Mobilisation of Tax Revenue and Domestic Debt Sustainability in Nigeria

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ABSTRACT

This paper examined the impact of tax revenue mobilisation on domestic debt sustainability in Nigeria. The problem that motivated the paper was that, despite recurring reforms aimed at improving debts position, Nigeria had continued to experience rising domestic debt pressure. The main objective of the paper was to investigate the long-run relationship between tax revenue mobilisation and domestic debt sustainability in Nigeria, with tax revenue mobilisation proxied by company income tax, value added tax, and customs and excise duties. The paper adopted an ex-post facto research design and relied on the Fully Modified Ordinary Least Squares technique to estimate the model. The results revealed that company income tax had a positive and significant impact on domestic debt sustainability in Nigeria. This implied that increases in company income tax revenue were associated with increases in domestic debt sustainability, suggesting that growth in this revenue source had not been sufficient to offset prevailing borrowing pressures. The findings also showed that value added tax (VAT) had a negative and significant impact on domestic debt sustainability. This indicated that higher value added tax revenue was associated with reductions in domestic debts, implying that VAT provided a relatively stronger and more stable non-debt financing channel for domestic debt pressure. Furthermore, customs and excise duties had a positive and significant impact on domestic debt sustainability. This showed that increases in customs and excise duties were accompanied by increases in the domestic debt burden, indicating that growth in this revenue stream had not reduced persistent fiscal and borrowing pressures. The paper recommended that the Federal Inland Revenue Service and the Federal Ministry of Finance should strengthen company income tax enforcement and reduce unproductive waivers, while a defined portion of company income tax growth should be tied to deficit reduction. It also recommended that the Federal Inland Revenue Service, Joint Tax Board, and Central Bank of Nigeria should expand digital VAT compliance systems to improve stable non-debt revenue. In addition, the Nigeria Customs Service, Nigerian Ports Authority, and Federal Ministry of Finance should modernise port administration, strengthen anti-smuggling measures, and dedicate part of customs and excise receipts to domestic debt service.

Keywords: Tax revenue mobilisation, Domestic debt sustainability, Value added tax, Company income tax, Customs and excise duties

JEL Codes: H20, H63, H25, H26, H27

INTRODUCTION

Domestic debt sustainability has emerged as an important dimension of fiscal policy management globally, particularly as governments navigate the delicate balance between financing developmental needs and maintaining macroeconomic stability. At the global level, domestic debt has increasingly become an attractive financing option for governments seeking to reduce exposure to exchange rate risks and external vulnerabilities associated with foreign borrowing. According to the International Monetary Fund's assessments, many advanced economies have maintained domestic debt-to-GDP ratios above 80%, yet have sustained these levels through robust tax systems, deep financial markets, and credible monetary frameworks that keep borrowing costs manageable (Amedanou, 2024).

In the sub-Saharan African context, domestic debt sustainability presents unique challenges characterized by shallow financial markets, limited institutional investor bases, high borrowing costs, and relatively nascent tax

administration systems. Countries in the region have witnessed a substantial shift from external to domestic borrowing over the past two decades, driven partly by debt relief initiatives that reduced external debt burdens and partly by improved macroeconomic management that enabled access to domestic capital markets (Ezie *et al.,* 2019; African Development Bank, 2024). However, this transition has not been without complications, as domestic debt accumulation has increasingly crowded out private sector credit, raised interest rates, and created rollover risks in economies with underdeveloped secondary markets for government securities. The average domestic debt-to-GDP ratio for sub-Saharan African countries stood at approximately 18% in 2023, though this aggregate figure masks significant variations across countries, with some nations experiencing ratios exceeding 30% amid concerns about debt service costs consuming disproportionate shares of government revenues (Ouedraogo, 2025).

Nigeria's experience with domestic debt sustainability reflects both the broader regional patterns and country-specific fiscal dynamics shaped by oil revenue dependence, federal structure complexities, and evolving debt management practices. Examining the trend from the data provided, Nigeria's domestic debt as a percentage of GDP exhibited a declining trajectory from 17.04% in 1990 to a historic low of 5.77% in 2006, reflecting the benefits of debt relief under the Paris Club agreement and improved macroeconomic management during the oil boom years (Central Bank of Nigeria, 2023). However, this downward trend reversed from 2007 onwards, with domestic debt gradually increasing to 8.79% by 2013, and then experiencing relative stability around 9-11% through 2022. The most dramatic shift occurred between 2022 and 2024, when domestic debt as a percentage of GDP surged from 10.98% to 28.14%, representing a nearly threefold increase within two years, before moderating slightly to 25.9% in 2025 (Central Bank of Nigeria, 2025). This recent acceleration in domestic debt accumulation coincides with several fiscal pressures including declining oil revenues due to production challenges and theft, the removal of petroleum subsidies in 2023, currency devaluation impacts on naira-denominated revenues, and increased borrowing to finance budget deficits amid growing recurrent expenditure obligations particularly wage bills and debt service costs (Debt Management Office, 2025). The sustainability concerns are heightened by the fact that debt service-to-revenue ratios have escalated significantly, with projections indicating that debt service could consume over 60% of federal revenues if current trends persist, thereby severely constraining fiscal space for capital expenditure and social investments critical for long-term economic growth (Noah et al., 2026).

Tax revenue mobilisation represents a cornerstone of fiscal sustainability globally, providing governments with the financial resources necessary to deliver public goods, invest in infrastructure, and service debt obligations without excessive reliance on borrowing. Nigeria's tax revenue mobilisation experience has been characterized by persistently low tax-to-GDP ratios, heavy dependence on oil revenues, and ongoing reform efforts aimed at diversifying the revenue base and improving collection efficiency. The country's tax-to-GDP ratio has historically hovered around 6-8%, among the lowest globally and well below the 15% threshold considered minimum for sustainable development financing, reflecting the challenges of a large informal economy estimated at over 50% of GDP, limited tax compliance, administrative weaknesses, and political economy constraints that impede comprehensive tax reforms (Onyele et al.,2025). Examining the specific tax components reveals important trends in Nigeria's revenue mobilisation efforts. Value-Added Tax, Company Income Tax, and Customs and Excise Duties have become major revenue sources in Nigeria, with all showing long-term growth despite fluctuations. VAT, introduced in 1993 at 5%, rose from ₦7.26 billion in its first year to over ₦1 trillion in 2017, and later reached ₦8,610.36 billion in 2025. This growth reflected the VAT rate increase to 7.5%, tax reforms, wider coverage, and improved compliance, although challenges remained in enforcement, small business compliance, and revenue sharing disputes.

Company Income Tax also expanded significantly, rising from ₦2.99 billion in 1990 to over ₦1 trillion in 2014, before reaching ₦9,210.25 billion in 2025. Its movement was influenced by corporate profitability, economic cycles, exchange rate changes, tax policy adjustments, and stronger enforcement by the Federal Inland Revenue Service. However, tax incentives, transfer pricing, and multinational tax planning continued to affect the strength of CIT mobilisation. Customs and Excise Duties grew from ₦9.26 billion in 1990 to ₦7,281.25 billion in 2025. The trend reflected changes in import volumes, exchange rate depreciation, trade policies, customs modernization, and import restrictions. Collections fell during periods of recession and foreign exchange constraints but recovered as imports and naira-denominated duty values increased (Yahaya, 2026).

The relationship between tax revenue mobilisation and domestic debt sustainability constitutes a critical nexus in fiscal policy analysis, as the capacity to generate adequate and growing tax revenues fundamentally determines a government's ability to service debt obligations without resorting to unsustainable borrowing cycles or fiscal adjustments that undermine economic growth and development objectives. Theoretical frameworks in public finance emphasize that debt sustainability depends not merely on the stock of debt but crucially on the primary balance, which represents the difference between government revenues and non-interest expenditures. When tax revenues grow at rates exceeding the effective interest rate on debt, governments can maintain and even reduce debt-to-GDP ratios.

Given that effective tax revenue mobilisation is a critical instrument for strengthening government revenue, reducing excessive borrowing pressure, and promoting fiscal stability, it becomes necessary to examine how major tax revenue components, represented by Value-Added Tax, Company Income Tax, and Customs and Excise Duties, have influenced domestic debt sustainability in Nigeria.

The paper raised and addressed the following research questions:

i. To what extent does value-added tax impact domestic debt sustainability in Nigeria?
ii. What is the impact of company income tax on domestic debt sustainability in Nigeria?
iii. How has customs and excise duties influenced domestic debt sustainability in Nigeria?

LITERATURE REVIEW

Conceptual Review

Domestic Debt Sustainability

Domestic debt sustainability was conceptualised in recent scholarship as the capacity of government to finance, service, and roll over its local currency obligations without creating persistent fiscal stress, macroeconomic instability, or severe distortion to domestic financial markets. Kose et al. (2023) defined debt sustainability as the condition wherein a government maintained a stable or declining debt-to-GDP ratio over time through primary fiscal surpluses sufficient to offset interest payments, with the trajectory influenced by the differential between real interest rates and economic growth rates.

The World Bank (2024) characterized domestic debt sustainability as reflecting not merely the stock of debt but the dynamic interplay between revenue generation capacity, expenditure obligations, borrowing costs, debt maturity structures, and macroeconomic conditions that collectively determined whether debt burdens remained manageable without precipitating fiscal crises. Specifically, regarding domestic debt, Presbitero and Wiriadinata (2024) defined it as government borrowing denominated in local currency from domestic creditors including commercial banks, pension funds, insurance companies, and individual investors through instruments such as treasury bills, bonds, and promissory notes.

For this paper, domestic debt sustainability was operationally defined as the government's capacity to maintain and service its stock of local currency-denominated obligations contracted from domestic creditors without compromising macroeconomic stability or essential expenditures, measured as domestic debt stock expressed as a percentage of Gross Domestic Product, with sustainability implying stable or declining ratios supported by adequate revenue generation, manageable interest costs, and favourable growth dynamics that collectively ensured fiscal viability.

Tax revenue mobilisation

Tax revenue mobilisation was conceptualised in recent scholarship as the deliberate effort through which governments expanded tax capacity, improved compliance, widened the tax base, and increased the volume and predictability of internally generated revenue. Okafor and Eiya (2023) described it as the process of strengthening fiscal institutions to extract legally due revenue from individuals and businesses for development financing. Similarly, Mascagni (2023) argued that tax revenue mobilisation reflected both policy design and

administrative effectiveness, especially in developing economies where informality constrained tax effort. Moore (2024) further viewed it as a state-building instrument through which governments improved fiscal legitimacy, accountability, and revenue adequacy. These perspectives suggested that tax revenue mobilisation went beyond collection alone and included enforcement, efficiency, and sustainability.

Within this broad construct, value added tax was defined as a consumption-based indirect tax charged on incremental value created at each stage of production and distribution, with the final burden usually borne by consumers. Ebrill and Keen (2024) maintained that VAT had been valued for its neutrality, broad base, and relative productivity in revenue generation. Company income tax was defined as a direct levy imposed on the taxable profits of incorporated businesses after allowable deductions. Cobham (2024) explained that company income tax captured the contribution of corporate profitability to public finance and reflected the depth of formal economic activity. Devereux and Vella (2024) defined corporate income tax as a levy on the net income of companies operating within a jurisdiction, whether as residents taxed on worldwide income or non-residents taxed on source income, serving both revenue generation and economic policy objectives including redistribution and investment incentivization.

Customs and excise duties were understood as taxes imposed on imports and on selected domestically produced or consumed goods. According to UNCTAD (2024), these duties had remained important in many developing economies because they were administratively accessible and fiscally significant. Zake (2024) conceptualized customs duties as border taxes calculated either as percentages of import values or as specific amounts per unit quantity, serving revenue, protective, and regulatory functions while increasingly governed by international trade agreements that constrained unilateral tariff setting.

For this paper, tax revenue mobilisation was defined as Nigeria's capacity to generate stable and rising non-oil tax revenue through value added tax, company income tax, and customs and excise duties, as key indicators of fiscal capacity.

Theoretical Underpinning

The theoretical foundation for this paper had been anchored on Barro's Tax Smoothing Theory, as advanced within the broader public finance literature on government borrowing and taxation. The tax smoothing theory suggested that governments did not always respond to rising expenditure pressures by sharply increasing taxes in the current period; instead, they tended to maintain relatively stable tax rates over time and used public debt as an instrument for spreading the tax burden across periods. This position departed from the simplistic view that borrowing merely reflected fiscal indiscipline, because it argued that debt could serve as a rational policy tool for minimizing the distortionary effects associated with frequent changes in taxation. Barro (1979) explained that when governments faced temporary shocks, such as revenue shortfalls or unusual expenditure demands, it became more efficient to borrow and later adjust through future revenue rather than impose abrupt tax increases that could distort production, consumption, labour supply, and investment decisions.

The theory further implied that the sustainability of public debt depended largely on the government's future capacity to generate sufficient revenue to meet its obligations. In this regard, tax revenue mobilisation occupied a central place in the framework because a stronger, broader, and more predictable tax system enhanced the government's ability to service debt without creating severe fiscal imbalance. This was particularly relevant to the present study, where tax revenue mobilisation was measured through value added tax, company income tax, and customs and excise duties, while domestic debt sustainability was captured through domestic debt as a percentage of GDP. The significance of the theory to the paper lay in its explanation that these revenue sources represented channels through which government could build the fiscal capacity required to manage domestic borrowing in a sustainable manner over time.

Empirical Review

Tax revenue mobilisation was central to domestic debt sustainability because it determined whether government borrowing could be serviced without excessive refinancing, interest burden, or crowding out of private sector credit. The reviewed studies showed that stronger tax systems, broader revenue bases, and more efficient tax

administration had generally improved debt outcomes, although the strength of the relationship depended on country structure, institutional capacity, and the type of debt considered.

Yahaya (2026) examined fiscal sustainability and debt management in Nigeria from 1986 to 2025. The paper used a time-series regression framework, with debt-to-GDP ratio serving as the indicator of fiscal sustainability, while government revenue, gross domestic product growth, capital expenditure, recurrent expenditure, external debt stock, and fiscal rules served as explanatory variables. The findings showed that government revenue had a significant negative effect on the debt-to-GDP ratio, meaning that improved revenue mobilisation reduced debt pressure and strengthened fiscal sustainability. Gross domestic product growth also reduced the debt burden, while recurrent expenditure and external debt stock worsened fiscal sustainability. The paper was useful because it directly connected government revenue to debt sustainability in Nigeria. However, its use of aggregate government revenue limited the ability to determine the individual effects of value-added tax, company income tax, petroleum profit tax, and customs duties on debt sustainability.

Noah *et al.* (2026) analysed tax revenue sustainability and macroeconomic stability in Nigeria from 2000 to 2024. The paper used annual data from the Central Bank of Nigeria, Federal Inland Revenue Service, and National Bureau of Statistics. It employed ARDL bounds testing, vector error correction model, Johansen cointegration, and Toda-Yamamoto causality test. Tax sustainability was proxied by tax-to-GDP ratio, tax buoyancy, and non-oil tax composition. The findings showed that a higher tax-to-GDP ratio reduced output volatility, stronger tax buoyancy reduced inflation, and a larger non-oil share in the tax mix lowered unemployment. These results implied that sustainable tax mobilisation strengthened macroeconomic stability, which indirectly improved the government's ability to manage debt. However, the paper did not use domestic debt as the dependent variable, so its relevance to debt sustainability was indirect through macroeconomic stability channels.

Wang and Li (2025) extended the evidence from China by examining the impact of tax collection and administration system reform on local government debt from 2011 to 2023. The paper used provincial panel data and constructed an empirical model in which tax collection and administration reform, digital inclusive finance, and their interaction were used to explain local government debt levels. The findings showed that tax administration reform significantly reduced local government debt, while digital inclusive finance also reduced debt by improving access to financial services and strengthening fiscal transparency. The moderating analysis showed that digital inclusive finance strengthened the debt-reducing effect of tax reform, with the strongest effect observed in western China. This provided evidence that revenue mobilisation was not only about tax rates, but also about enforcement capacity and digital financial infrastructure. However, the paper was region-specific and focused on local government debt, so its results could not be transferred mechanically to national domestic debt systems.

Amedanou (2024) studied fiscal fatigue, public debt structure, and sustainability in the West African Economic and Monetary Union. The paper used a DSGE model of a small open economy and simulated financing options for scaling up public investment while maintaining debt stability. Tax adjustment, transfers, natural resource revenue, concessional borrowing, external commercial borrowing, and domestic borrowing were treated as fiscal financing instruments. The findings showed that where natural resource revenues existed and fiscal adjustments were consistently implemented through taxes and transfers, public investment could be expanded through concessional borrowing or additional domestic borrowing while still maintaining long-term debt sustainability. Conversely, external commercial debt generated higher sustainability risks. The paper was relevant because it showed how tax-backed fiscal adjustment could make domestic borrowing more sustainable. However, because it relied on model simulation rather than observed country-by-country econometric estimates, its findings were more policy-scenario based than historically grounded.

Ouedraogo (2025) examined public debt and tax revenues in West African Economic and Monetary Union countries, with emphasis on the role of human development, using panel data from 1995 to 2022. The paper applied panel-corrected standard errors and Driscoll-Kraay robust standard errors to control for heteroskedasticity, autocorrelation, serial correlation, and cross-sectional dependence. The findings showed that human development had a positive effect on government revenues, while rising public debt weakened tax revenue mobilisation. The results further indicated that human development moderated the negative effect of

public debt on revenues. This suggested that better education and health outcomes could strengthen public finance by expanding the taxable base and improving fiscal capacity. The paper was relevant because it directly linked debt pressure and tax mobilisation, but its dependent variable was tax revenue rather than debt sustainability, making the causal direction different from studies where tax revenue explained debt outcomes.

Onyele *et al.* (2024) investigated institutional quality, fiscal policy, and debt sustainability in 48 Sub-Saharan African countries between 2008 and 2022. The paper employed panel ARDL and PMG estimation, while debt sustainability was measured by the public debt service to income ratio. Fiscal policy was proxied by government expenditure and government revenue, which the authors treated as tax-related fiscal capacity. The findings showed that government revenue and expenditure significantly affected debt sustainability in the long run, while their short-run effects were marginal. The result implied that revenue mobilisation did not immediately correct debt pressure but became important over time. The paper was relevant because it combined fiscal and institutional variables in explaining debt sustainability. However, its broad SSA coverage limited country-specific policy interpretation, and its use of aggregate government revenue did not separate tax revenue into direct and indirect tax channels.

Cheng *et al.* (2024) investigated how digital tax administration affected local government debt in China using prefecture-level city data from 2009 to 2021. The paper adopted a time-varying difference-in-differences model, with digital tax administration captured through the implementation of reforms linked to the Tax Collection and Administration Law and the Golden Tax Project. The findings showed that digital tax administration significantly reduced local government debt by improving tax collection efficiency, reducing tax evasion, strengthening compliance, and providing more stable fiscal revenue for local governments. The heterogeneity results further showed that the debt-reducing effect was stronger in eastern regions and areas with higher levels of informatization. The paper was methodologically strong because it treated digital tax reform as a policy shock, but it focused on administrative efficiency rather than separate tax revenue heads, which made it less detailed for studies interested in VAT, company income tax, or trade taxes.

Oyadeyi *et al.* (2024) examined the debt growth nexus and debt sustainability in Nigeria using annual data from 1981 to 2021. The paper employed a two-regime threshold ARDL approach and measured debt sustainability through total debt to GDP, total debt to GNI, total debt to revenue, total debt to exports, and separate domestic, external, and total debt indicators. The findings showed that debt ratios below the estimated thresholds supported growth, while ratios above the thresholds significantly weakened growth. For the revenue-related proxy, the total debt to revenue threshold was estimated at 355.3 percent, suggesting that weak revenue mobilisation exposed Nigeria to debt stress. The paper further found that domestic debt was sustainable in both the short run and long run, while total debt to revenue was sustainable only in the long run. However, the paper concentrated more on debt thresholds than on disaggregated tax instruments such as VAT, company income tax, petroleum profit tax, and customs duties.

Gulati (2023) assessed GST and debt sustainability among 20 major Indian states during the GST regime. The paper used panel data methodology and fiscal policy response functions, with GST revenue and GST compensation serving as key revenue mobilisation channels, while debt sustainability was evaluated through primary balance and public debt behaviour. The results showed that debt policy was sustainable at the aggregate state level, but only nine states demonstrated sustainability when assessed individually. More importantly, when GST compensation was removed from the model, the evidence no longer supported sustainable debt behaviour, implying that weak own-tax mobilisation under the GST framework undermined subnational debt sustainability. The paper was useful because it linked consumption tax performance directly to domestic debt sustainability. However, its focus on India's federal GST structure limited direct application to countries where VAT is centrally collected or where subnational governments have narrower tax authority.

Olushola *et al.* (2023) re-evaluated taxation and fiscal sustainability in Nigeria as a resource-rich developing country. The paper employed ARDL modelling, Augmented Dickey-Fuller unit root testing, and ARDL bounds cointegration techniques. The tax revenue mobilisation proxies included petroleum profit tax, companies' income tax, and value-added tax, while fiscal sustainability was discussed through economic growth, tax capacity, fiscal deficits, and debt pressure. The findings showed that petroleum profit tax had a dampening effect on economic growth, while companies' income tax and value-added tax contributed positively. Value-added tax

had a stronger productivity effect than companies' income tax. The paper was important because it showed that broad-based non-oil taxation could reduce fiscal dependence on volatile oil revenue and debt financing. However, it used economic growth as the main empirical outcome rather than modelling domestic debt sustainability directly.

METHODOLOGY

This paper adopted an ex-post facto research design because it examined already existing data on tax revenue mobilisation and domestic debt sustainability in Nigeria without manipulating any of the variables. It therefore enabled the paper to investigate historical patterns, trends, and relationships among the variables as they naturally existed over time. The ex-post facto design was also suitable for macroeconomic studies of this nature because it allowed the use of secondary time-series data to analyse fiscal behaviour, policy outcomes, and debt dynamics objectively and systematically within the Nigerian economy.

The paper relied on annual secondary time-series data covering the period 1990 to 2025. The data were quantitative in nature because they consisted of measurable fiscal and debt indicators used to explain the relationship between tax revenue mobilisation and domestic debt sustainability in Nigeria. The data were sourced from credible official publications and databases, including the Central Bank of Nigeria economic reports, the Federal Inland Revenue Service annual tax revenue reports, the Debt Management Office publications, and the National Bureau of Statistics debt datasets.

Building on Barro's tax smoothing theory, this paper adapted and modified the empirical model of Noah *et al.* (2026), who examined tax revenue sustainability and macroeconomic stability in Nigeria. In line with the objective of the present study, their framework was re-specified to capture the relationship between tax revenue mobilisation and domestic debt sustainability in Nigeria. The functional model for the paper was therefore stated as follows:

$$DDS_t = \beta_0 + \beta_1 CIT_t + \beta_2 VAT_t + \beta_3 CED_t + e_t \quad (1)$$

Where:

DDS is Domestic debt sustainability

CIT is Company Income Tax

VAT is Value added tax

CED is Customs and Excise Duties

β_0 = Intercept

$\beta_1 - \beta_3$ = Coefficients of Company Income Tax, Value added tax and Customs and Excise Duties

e_t = error term.

The empirical analysis commenced with unit root testing as an initial diagnostic procedure to examine the stationarity characteristics of the series. This procedure, based on the foundational contribution of Dickey and Fuller (1979), was important for determining whether the variables contained unit roots or stochastic trends that could make ordinary time-series estimation inappropriate in their level form. Establishing the order of integration of the variables was necessary because failure to do so could produce spurious regression results, distorted coefficients, and invalid statistical conclusions. In essence, the test helped to indicate whether the data should be differenced before further estimation.

The Dickey–Fuller unit root test could be stated as:

$$\Delta Y_t = \alpha + \beta t + \gamma Y_{t-1} + \sum_{i=1}^{p} \delta_i \Delta Y_{t-i} + \varepsilon_t \quad (2)$$

Where ΔY_trepresented the first difference of the variable, αdenoted the intercept, βtcaptured the deterministic time trend where included, $Y_{t-1}$was the lagged level of the series, $\delta_i$represented the coefficients of the lagged differenced terms, $p$was the selected lag length, and $\varepsilon_t$was the white-noise error term.

For the basic Dickey–Fuller form without lagged difference terms, it became:

$$\Delta Y_t = \alpha + \beta t + \gamma Y_{t-1} + \varepsilon_t \quad (3)$$

The null hypothesis was:

$H_0: \gamma = 0$ which implied that the series had a unit root and was non-stationary, against the alternative:

$H_1: \gamma < 0$ which implied that the series was stationary.

After establishing the order of integration of the variables, the analysis proceeded to examine whether a stable long-run relationship existed among the series by applying the Phillips–Ouliaris cointegration test. This technique, developed by Phillips and Ouliaris (1990), was appropriate where the variables were integrated of order one, I(1), and the objective was to determine whether their linear combination was stationary in the long run. The essence of the test was that, although individual time-series variables might be non-stationary, they could still move together over time in such a way that their residuals were stationary, thereby indicating cointegration. This step was important because it helped to confirm whether tax revenue mobilisation variables and domestic debt sustainability shared a meaningful long-run equilibrium relationship rather than merely exhibiting temporary comovements.

Phillips and Ouliaris first step involves estimating a linear regression, and after that, the residuals were tested for stationarity using a residual-based unit root equation of the form:

$$\Delta \hat{u}_t = \rho \hat{u}_{t-1} + \sum_{i=1}^{p} \gamma_i \Delta \hat{u}_{t-i} + \varepsilon_t \quad (4)$$

where $\hat{u}_t$ represented the estimated residuals from the cointegrating regression, ρ was the parameter of interest, $\gamma_i$were coefficients of lagged residual differences, $p$was the lag length, and $\varepsilon_t$was the error term. The null hypothesis stated that the residuals contained a unit root, implying no cointegration, while the alternative hypothesis stated that the residuals were stationary, implying the existence of cointegration.

Subsequent to establishing the existence of a long-run cointegrating relationship among the variables, the paper estimated the long-run coefficients with the Fully Modified Ordinary Least Squares (FMOLS) method. This approach, developed by Phillips and Hansen (1990), was suitable for cointegrated time-series data because it corrected for the econometric problems that commonly affected long-run regressions, particularly endogeneity and serial correlation.

Formally, the FMOLS estimator was expressed as:

$$\hat{\beta}_{FMOLS} = \left(\sum_{t=1}^{T} (X_t - \bar{X})(X_t - \bar{X})' \right)^{-1} \left(\sum_{t=1}^{T} (X_t - \bar{X})(Y_t - \bar{Y})^* \right) \quad (5)$$

where $(Y_t - \bar{Y})^*$ denoted the transformed dependent variable adjusted for endogeneity and serial correlation, while X_t represented the vector of explanatory variables. This transformation distinguished FMOLS from the ordinary least squares estimator and made it especially useful for long-run estimation involving cointegrated variables. The linear mathematical form of the FMOLS estimator of equation (5) can be expressed as:

$$Y_t = \beta_0 + \sum_{t=1}^{T} \beta_1 X_t^* + e_t \quad (6)$$

Incorporating equation (1) into the FMOLS framework, the resulting specification of equation (6) for the purpose of this paper is expressed as:

$$DDS_t = \beta_0 + \sum_{t=1}^{T} \beta_1 CIT_t^* + \sum_{t=1}^{T} \beta_2 VAT_t^* + \sum_{t=1}^{T} \beta_3 CED_t^* + e_t \quad (7)$$

A semi-logarithmic model was adopted for the paper, where the tax revenue mobilisation variables were transformed into their natural logarithmic forms, while domestic debt sustainability was retained in its original form. This specification was considered appropriate because it allowed the paper to examine how proportional changes in tax revenue components influenced domestic debt sustainability. In this form, the estimated coefficients were interpreted as semi-elasticities, showing the change in domestic debt sustainability associated with a one percent change in each tax revenue variable. The semi-log FMOLS model was specified as:

$$DDS_t = \beta_0 + \sum_{t=1}^{T} \beta_1 \log CIT_t^* + \sum_{t=1}^{T} \beta_2 \log VAT_t^* + \sum_{t=1}^{T} \beta_3 \log CED_t^* + e_t \quad (8)$$

Unlike the conventional ordinary least squares estimator, FMOLS modified the regression procedure by incorporating semi-parametric corrections for the correlation between the regressors and the stochastic error term. As a result, it generated consistent and asymptotically efficient estimates of the long-run parameters. The technique was therefore appropriate for this paper since the variables were integrated of order one, I(1), and shown to move together in the long run through the cointegration test.

RESULTS AND DISCUSSIONS

Descriptive Statistics Results

Descriptive statistics had provided a preliminary picture of the behaviour, distribution, and dispersion of the variables before the main econometric estimation. In a study of tax revenue mobilisation and domestic debt sustainability, they were important because they helped to show the average level of each variable, the extent of variation over time, and whether the series were normally distributed or characterised by extreme values.

Table 1: Summary Statistics

	DDS	CIT	VAT	CED
Mean	12.5614	991.0464	981.3544	801.7008
Maximum	28.1400	9210.2500	8610.3600	7281.2500
Minimum	5.7720	2.9900	7.2600	9.2600
Std. Dev.	5.8706	1742.4000	1602.1530	1303.7480
Skewness	1.1730	3.3535	3.5395	3.7046
Kurtosis	3.3642	15.3997	16.8946	18.3068
Jarque-Bera	8.4542	298.1044	334.3615	433.7906
Probability	0.0146	0.0000	0.0000	0.0000
Observations	36	36	33	36

Source: Researcher's Computation Using EViews-12 (2026)

Beginning with domestic debt sustainability (DDS), the mean value of 12.5614 indicated that, on average, domestic debt as a percentage of GDP stood at about 12.56 percent over the paper period. This suggested that Nigeria's domestic debt burden had been moderate on average, although not insignificant. The minimum value of 5.7720 and the maximum value of 28.1400 revealed a wide range in domestic debt conditions across the period. This was consistent with the pattern already observed in the data, where domestic debt ratios were relatively lower in the mid-2000s but rose sharply in the more recent years, especially 2023 and 2024. The standard deviation of 5.8706 showed that DDS exhibited noticeable variation over time, though its volatility was much lower than that of the tax variables in absolute terms. The skewness value of 1.1730 indicated that the distribution was positively skewed, meaning that a few high debt values in recent years pulled the distribution to the right. Its kurtosis of 3.3642 was slightly above the normal benchmark of 3, suggesting a mildly leptokurtic distribution, with somewhat heavier tails than a perfectly normal distribution. The Jarque-Bera statistic of 8.4542

with a probability value of 0.0146 showed that the null hypothesis of normality was rejected at the 5 percent level. This implied that DDS was not normally distributed, likely because of the sharp debt increase in the most recent years of the series.

For company income tax (CIT), the mean value of 991.0464 showed that average CIT revenue over the paper period was about ₦991.05 billion. However, this average concealed a very large spread between the minimum value of ₦2.99 billion and the maximum value of ₦9,210.25 billion. This very wide gap suggested that CIT had experienced major growth over time, moving from very low levels in the early years to exceptionally high levels in the later period. This was in line with the trend previously discussed, where company income tax reflected not only long-run revenue expansion but also periods of strong fluctuation associated with corporate profitability, formal sector performance, and tax administration changes. The standard deviation of 1742.4000 confirmed that CIT was highly volatile, with substantial dispersion around its mean. This meant that the series was far from stable over the paper period. The skewness coefficient of 3.3535 showed a strong positive skew, indicating that the series was dominated by relatively few very large values in the later years. The kurtosis value of 15.3997 was far above 3, meaning that CIT was highly leptokurtic and contained extreme observations or heavy tails. This was further supported by the Jarque-Bera statistic of 298.1044 and a probability of 0.0000, which clearly indicated non-normality. In substantive terms, the result suggested that company income tax in Nigeria had been characterized by sharp revenue surges rather than smooth progression, an outcome that may reflect the uneven structure of formal corporate taxation and sensitivity to macroeconomic and policy conditions.

Value added tax (VAT) showed a mean of 981.3544, indicating that average VAT revenue during the paper period was approximately ₦981.35 billion. Its minimum and maximum values of ₦7.26 billion and ₦8,610.36 billion respectively revealed a remarkable upward scale over time. This large increase aligned with the historical pattern already identified in the paper, where VAT rose from relatively negligible levels in the early 1990s to a major revenue source in recent years. The standard deviation of 1602.1530 showed a very high degree of variation, confirming that VAT collections changed substantially across the period. Such variation was understandable in the Nigerian case because VAT performance depended on the scale of taxable consumption, inflation, policy reforms, compliance improvements, and possible reporting changes. The skewness statistic of 3.5395 indicated that VAT was strongly right-skewed, meaning that the later high values heavily influenced the overall distribution. The kurtosis value of 16.8946 further showed that the distribution was highly peaked with heavy tails, implying the presence of extreme observations. The Jarque-Bera statistic of 334.3615, with a probability value of 0.0000, confirmed that VAT was not normally distributed. This non-normality suggested that VAT had not grown in a smooth linear fashion, but rather through bursts, jumps, and structural shifts, which was consistent with the revenue trajectory previously discussed.

Customs and excise duties (CED) also displayed pronounced variability. The mean value of 801.7008 suggested that average customs and excise revenue stood at about ₦801.70 billion over the paper period. Yet the minimum value of ₦9.26 billion and the maximum value of ₦7,281.25 billion pointed to very large differences between the early and recent years. This reflected the long-run expansion of customs and excise duties in Nigeria, from modest revenue levels in the early 1990s to a major fiscal source in recent years. The standard deviation of 1303.7480 indicated substantial dispersion around the mean, confirming that customs and excise duties were also highly unstable over time. This was consistent with the economic nature of the variable, since customs and excise collections were often influenced by trade flows, exchange-rate conditions, tariff reforms, border administration, and excise policy adjustments. Its skewness coefficient of 3.7046 was the highest among all the variables, showing that CED was the most positively skewed series in the model. Likewise, the kurtosis value of 18.3068 was the highest in the table, indicating that customs and excise duties had the most extreme peakedness and the heaviest tails among the variables. The Jarque-Bera value of 433.7906 with a probability of 0.0000 strongly rejected normality. This implied that customs and excise duties were characterized by extreme revenue observations, especially in the latter part of the period.

Unit Root Test

The unit root test had been conducted to determine whether the series were stationary at level or only became stationary after differencing. This procedure was important in the present study because non-stationary variables could produce misleading regression results if their stochastic properties were ignored.

Table 2: Summary of Unit Root Test Results

Variable	Levels: ADF Test Statistics (Critical Values)	1st Difference: ADF Test Statistics (Critical Values)	Order of Integration
DDS	-0.374311 (-3.544284)	-4.742116 (-4.252879)*	I(1)
CIT	-2.207349 (-3.562882)	-7.815938 (-4.252879)*	I(1)
VAT	-1.098102 (-3.612199)	-5.847285 (-4.416345)*	I(1)
CED	-2.123549 (-4.252879)	-3.693680 (-3.548490)**	I(1)

Note: The tests include intercept with trend; * and ** significant at 1 and 5 percent.

Source: Researcher's Computation Using EViews-12 (2026)

For domestic debt sustainability (DDS), the Augmented Dickey-Fuller test statistic at first difference was -4.742116, while the critical value was -4.252879 at the 1 percent significance level. Since the absolute value of the test statistic was greater than that of the critical value and the test statistic was more negative, DDS was considered stationary after first differencing. This meant that although domestic debt sustainability initially exhibited a stochastic trend at level, the trend was removed after differencing.

Company income tax (CIT) also became stationary at first difference. Its ADF test statistic was -7.815938 compared with a critical value of -4.252879, and the result was significant at the 1 percent level. This showed a strong rejection of the null hypothesis of a unit root after first differencing. The implication was that CIT, though non-stationary at level, attained stability once differenced once.

Value added tax (VAT) similarly became stationary after first differencing. The ADF test statistic for VAT at first difference was -5.847285, which was more negative than the corresponding critical value of -4.416345 at the 1 percent level. This indicated that the null hypothesis of non-stationarity was rejected after first differencing, confirming that VAT was integrated of order one.

Customs and excise duties (CED) also achieved stationarity at first difference. Its ADF test statistic was -3.693680, while the critical value was -3.548490, and the result was significant at the 5 percent level. Since the test statistic was more negative than the critical value, the null hypothesis of a unit root was rejected at first difference. This showed that customs and excise duties were likewise integrated of order one.

Co-integration Test

The Phillips–Ouliaris cointegration test was conducted to determine whether the variables in the model moved together in the long run despite being individually non-stationary at level and stationary at first difference.

Table 3: Cointegration Test - Phillips-Ouliaris

Test Statistic	Value	Prob.*
Phillips-Ouliaris tau-statistic	-4.005811	0.0290
Phillips-Ouliaris z-statistic	-13.981124	0.0186

*MacKinnon (1996) p-values.

Source: Researcher's Computation Using EViews-12 (2026)

The Phillips–Ouliaris tau-statistic had a value of -4.005811 with a probability value of 0.0290. This result showed that the null hypothesis of no cointegration was rejected at the 5 percent level of significance because the probability value was less than 0.05. In substantive terms, this meant that domestic debt sustainability and the

tax revenue mobilisation proxies, company income tax, value added tax, and customs and excise duties, were bound together by a statistically significant long-run equilibrium relationship.

FMOLS Regression Estimates

The paper had already confirmed the existence of a cointegrating relationship among tax revenue mobilisation indicators and domestic debt sustainability in Nigeria. On the strength of this long-run association, the analysis proceeded to estimate the long-run coefficients using the Fully Modified Ordinary Least Squares (FMOLS) technique. The FMOLS approach was appropriate because it was designed to capture stable long-run relationships in cointegrated time-series models while correcting for problems of endogeneity and serial correlation that could affect conventional estimation. The outcome of the FMOLS estimation is presented in Table 4.

Table 4: FMOLS Result

Dependent Variable: DDS

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(CIT)	4.6305	1.1898	3.8919	0.0006
LOG(VAT)	-8.0529	-1.8635	4.3213	0.0002
LOG(CED)	4.4761	1.1816	3.7882	0.0007
C	4.9912	8.7271	0.5719	0.5719
Goodness of Fit				
R-squared	0.5885			
Adjusted R-squared	0.4917			
Long-run variance	4.1191			

Source: Researcher's Computation Using EViews-12 (2026)

The result for company income tax, represented as LOG(CIT), showed a coefficient of 4.6305, a t-statistic of 3.8919, and a probability value of 0.0006. This indicated that company income tax had a positive and statistically significant long-run relationship with domestic debt sustainability at the 1 percent level. In measurement terms, a 1 percent increase in company income tax revenue, was associated with about a 0.0463 percentage-point increase in domestic debt sustainability.

Value added tax, represented as LOG(VAT), produced a coefficient of -8.0529, with a t-statistic of 4.3213 and a probability value of 0.0002. This showed that value added tax had a negative and highly significant long-run relationship with domestic debt sustainability at the 1 percent level. In practical terms, a 1 percent increase in VAT revenue, was associated with an approximate 0.0805 percentage-point decrease in domestic debt sustainability.

Customs and excise duties, captured as LOG(CED), had a coefficient of 4.4761, a t-statistic of 3.7882, and a probability value of 0.0007. This meant that customs and excise duties also had a positive and statistically significant long-run relationship with domestic debt sustainability at the 1 percent level. In measurement terms, a 1 percent increase in customs and excise duties revenue, was associated with about a 0.0448 percentage-point increase in domestic debt sustainability.

The R-squared value of 0.5885 indicated that about 58.85 percent of the total variation in domestic debt sustainability was explained by the combined effect of the three tax revenue mobilisation proxies included in the model. This suggested that the explanatory power of the model was fairly strong, especially for a macroeconomic time-series study where debt behaviour was often influenced by many other factors beyond tax revenue alone, such as government expenditure, inflation, exchange rate movements, economic growth, and fiscal deficits.

The adjusted R-squared value of 0.4917 showed that after correcting for the number of explanatory variables in the model, about 49.17 percent of the systematic variation in domestic debt sustainability still remained explained by company income tax, value added tax, and customs and excise duties.

The long-run variance value of 4.1191 represented the estimated variance of the residual process in the FMOLS model after making corrections for serial correlation and endogeneity. This relatively moderate value suggested that the unexplained long-run disturbances around the estimated equilibrium relationship were not excessively large.

DISCUSSION OF FINDINGS

Findings from the paper showed that company income tax had a positive and significant impact on domestic debt sustainability in Nigeria, as measured by domestic debt as a percentage of GDP. The implication of this result was that increases in company income tax revenue were associated with increases in the domestic debt ratio over the long run. This suggested that, although company income tax represented an important source of tax revenue mobilisation, its growth had not been sufficient to offset the fiscal pressures that sustained domestic borrowing. In the Nigerian context, this may have reflected the reality that improvements in company income tax collections often occurred alongside rising public expenditure, expanding fiscal obligations, and broader macroeconomic pressures that also pushed domestic debt upward. Thus, the positive coefficient did not necessarily mean that company income tax was unimportant to fiscal capacity; rather, it indicated that increases in this revenue source had coexisted with a rising domestic debt burden. This outcome supported the broader argument by Oyadeyi *et al.* (2024) that revenue weakness remained central to debt stress in Nigeria, especially when debt obligations expanded faster than fiscal capacity. The finding also aligned with Yahaya (2026), who showed that revenue mattered significantly for debt outcomes in Nigeria, even though his study used aggregate government revenue rather than disaggregated tax heads. In a related sense, Ouedraogo (2025) found that rising public debt weakened tax revenue mobilisation in WAEMU countries, suggesting that the relationship between debt and taxation could be mutually constraining rather than automatically corrective. The present result equally resonated with Onyele *et al.* (2024), who reported that revenue effects on debt sustainability were mainly long-run in nature, implying that the interaction between fiscal capacity and debt burden was complex and unfolded over time rather than instantly. Although Olushola *et al.* (2023) found that company income tax contributed positively to fiscal performance in Nigeria, the current finding suggested that such contribution might still be insufficient to offset domestic borrowing pressures when the policy environment remained fiscally expansionary.

The paper further found that value added tax had a negative and significant impact on domestic debt sustainability in Nigeria. This implied that increases in value added tax revenue were associated with reductions in domestic debt as a percentage of GDP, indicating that VAT was the tax instrument most strongly linked with easing the domestic debt burden. The implication of this finding was that VAT, as a broad-based consumption tax, may have provided a more stable and predictable stream of non-debt financing for government than the other tax proxies considered. Since VAT is collected across different stages of production and consumption, stronger VAT performance may have improved fiscal liquidity and reduced the need for additional domestic borrowing. This result agreed with Gulati (2023), who found that consumption-tax performance under India's GST regime was crucial for debt sustainability and that weak own-tax mobilisation undermined sustainable debt behaviour. The present finding also aligned with Cheng *et al.* (2024), whose evidence from China showed that improved tax administration reduced local government debt by strengthening revenue collection, improving compliance, and stabilising fiscal inflows. It was further supported by Wang and Li (2025), who found that tax collection and administration reforms significantly reduced local government debt, especially where digital systems improved enforcement and transparency. In the Nigerian context, the result complemented Noah *et al.* (2026), who showed that stronger and more sustainable tax mobilisation improved macroeconomic stability, which indirectly strengthened government's capacity to manage debt pressures. The finding therefore suggested that VAT may be especially important in the Nigerian fiscal system because of its relative breadth, regularity, and potential to reduce dependence on debt financing.

Findings from the paper further showed that customs and excise duties had a positive and significant impact on domestic debt sustainability in Nigeria. Given the measurement of the dependent variable, this meant that

increases in customs and excise duties were associated with increases in domestic debt as a percentage of GDP. The implication was that growth in customs and excise duties had not translated into a reduction in domestic debt pressure during the paper period. One possible explanation was that customs and excise duties were influenced by trade flows, tariff changes, border administration, and exchange-rate movements, and therefore their growth may have occurred in periods of wider macroeconomic strain when domestic borrowing was also rising. This result suggested that although customs and excise duties contributed to tax revenue mobilisation, they might not have provided a sufficiently stable fiscal cushion to reverse the growth of domestic debt in Nigeria. The finding was broadly consistent with Onyele *et al.* (2024), who maintained that revenue effects on debt sustainability were more evident in the long run than in the short run, especially in fiscally constrained African economies. It also aligned partially with Amedanou (2024), who showed that domestic borrowing could remain sustainable only when supported by broader fiscal adjustment, not merely by isolated revenue increases. Yet the present result contrasted with Cheng *et al.* (2024), whose evidence from China suggested that stronger revenue administration could reduce government debt. The contrast may have arisen from differences in institutional capacity, digital tax administration, and the narrower dependence of Nigeria's customs and excise system on volatile trade-related conditions.

CONCLUSION AND RECOMMENDATIONS

The paper concluded that tax revenue mobilisation remained an important long-run determinant of domestic debt sustainability in Nigeria, but its effects differed across the specific tax instruments examined. The findings showed that value added tax contributed more meaningfully to moderating domestic debt pressure, suggesting that broad-based consumption taxation could provide a more stable and dependable source of non-debt financing. In contrast, company income tax and customs and excise duties were associated with rising domestic debt as a percentage of GDP, indicating that increases in these revenues had not been sufficient to offset growing fiscal pressures and borrowing needs. The paper therefore concluded that the composition, stability, and efficiency of tax revenue mattered as much as the total amount generated. The paper thus concludes sustainable domestic debt management in Nigeria depended not only on raising more revenue, but on strengthening those tax channels capable of supporting fiscal balance and reducing excessive reliance on domestic borrowing over time.

The paper made the following recommendations based on the findings:

i. Based on the finding that company income tax was positive and significant in relation to domestic debt sustainability, the Federal Inland Revenue Service should move beyond merely increasing nominal collections and instead deepen the quality of company income tax administration through targeted compliance enforcement on large and medium taxpayers, real-time audit analytics, and stricter monitoring of aggressive tax avoidance, profit shifting, and under-reporting.
ii. Given the finding that value added tax had a negative and significant impact on domestic debt sustainability, the Federal Inland Revenue Service, Joint Tax Board, and Central Bank of Nigeria should expand e-invoicing, strengthen digital transaction matching, and improve VAT compliance in retail, telecoms, hospitality, and online services to raise stable non-debt revenue.
iii. In relation to customs and excise duties, the finding that they were positive and significant suggested that growth in this revenue stream had not translated into lower domestic debt pressure, the Nigeria Customs Service, Federal Ministry of Finance, and Nigerian Ports Authority should deploy a full single-window trade platform, strengthen anti-smuggling enforcement, and ring-fence part of customs and excise collections for domestic debt service.

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Table A: Data Presentation

Year	Value-Added Tax ((Billion naira))	Custom and Excise Duties (Billion naira)	company Income tax ((Billion naira))	Domestic Debt (% of GDP)
1990	na	9.26	2.99	17.04
1991	na	12.23	3.83	19.69
1992	na	17.06	5.42	19.64
1993	7.26	16.42	9.55	21.78
1994	20.76	19	12.27	23.04
1995	32.5	53.69	21.88	15.41
1996	35.3	81.26	23.1	10.28
1997	37.6	93.16	27.8	11.36
1998	47.8	85.2	33.3	11.67
1999	58	116.75	46.2	14.50
2000	91.7	144.53	53.3	12.72
2001	108.6	244.56	69.4	12.35
2002	136.4	265.49	89.1	10.14
2003	163.3	288.15	114.8	9.81
2004	192.7	327.71	130.8	7.56
2005	232.7	349.06	170.2	6.60
2006	312.6	344.99	246.7	5.77
2007	401.7	413.41	332.4	6.26
2008	481.41	470.83	420.6	5.81
2009	564.89	513.97	595.18	7.43
2010	659.15	546.64	658.5	8.21
2011	710.56	741.84	654.45	8.83
2012	802.68	850.88	820.57	9.00
2013	802.96	833.25	963.45	8.79
2014	767.33	977.1	1,173.49	8.77
2015	828.2	904.07	1,268.98	9.28
2016	972.35	548.8	933.54	10.78
2017	1,108.04	628	1,215.06	10.96
2018	1,189.98	705.5	1,340.33	9.90
2019	1,531.09	837.3	1,604.70	9.80
2020	2,072.85	1297.96	1,275.45	10.39
2021	2511.52	1687.65	1,747.99	10.93
2022	3639.32	1858.57	2649.19	10.98
2023	1,287.65	2206.05	4896.47	22.72

2024	1,965.44	3089.64	2,856.43	28.14
2025	8,610.36	7,281.25	9,210.25	25.9

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