absence of "expenditure-side" research; the study presumes that increased tax collection inherently results in growth, neglecting an evaluation of public spending efficiency. PLAC (2025) examined the 2025 Tax Reform Bills, emphasizing small and medium-sized enterprises (SMEs). The study found that exempting businesses with under ₦50 million turnover from VAT encourages formalization. The gap represents the "tax notch" issue; it does not examine whether enterprises deliberately restrict their expansion to remain below the tax-exempt limit.

Adegbite and Fasina (2019) used Johansen co-integration to demonstrate that PPT and VAT had positive substantial impacts on revenue production. The disparity lies in the study's emphasis on "revenue generation"

(government income) rather than "economic growth" (national wealth), which are not always associated. Owolabi and Usman (2023) analyzed the influence of tax audits and compliance on economic development. The results indicated that heightened audit frequency enhances income but may hinder small company development if seen as harassment. The disparity exists in the absence of distinction between "productive" audits and "predatory" audits within the Nigerian setting.

Moreover, Saeed and Sheikah (2017) conducted a comparative analysis of Nigeria's tax revisions against those of other developing countries. Nigeria's changes were often implemented and lacked clarity. The disparity serves as the comparative emphasis; by examining other nations, it neglects an in-depth analysis of the particular socio-political elements (such as the 2024 fuel subsidy elimination) that affect tax compliance in Nigeria.

Aregbeyen and Fasanya (2018) focused on the impact of tax incentives on investment. Research indicated that several "tax holidays" did not lead to an increase in foreign direct investment (FDI). The gap arises from the oversight of "revenue forgone," indicating that the potential growth, which might have occurred had those taxes been collected and allocated to public infrastructure, was not assessed.

Ekeocha (2022) examined the revenue consequences of the Nigerian tax system, emphasizing economic disparity. The results indicated that existing measures are insufficiently progressive to diminish the poverty gap. The deficiency is in the absence of a "growth-multiplier" analysis; the research emphasizes equality (distribution) but fails to assess how these distributional changes influence the overall magnitude of economic growth in the nation.

METHODOLOGY

This study used an ex post facto research approach to analyze time series data in order to evaluate the influence of tax structure on economic development in Nigeria. This methodology aligns with prior research in the Nigerian tax growth literature (Mainoma et al., 2024; Nwanakwere, 2019) and facilitates the analysis of historical reform impacts without variable manipulation. This study sourced its data from the Central Bank of Nigeria Statistical Bulletin (CBN, 2024), Federal Inland Revenue Service (FIRS, 2024) tax revenue statistics, National Bureau of Statistics (NBS, 2024) macroeconomic indicators, and additional sources.

METHOD OF DATA ANALYSIS

The study employed Auto-Regressive Distributed Lag (ARDL) bounds testing approach to determine both short-run and long-run relationships among variables (Nwanakwere, 2019).

Model Specification

This study specified the model in-line with Adegbite and Fasina (2019) and Biaze, Kpolode, and Ekidiribo (2025) with some modifications as:

$$RGDP = f(TAR) \dots\dots\dots(3.1)$$

Therefore, equation (3.1) states that economic growth is a function of Tax structure in Nigeria.

It has been transformed into econometric model as:

$$RGDP=f(PIT, CIT, PPT, VAT, DUV, INT,)\dots\dots\dots(3.2)$$

The explicit econometric form of the equation is as:

$$RGDP_t = \partial_0 + \partial_1 \partial VAT_t + \partial_2 PIT_t + \partial_3 PPT_t + \partial_4 CIT_t + \partial_4 DUV_t + \partial_5 INT_t + ut \dots\dots\dots(3.3)$$

The standard ARDL model is presented in equation (3.4) as:

$$\begin{aligned} \Delta \text{LRGDP} = & \partial_0 + \partial_1 \text{LnRGDP}_{t-1} + \partial_2 \text{LnPIT}_{t-1} + \partial_3 \text{LnPPT}_{t-1} + \partial_4 \text{LnVAT}_{t-1} \\ & + \partial_5 \text{LnCIT}_{t-1} + \partial_6 \text{LnDUV}_{t-1} + \partial_6 \text{INT}_{t-1} + \sum_{m=0}^p \lambda \Delta \text{LnRGDP}_{t-1} + \sum_{m=0}^q \phi \Delta \text{LnPIT}_{t-1} + \\ & \sum_{n=0}^q \psi \Delta \text{LnCIT}_{t-1} + \sum_{n=0}^q \delta \Delta \text{LnPPT}_{t-1} + \sum_{n=0}^q \delta \Delta \text{LnVAT}_{t-1} + \sum_{n=0}^q \delta \Delta \text{LnDUV}_{t-1} + \\ & \sum_{n=0}^q \pi \Delta \text{LnINT}_{t-1} + \theta \text{ECM}_{t-1} + \varepsilon_t \end{aligned} \quad (3.4)$$

Where:

The null and alternative hypotheses are as follows:

$$H_0: \partial_0 = \partial_1 = \partial_2 = \partial_3 = \partial_4 = \partial_5 = \partial_6 = 0 \quad (\text{No long run relationship exist})$$

Against the alternative hypothesis:

$$H_1: \partial_0 \neq \partial_1 \neq \partial_2 \neq \partial_3 \neq \partial_4 \neq \partial_5 \neq \partial_6 \neq 0 \quad (\text{Long run relationship exist})$$

$\partial_1 - \partial_6$ are the long-run multipliers (parameters), ∂_0 is the intercept (the drift component); λ, ϕ, ψ , and δ the short-run parameters, θ is the coefficient of speed of adjustment while ECM_{t-1} is the speed of adjustment and ε_t is the disturbance error term.

Where:

RGDP = Real Gross Domestic Product

CIT = Corporate Income Tax

PIT = Personal Income Tax

PPT = Petroleum Profit Tax

VAT = Value-Added Tax

DUV = Dummy Variable

INT = Interest rate

Data presentation and Analysis

This study presents its data in appendix I on the real gross domestic product (RGDP), Valued Added Tax (VAT), Petroleum Profit Tax (PPT), Personal Income Tax (PIT), Corporate Income (CIT), Interest rate (INT) and economic growth in Nigeria.

Descriptive Statistics.

Table 4.1: Summary of Descriptive Statistics

Sample: 1986 2024						
	LOG(RGDP)	LOG(PPT)	LOG(PPT)	LOG(CIT)	VAT	DUV
Mean	10.55	4.21	7.65	22.61	20.01	0.67
Median	10.56	4.57	7.68	22.29	12.35	1.00
Maximum	11.31	7.45	8.35	25.12	76.76	1.00

Minimum	9.75	-2.27	7.05	17.17	0.22	0.00
Std. Dev.	0.53	2.22	0.31	1.59	17.66	0.48
Skewness	-0.00	-0.64	-0.04	-0.91	1.76	-0.71
Kurtosis	1.39	2.99	2.76	5.03	5.18	1.50
Jarque-Bera	4.20	2.63	0.099	12.13	28.05	6.90
Probability	0.12	0.27	0.95	0.00	0.00	0.03
Sum	411.6	164.02	298.18	881.59	780.09	26.00
Sum Sq. Dev.	10.72	187.19	3.57	97.01	11858.41	8.67
Observations	39	39	39	39	39	39

Source: Extracted from Researcher's computation, 2026

Table 4.1 presents the descriptive statistics. It presented the values of the mean, median, standard deviation, maximum, and minimum. It further presents the sample size numbers for this investigation. Table 4.1 disclosed the values of several measures of central tendency and dispersion for the investigation.

The average values for the variables used in the model are N10.55 billion for RGDP, N4.21 billion for petroleum profit tax (PPT), N20.01 for corporate income tax (CIT), and 0.67 for exchange rate. Furthermore, the median values for each variable are N10.56 billion for RGDP, N4.57 billion for VAT, N7.68 billion for PPT, 22.29 for CIT, 12.35 for the interest rate, and 1.00 for tax reform (DUV) throughout the research period.

The highest values for each variable were N 11.31 billion, N 7.45 billion, N 8.35 billion, N 8.458547 billion, N 25.12 billion, 76.76%, and 1.00 for RGDP, VAT, PPT, CIT, INT, and DUV, respectively. The minimum values for RGDP, crude oil export earnings, domestic crude oil sales, petroleum profit tax, oil royalties, and exchange rate in the Nigerian economy are N9.75bn, N-2.27bn, N1.972691bn, N7.054284bn, N17.17bn, 0.22, and 0.00, respectively, indicating the lowest values of both independent and dependent variables.

The Jarque-Bera statistics and their corresponding p-values are as follows: 4.20 (0.12), 2.63 (0.27), 0.099 (0.95), 12.13 (0.00), 28.05 (0.00), and 6.90 (0.003), indicating that the data were normally distributed variables, with the exception of the exchange rate. This meant that the p-values were statistically insignificant at the 5% level. The investigation decisively rejects the null hypothesis and concludes that the time series data are regularly distributed.

Unit Root Test

The study adopted Augmented Dickey Fuller (ADF) to estimate the level of stationarity of the time series data. The outcomes of the stationarity test are presented in Table 4.2.

Table 4.2: Unit root Test Using Augmented Dickey Fuller

Variables	ADF Test Statistic Value	Mackinnon Critical Values (5% Level)	Probs.*	Order of Integration
Log (RGDP)	-0.575220 -3.983253	-2.94342 -2.943427	0.8641 0.0039**	I(0) I(1)
Log (VAT)	-3.460400	-2.941145	0.0148*	I(0)
Log (PPT)	-3.356012	-2.941145	0.0191*	I(0)
Log (CIT)	-3.700005	-2.941145	0.0080*	I(0)

(INT)	-2.907439 -5.785878	- 2.941145 -2.943427	0.0538 0.0000**	I(0) I(1)
(DUV)	-7.397387	-2.948404	0.0000*	I(0)

Note: * and ** represented that the variable is significant @ 5% level of statistical significance at level and first differencing respectively.

Source: Researcher's Computation, 2026.

Table 4.2 results reveal that the ADF result suggested that economic growth i.e RGDP was not stable at level but it becomes stationary after first differencing. The null hypothesis was firmly rejected as the value of -3.983253 and the p-value of 0.0039 showed that RGDP was stationary at first difference. Similarly, VAT was flat at level. That is, the variable was of order I(0) integrating as shown in row two of the Table 4.2. The ADF value of -3.460400, which is more than the Critical value of -2.941145 with probability value of 0.0000, indicates that it was stationary at level as shown in appendix II.

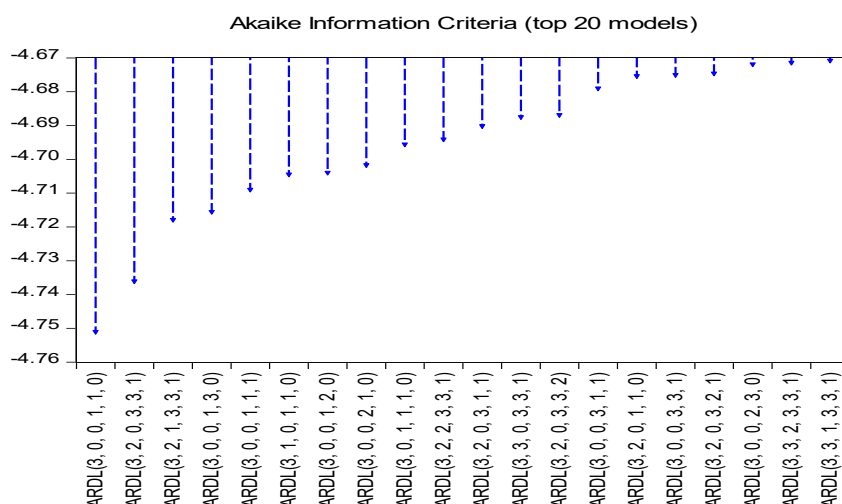
More than that, PPT was stagnant at level. That is, the variable was integrating of order 0 I(0) as shown in the second row of the Table 4.2. Examining the ADF value of -3.356012 which is more than the Critical value of -2.945842 with probability value of 0.0000; it suggests that it was stationary at level as included in appendix II.

Furthermore, as seen in row three (3) of table 4.1, the CIT is stationary at initial difference. This implies that the ADF of -3.700005 is more than the crucial value of -2.941145 at first difference. It revealed that the domestic crude oil sales is stagnant at first difference as mentioned in the Appendix II. Interest Rate (INT) is stationary at first difference as reflected in ADF value of -5.785878 i.e bigger than the crucial value of -2.943427 and probability value of 0.0000. This implies is stationary at first difference which means it was integrated of order one I (1). Finally, dummy variable (DUV) is stationary at level with ADF value of -7.397387 which is bigger than the crucial value of 2.948404 and the probability value of 0.0000 proved that it's integrated of order zero. The mixed order of integration in terms of stationarity of I (0) and I (1) time series data forced the adoption of ARDL approach in this investigation. It is nonetheless appropriate to evaluate the best lag duration before the model estimation. The ideal lag duration is shown in Table 4.3.

Optimal Lag Length

In Table 4.3, it reveals the result of ARDL for the appropriate lag to be selected. The result indicates that: Akaike information criterion (AIC) with value of 3, 0, 0, 1,1,0 which showed that lag three (3) is the best lag length. Therefore, the best lag to compute ARDL model in this study is lag three (3) on row three (3) in Figure 4.3.

Figure 4.1: Optimal Lag lengths Selection



Source: Researcher Computation, 2026

Two (2) on row three (3) is the optimal latency, according to Table 4.3. Hence, lag two (2) was considered the most significant lag length in this analysis in this research. Nonetheless, the research had anticipated the ARDL Results to investigate the impact of tax structure on GDP growth in Nigeria from 1986 to 2024 in the part that followed.

Model Estimation

This study estimated ARDL bound test to identify whether there is long-run relationship among the studied variables or not. It is necessary requirement for the estimation of ARDL model. Hence, the result of ARDL Bound test is presented in Table 4.4 for this analysis.

ARDL Bound Test.

Table 4.4: ARDL Bound test for Long-run Equilibrium

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	5.758614	10%	2.26	3.35
K	5	5%	2.62	3.79
		2.5%	2.96	4.18
		1%	3.41	4.68

Note: *, ** & *** denoted level of significance @ 1%, 5% and 10% respectively.

Source: Researcher's Computation, 2026.

Table 4.4 indicates the existence of long-run correlations among the examined variables. The computed F-statistic of 5.758614 surpasses the upper critical limits at the 1%, 5%, and 10% significance levels, respectively. The null hypothesis is rejected, indicating a long-run association among Real Gross Domestic Product (RGDP), Value Added Tax (VAT), Petroleum Profit Tax (PPT), Corporate Income Tax (CIT), Interest Rate (INT), and Dummy Variable (DUV) in the Nigerian economy.

Additionally, this research included the long-run coefficients for real gross domestic product (RGDP), Value Added Tax (VAT), Petroleum Profit Tax (PPT), corporate Income Tax (CIT), interest rate, and dummy Profit Tax, Oil Royalty in Table 4.5. It is important to acknowledge the establishment of evidence for a long-term association among the variables in Table 4.4. The research subsequently displayed the ARDL long-run coefficients in Table 4.5.

ARDL Long-run Result

Table 4.5: ARDL Long-run Result

Case 3: Unrestricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(VAT)	0.311403	0.040695	7.652033	0.0000
LOG(PPT)	0.305850	0.280613	1.089937	0.2861
LOG(CIT)	0.075739	0.070246	1.078201	0.2912

INT	-0.000281	0.003697	-0.075923	0.9401
DUV	0.085231	0.116115	0.734022	0.4698

Note: ** denoted significant @ 5% level of Statistical Significance

Source: Computed by Author Using E-views Version 10, 2025

The apriori expectation that the value added tax has a positive impact on Nigeria's economic growth was confirmed by the coefficient of 0.311403 in Table 4.5. That is, the Real Gross Domestic Product in Nigeria would increase by 3.1% in the long term as a result of crude VAT, as indicated by the Value Added Tax coefficient of 0.311403. The result also revealed that VAT are significant in the model at 5% level of statistical significance, judging from the t-statistic of 7.580027 and p-value of 0.0000.

Moreover, petroleum profit tax (PPTX) has a positive coefficient with Real GDP which is in line with economic theory. This was predicated on the assumption that, in the absence of any other factors, a one-unit increase in the petroleum profit tax would result in a 0.305850 unit change in the real GDP. In the same vein, the variable's t-value of 1.089937 and p-value of 0.2861 demonstrated that it was not statistically significant in the model.

Additionally, the coefficient of Corporate Income Tax (CIT) is 0.075739, which indicates a positive impact on the RGDP, consistent with the a priori expectation. This indicates that a 1% increase in CIT would result in a 0.7% change in RGDP, assuming all other factors are equal. Corporate Income Tax has a T-value of 1.078201 and a P-value of 0.2912, which is considered insignificant. The model's insignificance of corporate income tax at the 5% level of statistical significance was demonstrated by this outcome.

Conversely, the interest rate has a negative coefficient of -0.005524, indicating that a 1% decrease in EXRT will result in a -0.000281unit decrease in RGDP, or a 0.002% decrease in the Nigerian economy. Therefore, this outcome was consistent with the a priori expectation that an inverse relationship exists between INT and RGDP, assuming that all other factors are held constant. The interest rate was statistically insignificant, as evidenced by a p-value of -0.075923 and a t-value of 0.9401. This implies that a unit or 1% increase in EXR would result in a decrease in the real GDP values of the Nigerian economy during the study period. Furthermore, the coefficient of the dummy variable (tax Reforms) (DUV) is 0.085231, which indicates a positive impact on the RGDP, which is consistent with the a priori expectation. This indicates that a 1% increase in DUV would result in a 0.8% change in RGDP, assuming all other factors are equal. Tax Reforms have insignificant effect of T-value of 0.734022 and P-value of 0.4698. The model's insignificance of corporate income tax at the 5% level of statistical significance was demonstrated by this outcome.

ARDL Short-run Result

Table 4.6: Short-Run Results

Model	Depn. RGDP			
Variable	Coefficient	Std Error	t-Statistic	Prob.
$\Delta \text{LOG (RGDP (-1))}$	0.198322	0.092173	2.151615	0.0413**
$\Delta \text{LOG(VAT))}$	0.041502	0.090366	4.472363	0.0001**
$\Delta \text{LOG(CIT)}$	0.001896	0.001911	0.991915	0.3307
$\Delta \text{LOG (CIT (-1))}$	0.021896	0.101911	4.991915	0.0007**
$\Delta \text{LOG(PPT)}$	0.002541	0.201911	3.991915	0.0105**

$\Delta \text{LOG (PPT (-1))}$	0.001896	0.001911	0.991915	0.3201
$\Delta \text{(INT)}$	-0.000988	0.000230	-4.296014	0.0002**
$\Delta \text{(DUV)}$	0.015988	0.000230	5.296014	0.0152**
CointEq(-1)*	-0.091052	0.014141	-6.439101	0.0000**
$R^2 = 0.791123$	$R^2 = 0.756310$	F-stat = 22.72497		0.000000*

Source: Researcher's Estimation, 2025.

** denote significance @ 5% level of statistical significance.

Table 4.6 shows the convergence point as determined by the Error Correction Mechanism (ECM), which stands for the speed of adjustment in ARDL modeling. So, the ECM coefficient reveals how quickly the short-run equilibrium will recover from the divergence. In the Nigerian economy, the long term equilibrium among the dummy variables of interest rate, petroleum profit tax, corporate income tax, real gross domestic product (RGDP), and tax reforms is shown by the negative value of the ECM coefficient. In addition, the model's t-value of -6.439101 and probability value of 0.0000 indicate that it is statistically significant.

According to the ECM coefficient of (-0.91052), the model will eventually settle into a state of equilibrium within 91% of the time. As things stand, the estimated value of -0.91052 suggests that in the event of a disequilibrium among Nigeria's RGDP, PPT, CIT, INT, and DUV, the phenomena would be restored to equilibrium in one year and four months.

With a short-term determinant R^2 value of 0.796310, or 79%, all four model variables—PPT, CIT, INT, and DUV—are able to account for 79% of the variance in RGDP, while other variables account for the remaining 21%. This proves the model's validity and usefulness in advising the Nigerian government on economic policies.

The model's applicability to the investigation of tax reform's impact on GDP growth in Nigeria was further validated using modified R squared. With an adjusted R-2 value of 0.756310, or 75% (roughly) of the variance in real GDP in Nigeria, VAT, PPT, CIT, INT, and DUV were the true culprits. Consistent with the previous estimate that VAT has a positive impact on GDP growth in Nigeria, Table 4.6 shows that the VAT coefficient is 0.041502. Put another way, with a value-added tax coefficient of 0.041502, crude VAT would eventually lead to a 3.1% rise in Nigeria's real gross domestic product. The results showed that VAT are statistically significant in the model at the 5% level, as shown by the short-run t-statistic of 4.472363 and p-value of 0.0001. Additionally, as predicted a priori, the Corporate Income Tax (CIT) has a beneficial impact on the RGDP (coefficient = 0.001896). This shows that a 1% rise in CIT would lead to a 0.02% change in RGDP, which is the change in real GDP, assuming all other factors remain constant. $T = 0.991915$ and $P = 0.3307$ indicate that corporate income tax is not statistically significant. This finding demonstrated that, at the 5% level of statistical significance, corporate income tax does not have any impact on the model.

A positive relationship of 0.002541 with Real GDP indicates that petroleum profit tax (PPTX) aligns with economic theory. This presupposed that a one-unit rise in the petroleum profit tax would lead to a 0.002541-unit change in RGDP, with all other factors being held constant. Similarly, the variable's statistical significance was shown by its t-value of 3.991915 and p-value of 0.0105.

Furthermore, the interest rate has a negative coefficient of -0.000988, indicating that a 1% drop in INT results in a -0.000988 unit drop in RGDP, or 0.005%, in the Nigerian economy. So, this finding is in line with the approximation that, all else being equal, there is an inverse connection between INT and RGDP. With a p-value of 0.0002 and a t-value of -4.296014, the interest rate was not statistically significant. This indicates that throughout the research periods, the values of real GDP in the Nigerian economy will decrease with every unit or 1% rise in INT. In addition, as predicted a priori, the RGDP would be positively affected by the dummy variable (tax reforms) (DUV) with a value of 0.015988. When controlling for other variables, this shows that a

1% rise in DUV would lead to a 0.8% rise in real GDP. With a T-value of 5.296014 and a P-value of 0.0152, tax reforms do not have a substantial impact. At the 5% level of statistical significance, this finding demonstrated that tax reform is important in the model. Lastly, the value-added tax, petroleum profit tax, corporate income tax, interest rate, and tax reforms have all had a substantial and statistically significant short-term effect on real gross domestic product, according to the F-statistic value of 22.72497 and its p-value of 0.000000.

Diagnostic Tests

This study has presented the various diagnostic tests in order to provide basis for good policy recommendations and uses of the model built in section III. It becomes necessary to do this post estimation tests for avoidance of spurious regression and the presence of autocorrelation, heteroscedasticity and multicollinearity in the results. In addition, the model built must possess quality of good specification, normality and stability for it to be used as a generalized model for policy making in Nigerian economy.

Table 4.7 Result of the diagnostic tests

Normality test	Jargue-Bera 0.110094	Prob. 0.946441
Serial Correlation test	F. Statistic 0.476834	Prob. F (2,23) 0.2492
	Obs* R-squared 4.096995	Prob (2) 0.1289
Heteroscedasticity test	F. Statistic 1.367732	Prob. F (1,25) 0.2511
	Obs* R-squared 12.73055	Prob (13) 0.8240
Ramsey RESET Test result	T. Statistic 0.400038	Prob. 0.6927
	F. Statistic 0.400038	Prob. 0.6927

Source: Extracted from Researcher's Computation, 2026.

Table 4.7 reveals that the normality test, indicated by the JB-statistic (X2) of 0.110094, is statistically insignificant at the 5% level, as the probability value of 0.946441 exceeds 0.05. Consequently, the error terms in this study are normally distributed at the 5% level of insignificance. The outcome of the Breusch-Godfrey (BG) test for autocorrelation revealed an F-statistic of 0.476834, which is statistically insignificant at the 5% level, as the p-value of 0.2492 exceeds 0.05. This finding robustly refutes the null hypothesis of serial correlation. Consequently, it was determined that there is no serial correlation present in the model. The Heteroscedasticity test indicated that the error terms are homoskedastic, as shown by an F-statistic of 1.367732, which is statistically insignificant at the 5% level, with a probability value of 0.2511 above 0.05. This indicates that the research firmly rejects the null hypothesis of non-constant variance of the error component and concludes that Heteroskedasticity is absent in this analysis. The Ramsey RESET test was similarly undertaken to assess the accurate specification of the model. The F-statistic of 0.400038 is statistically insignificant at the 5% level, as shown by a p-value of 0.6927, which above the 0.05 threshold. This indicates that there was no mis-specification problem in the model constructed in section III. This model is appropriately constructed to analyze the impact of oil income on economic development in Nigeria. Consequently, the ARDL model is well-suited for formulating policy suggestions for the Nigerian economy.

Stability Test Result

The stability test is an important test to check if the model estimated passes the test of stability. It is done using the cumulative sum of recursive residuals test (CUSUM) and cumulative sum of squares recursive residuals test (CUSUM Q). The output is presented in Figure 4.7 and 4.8 respectively.

Figure 4.1: CUSUM

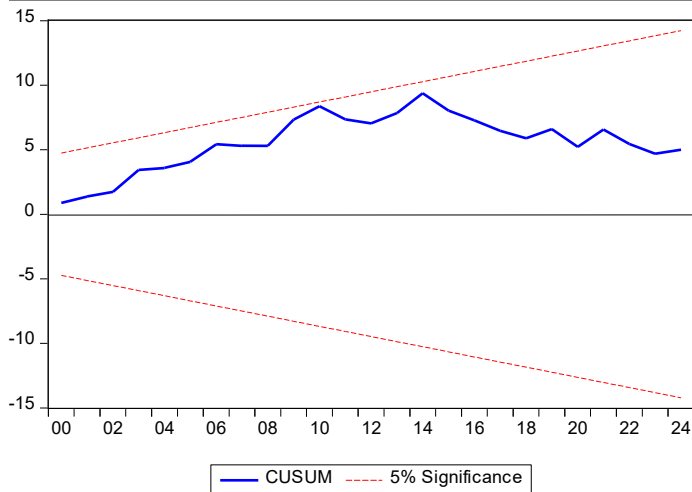
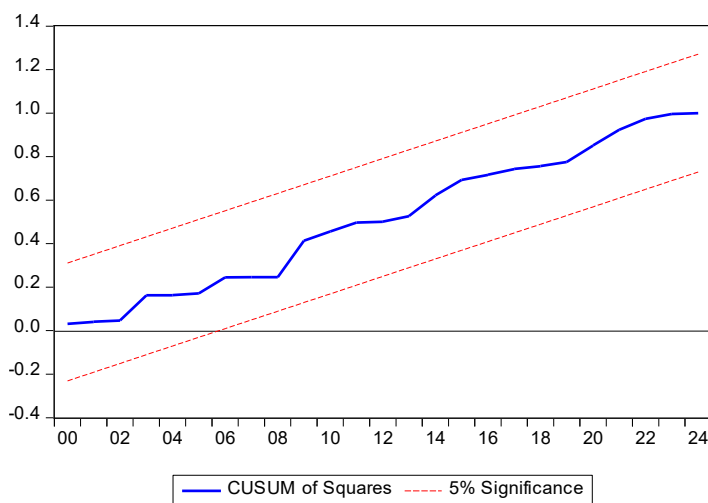


Figure 4.2: CUSUMQ



Source: Extracted from researcher's Estimation Using E-View Version 10, 2026

The stability of the Model testing estimates which was investigated using the CUSUM and CUSUMQ tests given results that are shown in Figures 4.2 and 4.3. The plots of the CUSUM statistics are well within the critical bounds at 5% level of statistically significant.

Furthermore, the plots of the CUSUM of squares statistics are within the critical bounds at 5% of level of significance. Figure 4.2 and 4.3 indicated that both the CUSUM and CUSUM (Q) fall within the bound to their normal shapes. These results confirmed that the model estimated was reliable and consistent. The tests find coefficients to be stable since the cumulative sum does not go outside the area between the two critical bounds. Therefore, the specified model for this study was stable and consistent in line with economic theory.

Test of Hypotheses

In this section of the study, it is set apart for hypotheses testing. We have verified the hypotheses based on the empirical evidences revealed in this analysis.

HO1; Petroleum Profit Tax (PPT) has no significance effect on economic growth in Nigeria

The second hypothesis formulated for testing was that petroleum profit tax had no significant effect on economic growth (Real gross domestic product) in Nigeria. Judging from the insignificant probability value of the observation (0.4838) and t-statistic value of 0.711775 this study accepted the null hypothesis and hence concluded that, domestic crude oil sales has no significant impact on economic growth in Nigeria.

HO₂: Corporate Income Tax (PIT) has no significant effect on economic growth in Nigeria

The third hypothesis formulated for testing was that petroleum profit tax has no significant impact on economic growth in Nigeria. Moreover, judging from the insignificant probability value (0.8356), or statistic value of 0.209880. This study accepts the null hypothesis and hence concluded that petroleum profit tax has no significant impact on economic growth.

HO₃ Personal income tax has no significant effect on economic growth in Nigeria

The fourth hypothesis formulated for testing was that Tax Reform has no significant impact on economic growth in Nigeria. The probability value of the observation on oil royalties is 0.0204 (which is lesser than 0.05) with t-statistic value of 2.490023 with reveals that that the variable is significant. Thus, this study rejected the null hypothesis and hence concluded that, tax reform has significant impact on economic growth during the period of investigation.

HO₄: Value Added Tax (VAT) has no significant economic on economic growth in Nigeria.

The first hypothesis formulated for testing was that crude oil export earnings had no significant effect on economic growth in Nigeria. Judging from the significant probability value of the observation (0.0000) and t-statistic value of 7.580027, this study rejected the null hypothesis and hence concluded that, value added tax has significant impact on economic growth during the period of investigation.

Ho₅: There is long-run relationship between tax structure and economic growth in Nigeria as seen in the result of Bound test for cointegration.

DISCUSSION OF FINDINGS

This study began its discussion of findings based on research objectives and its economic implications on the Nigerian economy. More to that, the empirical results presented in Tables 4.5 and 4.6 are used in these discussions. This revealed that the impact of oil revenue on economic growth in Nigeria has some practical implications on the economy. Therefore, this part discussed the major findings of the research based on its objectives as:

Objective (i): To evaluate the effect of Petroleum Profit Tax on Economic Growth in Nigeria.

The results shown that the coefficient of Petroleum Profit Tax (PPT) corresponds with the a priori assumption of a positive correlation between Petroleum Profit Tax (PPT) and real gross domestic product in the Nigerian economy. According to Table 4.5, the coefficient of Petroleum Profit Tax (PPT) is 0.134015, indicating that a one-unit rise in PPT results in a 0.13-unit increase in Real Gross Domestic Product (RGDP), so demonstrating a positive correlation with RGDP. Moreover, it was statistically insignificant, shown by a t-value of 0.209880 and a p-value of 0.8356 in the long run.

This conclusion implies that petroleum profit tax positively influences the actual gross domestic product. Nonetheless, this favorable correlation lacks sufficient strength and consistency to be deemed trustworthy. Although PPT is a substantial source of government income, it does not have a statistically significant impact on RGDP in the long term. This may indicate that profits from PPT are not efficiently allocated to productive sectors that foster long-term development, such as infrastructure, education, and manufacturing, implying potential mismanagement, corruption, or fund diversion.

This outcome aligns with the research conducted by Inimino et al. (2020), Aminu (2020), and Nnamaka and Brown (2014). All parties agreed that the Petroleum Profit Tax positively correlates with economic development in Nigeria. This conclusion contradicts the findings of Akinleye et al. (2021), who examined the impact of oil income on Nigeria's economic development from 1981 to 2018. Their findings indicated that the petroleum profit tax is adversely correlated with Real Gross Domestic Product.

Objective (ii): To investigate the effect of corporate income tax on economic growth in Nigeria

Based on the findings, it was determined that the coefficient of Corporate Income Tax is in agreement with the a priori anticipation that there is a positive link between CIT and real gross domestic product (RGDP) in the Nigerian economy with regard to the CIT. It can be seen from Table 4.5 that the coefficient of CIT is 0.034945. This indicates that an increase of one unit in (CIT) would result in a rise of 0.034 units in RGDP, indicating that there is a positive association between CIT and Real Gross Domestic Product. The fact that it had a t-value of 2.490023 and a p-value of 0.0204 correspondingly indicated that it was statistically significant.

The conclusion that can be drawn from this finding is that CIT has a potentially beneficial effect on the actual gross domestic product of Nigeria. The fact that a rise in the corporate income tax leads to an increase in the economic development of Nigeria implies that there is a clear link between the two phenomena. The statistical significance of this positive association demonstrates that it is both dependable and economically relevant; hence, it is a crucial variable in the process of explaining the success of the economy over the long term for this reason.

Objective (iii): To assess the effect of Value-Added Tax (VAT) on economic growth in Nigeria

On the first variable of Value-Added, it had a coefficient of 0.345739, which indicated that an increase of one unit in value-added tax would result in a rise of 0.35 units in economic growth in Nigeria. Based on the t-value of 7.580027 and the p-value of 0.0000, it can be seen that the VAT is statistically significant in the model. As a consequence, the findings demonstrated that value-added tax (VAT) had a favorable and substantial influence on the expansion of the economy in Nigeria over the analysis period.

Objective (iv): To determine the Long-run effect of tax structure on economic growth in Nigeria

Table 4.4 indicates that the estimated F-statistic of 13.31596 surpasses the upper critical limits at the 1%, 5%, and 10% significance levels in the long-run bounds test. The analysis indicated the existence of long-term correlations among the examined variables. The null hypothesis is rejected, indicating that there is long-run relationship among Tax reform and the real GDP within the study period. This result supported the work of Ewubara and Uzoma (2019), Nweze and Greg (2016), they revealed that in the long run, tax reform impacted on the gross domestic product positively.

On the contrary, this result does not agree with the work of Salaudeen (2022), Abimbola and Onazi (2019), Okonkwo and Madueke (2016). Their findings indicated that there is no substantial association between tax reform and economic development in Nigeria over the long term. In summary, trends in Direct Taxation Direct taxes in Nigeria, particularly Company Income Tax (CIT) and Petroleum Profit Tax (PPT), have historically been the backbone of non-oil revenue. Nonetheless, their contribution has shown volatility, mostly linked to the dynamics of the oil industry and the profitability of major firms. Empirical research indicates that CIT in Nigeria negatively correlates with long-term economic growth. Elevated corporate tax rates deter investment, resulting in capital flight and tax evasion tactics used by multinational corporations (Babatunde, Ibukun, & Babatunde, 2021). Moreover, the administrative expenses associated with collecting personal income tax are elevated owing to the substantial informal sector, leading to diminished revenue.

Trends in Indirect Taxation In recent years, indirect taxes, especially VAT, have emerged as the most rapidly expanding revenue source for the Nigerian government. The escalation of the VAT rate from 5% to 7.5% in 2020 highlighted this strategic transition. Governments in developing countries prefer indirect taxes due to their administrative simplicity, reduced evasion potential (particularly at import points), and consistent revenue generation (Ogbonna & Ebimobowei, 2022). The regressive nature of VAT in Nigeria raises concerns. Given that low-income families allocate a greater proportion of their income to consumption, a significant dependence on VAT intensifies income inequality and may diminish aggregate demand, thus hindering economic development.

Comparative Impact on Growth The discussion of whether tax category fosters development most effectively in Nigeria is continuing. Certain scholars contend that indirect taxes are less detrimental to growth than direct taxes,

since they do not immediately levy taxes on capital returns (investment). Conversely, others contend that direct taxes are more advantageous for sustained development since they promote savings (by imposing lower taxes on consumption) and guarantee that the financial burden is shouldered by those capable of affording it. Ogbulu and Mba (2019) discovered that while indirect taxes provide prompt income benefits for the government, they adversely and significantly impact the industrial sector in the long run by elevating production costs. Conversely, well-structured direct taxes, if compliance is enforced, can lead to better fiscal citizenship and social contract between the state and the citizens, fostering a stable environment for growth.

Excessive Dependence on Oil Revenue: The tax framework remains significantly skewed by oil revenue (PPT), rendering it susceptible to fluctuations in world prices. **Narrow Tax Base:** The direct tax framework is confined to the formal sector, resulting in the bulk of the workforce in the informal sector being untaxed. **Regressive Nature of Indirect Taxes:** The increasing shift towards VAT consumption taxes places a disproportionate burden on the poor, widening the inequality gap (Yusuf, 2021).

Multiplicity of Taxes: The existence of various levies and fees by state and local governments often distorts the efficient tax structure and increases the cost of doing business.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The pursuit of economic progress in Nigeria necessitates a tax framework that harmonizes revenue collection with economic incentives. The present research indicates a transition towards indirect taxes (VAT and customs charges) owing to administrative convenience. Nonetheless, while this enhances revenue from government in the near term, it presents dangers to equity and consumption in the long term. Despite their administrative complexities, direct taxes are essential for promoting vertical fairness and may stimulate savings and investment. Consequently, depending only on indirect taxes to stimulate development is untenable. High consumption taxes adversely affect the buying power of the public, potentially suppressing the demand essential for stimulating economic activity.

- i. **Broaden the Tax Base:** Efforts should be intensified to bring the informal sector into the tax net using technology and unique identification systems to increase the yield from direct taxes.
- ii. **Review Tax Incentives:** The government should review the various tax holidays and incentives granted to corporations to ensure they are attracting genuine investment rather than eroding the tax base.
- iii. **Progressive Indirect Taxation:** To mitigate the regressive impact of VAT, the government should consider excluding essential food items and medicines from VAT or implementing a tiered VAT system.
- iv. **Improve Tax Administration:** The efficiency of the Federal Inland Revenue Service (FIRS) and state boards must be enhanced to reduce the cost of collection and plug leakages in direct tax collection.

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