EFFECT OF NON-OIL REVENUE ON REVENUE GENERATION IN THE NIGERIAN ECONOMY

BY

MOSHOOD, ADEWUNMI OLUWAPELUMI

15020101010

A PROJECT REPORT SUBMITTED TO THE

DEPARTMENT OF ACCOUNTING AND FINANCE,

COLLEGE OF HUMANITIES MANAGEMENT AND SOCIAL SCIENCES,

MOUNTAIN TOP UNIVERSITY, OGUN STATE

IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELLOR OF SCIENCES (B.Sc. HONS) IN ACCOUNTING, NIGERIA

July, 2019

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2019

DECLARATION

I hereby declare that this project report written under the supervision of Dr. Omokehinde Joshua, is a product of my own research work. Information derived from various sources have been duly acknowledged in the text and a list of references provided. This research project report has not been previously presented anywhere for the award of any degree or certificate.

__________________________ _______________

MOSHOOD, ADEWUNMI O. **Date**

CERTIFICATION

I certify that this work was carried out by Moshood Adewunmi Oluwapelumi at the Department of Accounting and Finance, Mountain Top University, Ogun State, Nigeria under my supervision.

____

(Signature and Date)

Dr. J.O. Omokehinde

Supervisor

____

(Signature and Date)

Dr. O. J. Akinyomi

Head of Department

DEDICATION

This project is dedicated to the Almighty God.

ACKNOLEDGEMENTS

My profound gratitude goes to the Almighty God for the successful completion of this work. I thank him for granting me the wisdom and knowledge to complete this research and for the successful compilation of this project.

My sincere appreciation goes to my Mother, Mrs. Elizabeth O. Moshood, I would not have completed this programme without your support spiritually, physically, financially, and psychologically. I also appreciate my brothers, Mr. Adeolu O. Moshood and Mr. Adedayo A. Moshood, for the courage and support. You were always there to discuss my fears and also help me handle stressful situations.

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ABSTRACT

The study examined the effect of tax efficiency on revenue generation in the Nigerian economy. Secondary data gotten from the quarterly economic report of the Central Bank of Nigeria was explored in gathering data while simple regression analysis was employed for data analysis to test the hypotheses. Furthermore, correlation analysis was applied in the assessment of the relationship between the non-oil tax revenue sources and federally collected revenue. Descriptive statistics was also adopted. Findings of this study therefore provide perception into the effect of tax revenue and federal government tax generation on government revenue. It further provided perception as to the extent to which each of the independent variables affects the dependent variable through the graphical corroboration and also provides an affirmation of the extent to which the variations in the dependent variable are caused by the independent variables covered in the models as depicted by the R^2 and adjusted R^2. The study concludes that the value added tax, company income tax and custom and excise duties has no significant relationship with the federally collected revenue.

KEYWORDS: Value Added Tax, Company Income Tax, Custom and Excise Duties.

TABLE OF CONTENTS

Contents

DECLARATION ii

CERTIFICATION iii

DEDICATION iv

ACKNOLEDGEMENTS........ v

ABSTRACT........vii

Table of Content........viii

CHAPTER ONE 1

INTRODUCTION 1

1.1 Background of the Study 1

1.2 Statement of Problem 4

1.3 Objective of the Study........ 6

1.4 Research Questions........ 6

1.5 Research Hypotheses 7

1.6 Significance of the Study 7

1.7 Scope of the Study 7

1.8 Operational Definition of Terms 8

CHAPTER TWO........ 9

LITERATURE REVIEW 9

2.0 Introduction 9

2.1 Conceptual Review........ 9

2.1.1 History of Taxation in Nigeria........ 9

2.1.2 Concept of Tax and Taxation........ 11

2.1.2.1 Value Added Tax (VAT)........ 13

2.1.2.2 Capital Gain Tax (CGT)........ 13

2.1.2.3 Company Income Tax (CIT) 14

2.1.2.4 Education Tax (ET)........ 15

2.1.2.5 Petroleum Profit Tax (PPT)........ 15

2.1.2.6 Customs and Excise Duty (CED) 16

2.1.2.7 Personal Income Tax (PIT)........ 16

2.1.2.8 Stamp Duties 17
2.1.3 Tax System in Nigeria 17
2.1.3.1 Relevant Tax Authorities. 19
2.1.3.1.1 Federal Inland Revenue Service Board (FIRSB) 19
2.1.4 Nigerian Government Revenue 21
2.1.5 Problems of Tax administration in Nigeria 22
2.2 Theoretical Review 23
2.2.1 Benefit theory 24
2.2.2 Cost of service theory 25
2.2.3 Laffer Curve Theory 25
2.2.4 The Theory of Maximum Social Advantage 26
2.2.5 Theoretical framework 29
2.3 Empirical Review 29
2.4 Gaps in Literature 33
CHAPTER 3 34
RESEARCH METHODOLOGY 34
3.0 Introduction 34
3.1 Research Design 34
3.2 Population of the Study 34
3.3 Sample Size and Sampling Technique 34
3.4 Sources of Data 35
3.4.1 Validity of the Research Instrument 35
3.5 Method of Data Collection 36
3.6 Method of Data Analysis 36
3.7 Modelling 36
3.8 Method of Data Analysis 37
CHAPTER FOUR 38
DATA ANALYSIS, RESULT AND DISCUSSION ON FINDINGS 38
4.0 Introduction 38
4.1 Descriptive Statistics 38
4.2 Empirical Analysis 40
4.2.1 HYPOTHESIS ONE 40
4.2.2 HYPOTHESIS TWO 44

4.2.3 HYPOTHESES THREE 46
.078 50
4.3 DISCUSSION ON FINDINGS 51
CHAPTER FIVE 54
SUMMARY, CONCLUSION AND RECOMMENDATIONS 54
5.1 Summary of the Study 54
5.2. Conclusion 55
5.4 Limitation of the Study 57
5.5 Suggestion for Further Studies 57
REFERENCES 58
APPENDIX 61

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Every ideal society needs fund for proper operation and effective administration. A society comprises of the ruling authority and the ruled subject in which the ruler is expected to carry out some responsibilities such as social, political, economic, cultural and religious roles that will benefit those that are being ruled and the need to fulfil these responsibilities largely depends on the amount of revenue generated by the ruling authority through various windows. In every economy including Nigeria, generation of revenue amongst other things is in the course of meeting the basic, social and infrastructural needs of its citizenry and to maintain a sustained economic growth (Likita J., Idisi P. & Mavenke B. 2018). One of the means of generating revenue to carry out the responsibilities of the ruling authority is to impose some charges on those that are being ruled to generate part of the funds needed to perform the roles expected of them.

The role that is expected of the government is usually spelt out in the yearly budget and the budget comprises of the expected and intended expenditure and revenue of government. Expenditure could be capital and recurrent, examples of capital expenditure are expenditure or spending on road, water, hospital/health facility, infrastructure, electricity power, school, environmental facilities, among others by government. Examples of recurrent expenditures are wages and salaries, employer contribution, interest payment, subsidies, among others. There are various means in which revenue can be generated by government to run the affairs of the society properly and some of these are: fines, fees, loans from other countries, withdrawal from national reserve, donations from another country, tax, among others.

Ibadin & Oladipupo (2015) posit that taxation exist as one of the oldest means by which the cost of providing essential services for the generality of persons living in a particular geographical area is financed. History has proven to us that tax exist as the main source of the government's revenue and also in recent ages, various religious groups encourage their members to pay taxes as it can be traced in the bible Christians use where Jesus advised that we should give unto Ceaser what belongs to Ceaser in the book of Matt 22:21 and also, the Quran used by the Muslims emphasized that there are five fundamental pillars of the religion and one which must be observed is the Zakat.

Tax is a common word that has the same meaning to everyone but might differ by definitions. A layman will refer to tax as the sum of money given to the government from his or her income that is, tax depletes income, to a company it is a cost that is deducted from assessable income, to the government it is a way of generating revenue. Tax is an income to the government and an expense to individuals, corporate bodies etc. The main purpose of tax is to raise fund to pay for the expenses suffered by the government for the shared interest of the country without reference to exceptional advantage conferred. Abiola & Asiweh (2012) reveal that the government owe its citizen some functions and obligations such as: stabilizing the economy, redistribution of income, rendering of facilities in the form of public goods, among others.

According to Appah & Eze (2013), the government renders their traditional role such as preservation of law and order, provision of good roads, provision of friendly environment for business purpose, defence of the state against external attack among others, from the revenue they get from tax as tax is the main source of revenue to governments all over the world. Since the government owe its citizens a lot of responsibilities, the government needs a reliable source of revenue and the most reliable source of revenue for the government is the tax system. The key function of a tax system is to raise adequate proceeds to finance essential expenses on the goods and services made available

for the citizens by government and tax remains one of the best tool to increase the potential for public sector performance and reimbursement of public debt (Okoye & Raymond, 2014).

From Thomas Cooley ATSWA (2009), tax is defined as compulsory contributions from persons and belongings, imposed by the state, as a result of its sovereignty, for the support of government and for all public essentials. Tax is an obligatory payment levied on the income, profits, goods, services or properties of individuals, corporate bodies, trusts and settlement. When these taxes are collected, they are used to finance government project such as preservation of law and order, provision of infrastructure, health and education for the citizens.

Tax is a civic contribution levied by the government on her subject (taxpayers and property) in order to finance its core responsibilities of ensuring optimal public welfare service socially, economically and politically (Kiable & Nwankwo, 2009). Taxation is the mechanism in which society or group of individuals are contributing an approved sum which is important for the firmness, growth and running of the society (Ogundele, 1999). Tax is a major way in which individuals and corporate bodies also contribute to the development and prosperity of the economy as Soyode and Kajola (2006) also emphasized that tax is the amount of money imposed by a civic authority for public determinations and prosperity. Individuals contribution through tax to the economy will in turn benefit them even though tax is paid quid pro cuo (expecting nothing in particular in return).

In Nigeria, the revenue derived from tax seems to be small compared to revenue needed to finance government project that is being derived from oil. Nzotta, 2007 pronounced that the severe fall in the prices of oil in current times in Nigeria has resulted in insufficiency of funds available for distribution to the three tiers of government (federal, state and local governments). The Nigerian government depend heavily on revenue from oil majorly to finance the economy and there is a

serious fall in oil revenue over the years and the fall in the prices of oil in current times has led to a decline in the fund available for the government. Equally important Edame & Okoi (2014) post that taxation is the major source of government income all over the world. Globally, there is a paradigm change to taxation as an alternative source of revenue to the government and Nigeria should not be left out.

1.2 Statement of Problem

Before the 1970's, generation of revenue in Nigeria basically rest on on non-oil sector as non-oil export accounted for over 74% of total revenue earned by the country while oil revenue accounted for the balance of 26% but with the discovery of crude oil in commercial quantity in Oloibiri specifically during the oil flourishing era of 1970's, fundamental changes were experienced in the Nigerian economy's structure and the non-oil sector began to experience difficulties by 1985 due to the growth of contribution from oil income to total income earned by the country which was put at 73% (Likita *et al*, 2018).

In the year 2000, the export of oil and gas accounted for about 98% of export and 83% of revenue accrued to the Federal government (Odularu 2008). The improvement in the generation of revenue from oil sector made the government to focus more on the oil sector than the non-oil sector. According to IMF (2018), between 2011 and 2017, a sharp fall in oil income led to combined government income falling from 17.7 percent to 5.1 percent of GDP and during this era, non-oil returns remained relatively stable at around 3 & 4 percent of GDP, even though with a quickening decline in 2016 to 2017.

From the above analysis, the improvement of the oil sector in Nigeria has headed to the under developed state of other sectors of the economy as Nigeria government has refused to explore other rich renewable and non-renewable resources such as cocoa, iron ore, palm produce etc. and focus

majorly on exploration of oil. No doubt that oil revenue has contributed substantially to revenue generation and growth of Nigeria's economy but Nigeria's overdependence on oil revenue has affected the economy negatively, thereby, reducing the productivity in the economy as quoted by (Likita *et al* 2018). The income generated from oil has been used to finance more of government project over the years but in recent times, the revenue accrued from oil has fallen drastically and it cannot be relied on again as the main source of revenue the government.

Developed countries in the likes of United States, United Kingdom, Australia etc. sees the importance of tax and focus on it as the main source of revenue to finance their government's project. Igbesan (2017) added that in Countries like USA, UK, France and a few others taxation has evolved to become the support of the economy, while other developing / underdeveloped nations hasn't been able to evolve a tax system that would provide the much needed fund that can sustain the economy and provide a fulcrum on which the economy can take a progressive leap.

The machinery and procedures for implementing a good tax scheme in Nigeria are inadequate which makes the total tax accumulated from Company Income Tax (CIT), Value Added Tax (VAT), Petroleum Profit Tax (PPT) and Custom and Excise Duties (CED) insufficient to finance the government project. Ayua (1996) found out that tax system is inefficient due to tax dodging, avoidance and record falsification. There should be a vital change in the approach of government towards its revenue generation. The Federal Inland Revenue Service Board (FIRSB) hasn't been capable of bringing all companies to compliance with tax laws as only few companies' subjects their proceeds to the tax consultant to be accessed and this brings about the low contribution of the Company Income Tax (CIT) to the Federally Collected Revenue (FCR).

People dodge tax because of lack of proper policy implementation by FIRS and tax evasion will reduce the total amount of revenue that will be generated by the government through tax. According to history, our fathers in the sixties pays their tax but in recent years, only workers in organized companies and civil servants now pay taxes. Even the revenue being generated from the few companies through company income tax, custom duties from imported goods and value added tax from vatable goods and services are being impeded by challenges such as paucity or falsity of data, inefficient technology, lack of proper monitoring and enforcement system, and corrupt practices.

1.3 Objective of the Study

The main objective of this research work is to examine the effects of tax on revenue generation in Nigerian Economy. Other specific objectives are to:

I. evaluate the effect of Value Added Tax (VAT) on the Federally Collected Revenue in Nigeria.

II. investigate the effect of Company Income Tax (CIT) on the Federally Collected Revenue in Nigeria.

III. examine the effect of Custom and Excise Duties (CED) on the Federally Collected Revenue in Nigeria.

1.4 Research Questions

I. What is the effect of Value Added Tax (VAT) on the federally collected revenue in Nigeria?

II. What is the effect of Company Income Tax (CIT) on the federally collected revenue in Nigeria?

III. What is the effect of Custom and Excise Duties (CED) on the federally collected revenue in Nigeria?

1.5 Research Hypotheses

H_{01}: VAT does not have significant effect on the federally collected revenue in Nigeria.

H_{o2}: CIT does not have significant effect on the federally collected revenue in Nigeria.

H_{o3}: CED does not have significant effect on the federally collected revenue in Nigeria.

1.6 Significance of the Study

The purpose of this study is the importance of taxes in financing the government budget in Nigeria economy. The result of this study will provide empirical evidence and contributes to the body of existing literature.

Specifically, it will assist the Federal Government of Nigeria in the light of the unstable oil revenue in Nigeria. This would also assist the government to move absolute focus away from oil revenue to non-oil revenue. When the government focusses on tax, tax leakages caused by tax avoidance, tax evasion etc. will be mitigated. The government focus on tax revenue will also make the government to set up an effective tax policy that will bring up a good tax administration in Nigeria. This research gives useful opinion to the government on how to generate more tax in order to provide social and economic amenities to benefit the general public.

Also, it will help shed more light on the importance of citizens paying tax as it will be seen that without the citizens paying their taxes, government won't be able to perform their duties of providing basic amenities for the people.

1.7 Scope of the Study

The focus of this study is to inspect the effects of tax revenue on revenue generation in Nigerian economy as a result of this, the scope of this study is defined from the taxes governed under the ambient of the of the Federal Inland Revenue Service (FIRS) and was limited to Company Income

Tax (CIT), Custom and Excise Duties (CED) and Value Added Tax (VAT). The study covers a period of nine years (2010 – 2018) and this study is restricted to secondary data which were obtained from analysis of Central Bank of Nigeria (CBN) and reports of Federal Inland Revenue Service (FIRS).

1.8 Operational Definition of Terms

Tax: Tax is the money imposed on companies, goods and imports by the government. In this study, it is represented by CIT, CED and VAT.

Revenue: This is the money the government receives. It is represented by the sum of oil revenue and non-oil revenue collected by the Federal Government.

Tax Efficiency: This is an attempt to lessen tax liability when given many financial decisions.

Value Added Tax (VAT): This is referred to as indirect tax as it is imposed on consumption. It is charged on supplied goods & services except zero rated or exempted goods and services (such as pharmaceutical products, baby items etc.). VAT can either be an input VAT or an output VAT and the standard rate of VAT is 5%

Company Income Tax (CIT): This is a form of tax that is levied on the profit of a company after converting the accounting profit of such company to a tax profit or adjusted profit using the provisions in the tax laws.

Custom and Excise Duties: Custom duty is an example of indirect tax and it consists of both the export and import duties. Customs duties are imposed by the Customs and Excise Act 91 of 1964.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews existing literatures, discussed the conceptual review of this study which include the history of tax in Nigeria, tax and taxation, tax system in Nigeria, relevant tax authorities, Nigerian government revenue system, problems of taxation in Nigeria. It also discusses relevant theoretical framework which includes the benefit theory, cost of service theory, Laffer curve theory and maximum social advantage theory. This study also reviews empirical analysis of different researchers.

2.1 Conceptual Review

Conceptual review includes the review of this study includes the history of tax in Nigeria, concept of tax and taxation, tax system in Nigeria, among others.

2.1.1 History of Taxation in Nigeria.

Tax is as old as human being and it evolved as a result of the need to finance the activities of the government, most especially war. History suggests that government imposes tax when the country is fighting war or when it reaches a certain level of commercial development. Notable historical event linked with tax include tax collected in Greece in times of war when the Athenians imposed a tax referred as "*eisphora*". No one was excused from the tax which was used to pay for special time of war's expenditures. In the Roman Empire, the earliest taxes collected were customs duties charged on imports and exports called "*portoria.* The first income tax proposed in the United States was the War of 1812, the tax was centred on the British Tax Act of 1798 and applied progressive rates to proceeds. In the 1200 to AD 1300, Italian State levied a tax called "dazio" on mercantile properties

in war times. Tax collectors were known as *scribes* during the several reins of the Egyptian Pharaohs.

Both Christianity and Muslim religion supports tax being imposed by government and they encourage their members to pay tax as it can be traced in the bible Christians use where Jesus advised that we should give unto Ceaser what belongs to Ceaser in the book of Matt 22:21 and also, the Quran used by the Muslims emphasized that there are five fundamental pillars of the religion and one which must be observed is the Zakat.

Before colonisation period in Nigeria, the tax system could be traced to the pre-colonial era. In the northern part of Nigeria, there existed an efficient and stable administration based on the Islamic system and during this time, the whole northern region was under the rule of Uthman Danfodio. He established a well organised Islamic system. Under this system of government, there exist a dominant authority and the adopted state religion was Islam. Under this system, it is an obligatory religious duty to pay tax by everyone in the society. Some tax system in practice then include Zakat & Jizra, Kudin-kasa, Shuka-shuka, among others. The western and eastern part of Nigeria also had some taxes that were being collected to finance the government project. Among others are Isakole, Owo-ori, Owo-ode, Egbu nkwu, war returns, community effort, etc.

Peter & Adesina (2016) pronounced that Nigerian taxation in its present form is traced to the establishment of a British Colony in Lagos and subsequent amalgamation of the Southern and Northern territories in 1914. The Federal Board of Internal Revenue (FBIR) collects taxes for the Federal Government of Nigeria and it could be traced to year 1939 when the company income tax ordinance was created. Igbesan (2017) noted that the history of tax administration in Nigeria changed dramatically in 2007 with the granting of financial and administrative autonomy to the

Federal Inland Revenue Service through the passage of the Federal Inland Revenue Service (Establishment) Act 2007 (FIRS Handbook 2012).

2.1.2 Concept of Tax and Taxation

The government of Nigeria has legislative power to impose tax on its citizens at whatever percentage it deems fit like every other government in diverse part of the world. Akhor (2016) opined that the three tiers of Government (that is Federal government, State government and Local government) enforces taxation in Nigeria following the extant laws with each having its range clearly indicated in the Taxes and Levies (approved list for collection) Decree, 1998. Emmanuel (2010) added that Nigeria runs mostly centralized revenue collection system, whereby the major revenues (petroleum revenue – profit taxes, royalties, crude oil sales; company income tax, value added tax, customs and excise duties) are collected by the federal government on behalf of the component governments.

The word tax and taxation have been misinterpreted or used interchangeable to have same meaning by different people which is not so. Tax is an obligatory levy or a financial charge levied by the government through its agent on a taxpayer or his property to provide security, social amenities and other amenities for the well-being of the society. Tax is collected by the government to raise revenue that will be used to fund the expenses of the government. Taxes are collected from individuals without reference to any special benefit conferred. According to Black Law Dictionary, tax is the monetary charge levied by the government on individuals, organisations or property, to yield community revenue meanwhile, taxation is a term used when a taxing authority, usually the government, levies or imposes a tax, it also applies to all types of involuntary levies, from income to capital gains to estate taxes according to Julia (2019). Taxation is the process of levying and

collecting tax from taxpayers. The main purpose of taxation is to generate fund or revenue that will defray or finance the government expenditure.

Igbesan (2017) stressed that the best tax system for any country should be determined taking into account its economic structure, its capacity to administer taxes, its public service needs, and many other factors. The Nigeria tax system is the network of activities involving set of rules, regulation and procedures with the organ of administration interacting with one another to generate fund for the government. It involves the tax policy, laws and administration. The Tax policy are the general statements of intentions which guide the thinking and actions of all concerned towards the realisation of the fiscal goals set and it is done by a macro economist. Tax Laws includes Company Income Tax act 2004, Value Added Tax act 2004, Capital Gain Tax act 2004 and Petroleum Profit Tax act 2004, among others. Tax administration involves practical interpretation and application of the tax laws. It is the function of the tax consultant and officials who assist tax payers in computing their tax

If a tax is levied directly on a personal or a corporate income, it is referred to as direct tax and if it is levied on goods or services, it is referred to as indirect tax. The list of the major taxes collected in Nigeria include the following:

i. Value Added Tax (VAT)

ii. Capital Gain Tax (CGT)

iii. Company Income Tax (CIT)

iv. Education Tax (ET)

v. Petroleum Profit Tax (PPT)

vi. Custom and Excise Duty (CED)

vii. Personal Income Tax (PIT)

viii. Stamp Duties

2.1.2.1 Value Added Tax (VAT)

VAT is overseen by Value Added Tax Act Cap V1, LFN 2004 (as amended). It is a tax paid on consumption. That is, when goods are purchased and services rendered. It is a multi-stage tax and it is suffered by the final consumer. All goods and services (created within or brought into the country) suffers VAT except those specially exempted by the VAT Act. VAT is charged at a rate of 5%. All taxable persons are required to file VAT monthly returns within 21st day following the month of transaction. All MDAs and Oil & Gas Companies serve dual roles as taxpayers and agents of VAT collection and are also required to file monthly returns not later than 21st day following the month of transaction.

2.1.2.2 Capital Gain Tax (CGT)

This is governed by Capital Gains Tax Act, Cap C1 LFN 2004 (as amended). CGT is charged at a flat rate of 10% of chargeable gains. All chargeable assets are subject to Capital Gains Tax when disposed at a gain, except those specifically relieved by the Act. Chargeable assets include all forms of property whether or not situated in Nigeria and the date for filing return and payment of the tax is the same as in Companies Income Tax. Allowable expenditure for the purpose of CGT includes fees, commissions or remunerations paid for professional services and cost of transfer. Gains exempted from CGT include those arising from disposal of decorations awarded for valour and gallant conduct, life insurance policy, Nigerian government securities, stock and shares etc. Gains shall not

be chargeable if it accrues to some organizations provided the gain is not derived disposal of any asset attained in connection with any trade conceded by the organization, e.g. an ecclesiastical, charitable or educational institution of a public character.

2.1.2.3 Company Income Tax (CIT)

CIT is governed by Companies Income Tax Act (CITA), Cap C21, LFN 2004 (as amended). CIT is a tax imposed on profit of a company from all sources. The rate of tax is 30% of total profit of a company. Some profits are exempted from CIT provided they are not resulting from trade or business activities carried out by the company e.g. Cooperative society. Every company shall pay provisional tax not later than three months from the beginning of each year of assessment which is an amount equivalent to the tax paid in the previous year of assessment. This is a payment on account of the year's income tax assessment. The date for filing returns are:

- For newly incorporated companies, within eighteen months from the time of incorporation or not later than six months after the close of its accounting period, whichever is earlier.
- For existing companies, within six months from the close of the accounting year.

A self- assessment filer may (by application) commence payment of instalment before due date but such instalment cannot extend beyond two months after the due date. Companies in operation for more than four years are liable to minimum tax except those specifically exempted by the tax law. Minimum Tax under CITA arises where:

- A company makes a loss
- A company has no tax payable
- Tax payable is less than minimum tax

2.1.2.4 Education Tax (ET)

This is now governed by Tertiary Education Trust Fund (Establishment, etc.) Act 2011. It is levied on all companies registered in Nigeria. The rate of the tax is 2% of assessable profit and the date for filing returns is the same as that of CIT and PPT. The tax is an allowable deduction in computing the assessable profits of companies involved in petroleum operations (Upstream). Funds derived from the tax are used for rehabilitation, restoration and consolidation of tertiary education in Nigeria by the Tertiary Education Trust Fund (TETFUND). The amount in the Fund is distributed between Universities, Polytechnics and Colleges of Education in the ratio 2:1:1 respectively.

2.1.2.5 Petroleum Profit Tax (PPT)

Petroleum Profits Tax is levied on income of companies in petroleum operations (Upstream). The tax is governed by the Petroleum Profits Tax Act, Cap P13 LFN 2004 (as amended). Companies liable to PPT are not liable to Companies Income Tax (CIT) on the same income. Rates of the Tax are:

- For Joint Venture and Sole Risk Companies in their first five years of operation, the rate of tax is 65.75% of chargeable profit
- For Joint Venture and Sole Risk Companies in operation for more than five years, the rate of tax is 85% of chargeable profit
- For a Company under Production Sharing Contract, the rate of the tax is 50% of chargeable profit

Education Tax is a deductible expense in computation of assessable profits of petroleum companies. Returns of estimated tax for each accounting period are to be submitted not later than two months after the commencement of the accounting period. Final returns for each accounting period shall be

filed within five months after the expiration of the accounting period. The penalty for late submission of a return is a penalty of N10,000 and a further sum of N2,000 for each and every day the failure continues. Any instalment of tax not paid on the due date shall attract a penalty of ten percent (10%) and interest at prevailing minimum rediscount rate of the CBN and if payment is not made within one month, enforcement shall take place.

2.1.2.6 Customs and Excise Duty (CED)

This is a tax imposed by the custom authorities of a country on imports, (and sometimes, on exports) to raise a state revenue, and/or protect domestic industries from more competent or predatory competitors from overseas. It is usually based on the value of goods or upon the weight, size etc. The law guiding the CED is the Customs and Excise management Act of 1990. Custom duty is an example of indirect tax and it consists of both the export and import duties. Customs duties are imposed by the Customs and Excise Act 91 of 1964. They are levied on imported goods with the aim of raising revenue and protecting the local market.

2.1.2.7 Personal Income Tax (PIT)

PIT is guided by the Personal Income Tax Act Cap P8 LFN 2004 (as amended). The tax is levied on proceeds of individuals, corporate bodies or organisations, communities, trustees etc. An individual is allowed a Consolidated Relief Allowance of N200,000 or 1% of gross income whichever is higher plus 20% of gross income. The rate of the tax ranges from 7% to 24%, depending on the amount of chargeable income.

Where income is less than N300,000 per annum, individuals are subjected to minimum tax of 1% of their gross income. The tax is administered by FCT/States Internal Revenue Service (IRS) in respect of their residents. The tax is also administered by FIRS on non-residents, members of the Armed

Forces, Police, Officers of Nigerian Foreign Service. The date for filing returns of the tax is 31st March of every year. The due date for remittance of PAYE is 10th day of every succeeding month.

2.1.2.8 Stamp Duties

This is governed by Stamp Duties Act, CAP S8, LFN 2004 (as amended). It is overseen on written documents only. It is administered by both FIRS, FCT and respective States Internal Revenue Service (IRS). FIRS accesses and collects duties on documents executed between a company and an individual, group or body of individuals. FCT and States Internal Revenue Service (IRS) assess and collect duties on documents executed between persons or individuals. A Commissioner of Stamp Duties adjudicates on the amount of duty payable on instrument (Adjudication is the process of determining the correct amount of duty payable on an instrument). Duties are paid before documents are executed. Forms of Stamp Duties includes:

- Fixed Duties- duties that do not vary with consideration, e.g. duties on payment receipt, proxy forms, guarantor forms, etc.

- Ad-valorem- Duties that vary with consideration, e.g. duties on Share Capital, Deed of Assignment, Debenture, Bills of Exchange, etc.

2.1.3 Tax System in Nigeria

Nigeria is governed by a federal system; hence its monetary operations also follow the same principle and has serious effects on how the tax system is managed in the country Odusola (2006). He also stated that Nigerian government's monetary power is based on a three-tiered tax structure shared between the federal, state and local governments, each of which has separate tax jurisdictions and as of 2002, about 40 diverse taxes and levies are shared by the three tiers of government. The powers of the tax system in Nigeria is mostly set by tax legislations passed by Acts of the National

and State House of Assembly and Bye-laws by local government authorities in a democratic government or Decrees or Edicts under a military government and these legislations confer necessary powers on the taxing authorities to impose taxes on the citizens, i.e. individuals, companies etc. (Ibadin & Oladipupo 2015). Leyira *et al* (2012) stated that the Nigeria tax system is basically structured as a tool for revenue generation.

The tax system usually involves a tripartite aspect, namely the tax policy, the tax laws, and the tax administration. The tax policies are general statements of intention which guide the thinking and the action of all concerned towards the realization of the set goals. According to Leyira *et al (*2012), all laws presently in effect date the military era and the major tax laws in existence as of September 2003, and various related amendment include the following:

i. Personal Income Tax act of 1993
ii. Companies' Profits Tax of 1990
iii. Petroleum Profits Tax Act of 1990
iv. The Petroleum Tax Act of 1990;
v. Value –Added Tax Act of 1990;
vi. Education Tax Act of 1993
vii. Capital Gain Act of 1990
viii. Customs and Excise management Act of 1990;
ix. Minerals and Mining Act of 1999;
x. Stamp Duties Act of 1990
xi. 1999 constitution of the Federal Republic of Nigeria.

The administration of tax involves practical interpretations and application of the tax laws. The effective administration of existing tax laws will lead to efficient harnessing of tax resources in Nigeria Okauru (2011).

Igbesan (2017) pronounced that one of the objectives of tax is to generate stable revenue resources needed by government to accomplish laudable projects or investment for the benefit of the people and also to encourage economic growth and development. Further objectives of taxation include:

a) For revenue generation to meet the needs of government;

b) To provide fiscal tool for encouraging economic growth and development;

c) For social function such as rectifying the rural-urban population drift, curbing environmental pollution as well as promoting a decent society; and

d) To redistribute income/wealth so as to reduce inequality. This is achieved mostly through the progressive tax.

To achieve the aforementioned objectives, Nigeria necessitates a competent administrative system.

2.1.3.1 Relevant Tax Authorities.

i. Joint Tax Board

ii. Federal Inland Revenue Service Board (FIRSB)

2.1.3.1.1 Federal Inland Revenue Service Board (FIRSB)

The Board was first established under Section 3 of the repealed Income Tax Administration Ordinance 1958 and a234mended by subsequent Acts and Decrees. The Finance (Miscellaneous

taxation provisions) (Amendment) Decree No.3 of 1993 provided for an operational arm to be known as the Federal Inland Revenue Service.

(a) **Composition**

The FIRSB comprises:

i. An Executive Chairman appointed by the President and must a person within the service experienced in taxation.
ii. The Directors and Heads of Departments of the service;
iii. The Officer holding or acting in the post of Director from time to time with responsibility of planning, investigation and statistics matters in the Federal Ministry of Finance;
iv. A member of the Board of National Revenue Mobilization, Allocation and Fiscal Commission;
v. A member from the Nigeria National Petroleum Corporation, not lower in rank than an Executive Director;
vi. A Director from the National Planning Commission;
vii. A Director from the Department of Customs and Excise;
viii. The Registrar-General of the Corporate Affairs Commission (CAC); and
ix. The Legal Adviser who shall be an ex-officio member of the Board.

b) **Duties**

The duties are as follows:

i. Advising the Federal Government through the Minister of Finance on tax matters which include any amendment to the existing law;

ii. Assessment and collection of companies' income tax;
iii. Issuing instructions on the financial aspects of assessment including interpretation on income tax Acts;
iv. Reviewing and approving the strategic plans of the service;
v. Employ and determine the terms and conditions of service including disciplinary measures of the employees of the service; and
vi. Do such other things, which in its opinion are necessary to ensure the efficient performance of the functions of the service under the Act.

2.1.4 Nigerian Government Revenue

Government Revenues denote all the receipts of the government. They are fragment of government budget balance calculation. Nigeria derives her income from diverse sources which consist of internal and external sources. The external sources of income to Nigeria government include income from foreign government grant, income from foreign direct investment etc. The internal sources of revenue can further be subdivided into two which comprises of the non-oil revenue (such as direct and indirect taxes, loans, trades, grants, aids) and oil revenue (such as income from royalties, Petroleum Profit Tax (PPT), gas tax) as noted by Worlu & Emeka (2012).

In time past, Nigeria revenue depended largely on Agricultural products but since oil boom of 1973/1974 till date, oil has dominated Nigeria's revenue structure as asserted by Odusola (2006), to the extent that oil revenue account for over 70% of Nigeria's government total income. Nigerian government can no longer depend on revenue inflow from the oil sector due to some factors (such as international politics, insecurity, price fluctuations, oil theft, and militancy in the Niger Delta and endemic corruption in the system) according to Worlu & Emeka (2012) and these factors have

reduced drastically the revenue accruing to Nigerian government from oil which has made it difficult for Nigeria government to meets her public request.

Dickson & Rolle (2014) pronounced that a major challenge facing Nigeria's Economy is the diversification of its revenue base and this diversification has become necessary with the realization that dependency on crude oil earnings cannot sustain public expenditure again.

Developed countries in the likes of United States, United Kingdom, Australia etc. sees the importance of tax and focus on it as the main source of revenue to finance their government's project. Igbesan (2017) contributed by saying Countries like USA, UK, France and a few others taxation has evolved to become the mainstay of the economy, while other developing / underdeveloped nations has not been able to evolve a tax system that would provide the much-needed fund that can sustain the economy and provide a fulcrum on which the economy can take a progressive leap.

2.1.5 Problems of Tax administration in Nigeria

Taxation has faced a lot of challenges in Nigeria which has compressed the tax revenue income and as such impacted the federally collected revenue and hindered national development.

According to Soyode & Kajola (2006) cited in Samuel & Tyokoso (2014) the major problems of tax administration in Nigeria are as follows;

i. Tax Evasion: A deliberate and willful practice of not revealing full taxable income in order to pay less tax. That is, it is an infringement of tax laws whereby a taxable person refuses to pay the tax due or lessens tax liability by making fraudulent or untrue claims on the income tax form. Tax is evaded through diverse methods which include the following: Rejecting to register with the relevant tax authority, Failure to provide a return, statement or information of

required records, Making an incorrect return by neglecting an income liable to tax or ignoring to pay tax, Overstating of expenses so as to lessen taxable profit or income which will also lead to payment of less tax.

ii. Tax Avoidance: Tax avoidance refers to the plan of tax payers' affairs using the tax shelters in the tax law, and dodging tax traps in the tax laws in order to pay less tax than he or she would otherwise pay. That is, a person pays a smaller amount of tax than he is supposed to pay by taking benefit of gaps in a tax levy. Tax can be avoided in various ways: Incorporating the tax payer's sole proprietor or partnership into a limited liability company, the capacity to claim grants and reliefs that are accessible in tax laws in other to lessen the amount of income to be charged to tax.

Reducing the incidence of high taxation by the procurement of a business concern which has sustained heavy loss so as to set off the loss against future profits; Reducing tax obligation by investing in capital asset and thus hiding some of the tax payers income from taxation through capital allowance claims; Shielding part of the company's assessable income from income tax by capitalizing earnings through the issue of bonus shares to the existing members at the (deductible) expenses to the company; Translating what would normally accrue to the tax payer (employee) as income into capital gain (i.e Compensation for loss of office) the benefit of the employer and employee; Manipulation of charitable establishments whose affairs are controlled and dominated by its founders thus taking advantage of income tax exemption.

2.2 Theoretical Review

Theories are propounded to clarify the reasoning behind people's actions and responses to tax compliance and rules which consistently impact the pool of revenue available to the government for

the execution of projects that will benefit the economy at large. Various theories exist to explain reasons for inadequate tax revenue income, examples are;

2.2.1 Benefit theory

This theory is built on the assumption that the state should impose taxes on persons according to the value conferred on them. The spreading of the tax burden among individual taxpayers is centered on the benefits received from the enjoyment of public services. This theory relates to the distribution of taxes by taking into account the sacrifice of the taxpayer in paying his taxes along with the benefits he enjoys from governmental expenditure. This approach has been advocated by many persons, such as Pantaieoni Mazzola, de Vitide Marco, Sax and Lindahl, in one form or another. Adam Smith also, in his first principle of taxation mentioned this principle.

However, the benefit principle is not a satisfactory explanation and objections are raised against it because of the practical difficulty of correlating and measuring the amount of benefit enjoyed by a tax payer and his tax payment. Further, it is very difficult to find out how intensely a particular taxpayer wants a particular service from the government and how much he is prepared to pay for it. Then, as Musgrave has pointed out, the true preferences of consumers (tax payers) for different public services which satisfy social wants (because public services are consumed equally by all) cannot be revealed. A person may not be prepared to indicate his preference for such social wants and may not be eager to pay for them if he knows that the government will provide the service even if he does not pay. Therefore, although this principle has the logical advantage, practical imputation of this theory is not possible. Since in modern state, taxes by their very definition are compulsory payments which are not based on any consideration of return or benefit

2.2.2 Cost of service theory

This theory is similar to the benefits received theory. It stresses the semi-commercial link between the state and companies to a larger extent. Some economists were of the opinion that if companies are charged the actual cost of service provided by the state (such as good road, water, business friendly environment among others), it will fulfil the idea of equity or fairness in taxation. In those cases where services are rendered out of prices and are a bit easy to determine, the cost of service principle can also be applied to some extent for instance, supply of electricity, railway services, postal, etc. But most of the spending incurred by the state cannot be fixed for each individual because it cannot be exactly determined. For instance, how can we quantity the cost of service of the judiciary, police, armed forces, etc., to different companies? This theory has also been rejected by Dalton on the ground that there's no quid pro qua in a tax.

2.2.3 Laffer Curve Theory

Laffer Curve is a theory that positions that lower tax rates increases economic growth. It shows the relationship between tax revenue collected by the government and tax rates paid by citizens. Arthur Laffer developed it in 1979.

According to Kimberly (2019), Laffer Curve describes how variations in tax rates affect government revenues in two ways which include; immediate, which is described as "arithmetic." Every dollar in tax cuts translates directly to one less dollar in government revenue. The other effect which Laffer describes as the "economic" effect which works in the contrary direction is longer-term. Lower tax rates put money into the hands of taxpayers, who then spend it. It creates more business activity to meet consumer demand. For instance, companies hire more labors, who then spend their additional income. This boost to economic growth brings about a larger tax base. It eventually substitutes any revenue lost from the tax cut

The tax depicted on a Laffer Curve range from 0% to 100% as shown in the graph below:

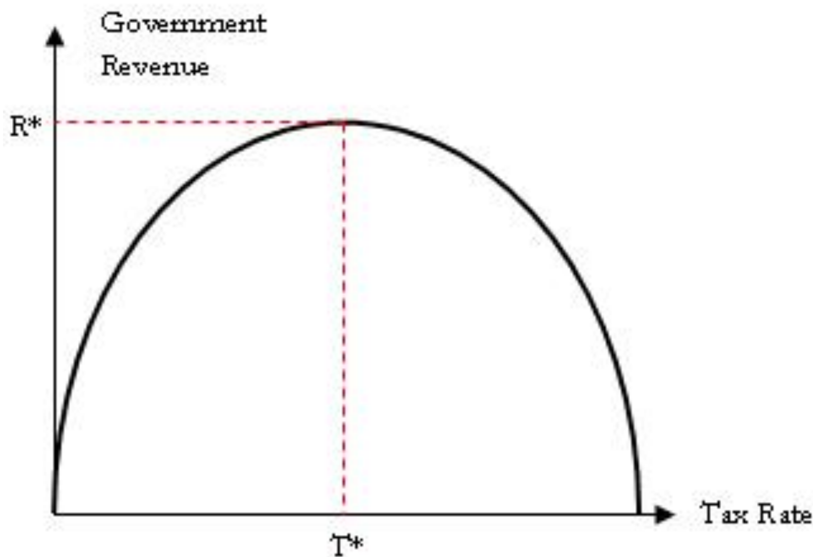

Figure 2.1 Laffer curve

Source: Arthur B. Laffer

The shape of the curve in fig. 2.1 denotes that as tax rates rise, tax proceeds will also increase. However, these increased tax proceeds will only increase until a peak, after which the tax proceeds begin to drop. This means that after a point it is counter-intuitive to keep increasing tax rates.

The idea behind the Laffer curve is that people will be discouraged from working after a certain point because the tax rates will be too high.

2.2.4 The Theory of Maximum Social Advantage

The theory of Maximum Social Advantage is given by Pigou and Dalton. They extended the ability-to-pay theory to include the benefits of public expenditure. This theory seeks to balance the social advantage of public spending and the social sacrifice involved in the payment of taxation. Pigou

called this theory as the Principle of Maximum Aggregate Welfare," while Dalton explained it as the Principle of Maximum Social Advantage.

According to this principle, economic welfare of the community is the goal of state's economic policy. But the problem is how to determine the measures' which will lead to maximum social advantage. The answer to this question depends, according to Dalton, on further three questions and their answers. First question is that, how far should taxation and public expenditure be carried? The answer suggested by him is that "public expenditure in every direction should be carried just so far that the advantage to the community of a further small increase in any direction is just counter balanced by the disadvantage of a corresponding small increase in taxation or in receipts from any other source of public income. This gives the ideal both of public expenditure and public income. The ideal point to which taxation and spending should be pushed is that at which marginal utility of government expenditure is just the same to the marginal disutility from taxation. Or, as Pigou states, "Expenses should be pressed in all directions up to the point at which the satisfaction attained from the last shilling expended is equal to the satisfaction lost in respect of the last shilling called upon government service".

Second question is that, how should public expenditure be allocated among different uses? The answer to this question is that expenditure should be incurred in different uses in a way that the marginal utility obtained from each use is the same. This is the principle of equi-marginal utility or principle of maximum satisfaction.

Third measure on which the maximum social advantage depends is the answer to the question, how should taxation be divided among different sources or how should the burden of taxation be divided? The answer is that the total sacrifice upon the people will be the least only when the burden of

taxation, among the different sources, is divided in a way that the marginal sacrifice from taxation of each source is the same. These considerations, although, are theoretically right but very tough to apply in practice.

As Musgrave puts, “Many modem 'welfare economists’ believe that inter-personal comparisons of utility or sacrifice are not possible.” Such comparisons are also not possible as far as the government expenditure and taxation is concerned because, in actuality, government is spending and taxing vast number of people and different departments at different places are involved. Then it is not possible to compare the extra utility resulting from the spending of one more rupee on any public investment with the additional sacrifice imposed by a tax of one rupee on any individual. Dalton himself recognized, “This is a difficult calculus, but that statement must handle it as best as they can, since there is no practical alternative”.

Dalton, however, himself suggested some tests of social advantage. First test is the preservation of the community from internal disorders and external attacks. Second test for an increase in the economic welfare of the community is improvements in production. Improvements in production means:

(i) Increase in productive power, i.e. a larger product per worker with a smaller effort,

(ii) Improvements in the organisation of production, and

(iii) Improvements in the composition, or pattern of production.

Third test is improvement in distribution, i.e. a reduction in inequality and fluctuations in the proceeds of individuals and families. Fourth test is the maintenance of economic stability. Fifth test is maintenance of full employment and the provisions for the future needs of the community.

In spite of practical difficulties, the principle of Maximum social Advantage maintains important place and taxation policy should follow this principle. Since this principle takes into account both benefits and costs of public expenditure, includes welfare aspect and is based upon the principle of equity and justice, this principle is comparatively good.

Since, sacrifice or burden of taxes, like welfare or utility, is a mental phenomenon, therefore, there is no satisfactory or commonly accepted method of measuring it. Government can judge its policy itself on the basis of its experience and above mentioned 'tests' because it is quite possible to arrive at the above 'tests' without going through the difficult exercise of making inter-personal comparisons of marginal utilities and marginal sacrifices. A good deal depends on intuition rather than on measurement in such cases.

2.2.5 Theoretical framework

Therefore, the maximum social advantage theory was adopted in this research because this principle seeks to balance the social advantage of public spending and the social cost involved in the payment of taxation. This principle takes into account both benefits and costs of public expenditure which includes welfare aspect and is centered on the principle of equity and justice, this principle is comparatively the best as it encourages taxpayers to pay more as they benefit from what they pay for.

2.3 Empirical Review

The effects of tax efficiency on income generation in Nigerian economy have been investigated in prior research studies. However, different factors have been used to measure the tax administration in relation to the tax revenue generated. This section is divided according to the research objectives. Some of these works are identified below:

Margaret, Charles and Gift (2014) conducted a research on Taxation and Economic Growth in Nigeria using data from the Central Bank of Nigeria Statistical Bulletin and the Federal Inland Revenue Services Bulletin from 1994 to 2012 and discovered that a significant positive relationship exists between Taxation and economic growth in Nigeria. The researchers recommend that government should encourage entrepreneurial development in Nigeria, as this would increase government revenue from tax and reduce the rate of unemployment in Nigeria.

Confidence and Ebipanipre (2014) viewed Taxation as an Instrument of Economic Growth during the period 1980 through 2013 via annual time series data obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin. According to the researcher, the empirical result suggests that hypothesized link among value added tax, company income tax and economic growth indeed exist in the Nigerian context. Thus, the result offer tantalizing evidence that taxation is an instrument of economic growth in Nigeria. He concludes that there is need for additional measures by government in certifying that taxpayers do not avoid and evade tax so that income can be properly redistributed in the economy. He also pronounced that regulatory authorities charged with the sole responsibility of collecting tax should further be strengthened to enforce obedience by taxpayers. Above all, the tax received should be properly distributed so that economic development can be properly harnessed.

Igbasan (2017) examined Tax revenue and economic growth of Nigeria for the period of 1981 to 2015 using Secondary data which were obtained from FIRS and Nigeria Bureau of Statistics. The study revealed that the GDP is strongly impacted upon by VAT, PPT, CED, and CIT and concluded that tax revenue combined have significant effect on the economic growth of Nigeria, although Companies Income Tax (CIT) and Custom Excise Duties (CED) have not contributed positively to economic growth of this nation over the period of study, hence government need to reposition the

tax administrative system and sufficiently equip them to deal with complexities of technological advancement in global commerce, enforce compliance and track all taxable persons in order to generate sufficient revenue needed to foster economic growth in Nigeria.

Onaolapo, Aworemi & Ajala (2013) assessed effect of VAT on revenue generation in Nigeria with secondary data obtained from the Central Bank of Nigeria statistical bulletin (2010), Federal Inland Revenue Service Annual Reports and Chartered Institute of Taxation of Nigeria Journal. Results showed that VAT has significant effect on revenue generation in Nigeria. The study recommends that there should be dedication and apparent honest on the parts of all agents of VAT with respect to the collection and payment and that government should try as much as possible to improve on the way VAT is collected.

Olanlokun et al (2019) studied the effect of federally collected taxes on revenue generation in Nigeria from 1992 to 2016. They obtained Secondary data from (FIRS). Their findings disclosed that all the observed variables have positive effect except customs & excise duties that have negative effect on revenue generation in Nigeria. He recommended that government should review the customs & excise duties act.

Inyiama & Ubesie (2016) inspects the effect of Value Added Tax and Customs and Excise Duties on Nigeria Economic Growth using secondary data. The result reveals that all the non-oil tax revenue affects Nigeria Gross Domestic Product. On the side of the relationship among the variables studied, the strength of their relationship is very high for all the variables. The researcher concludes that Value Added Tax and Customs and Excise Duties are some of the major contributors to Nigeria Gross Domestic Product. Their study also indicates that Customs and Excise Duties exert a positive and significant effect on Gross Domestic Product in Nigeria which is in contradiction of the findings

of Olanlokun & Bashiru (2019) and also the findings of Igbesan (2017) that states that customs & excise duties have negative effect on revenue generation in Nigeria.

Table 2.3.1 Summary of Empirical Review

S/N	RESEARCHER	YEAR	TOPIC	FINDINGS	GAPS
1	Margaret, Charles and Gift	2014	Taxation and Economic Growth in Nigeria	There is significant positive relationship exists between Taxation and economic growth in Nigeria.	Source of data
2	Confidence and Ebipanipre	2014	Taxation as an Instrument of Economic Growth	that taxation is an instrument of economic growth in Nigeria	Measurement of data
3	Igbasan	2017	Tax revenue and Economic Growth of Nigeria	Nigeria as a nation is lacking behind in are tax Revenue generation	Future studies should extend the research to other categories of taxes and measure their effect on both the government revenue and on household
4	Onaolapo, Aworemi & Ajala	2013	Value Added Tax and its effect on Revenue generation in	Value Added Tax has statistically significant effect on Revenue generation	Source of data

			Nigeria	in Nigeria	
5	Olanlokun	2019	The effect of Federally collected Taxes on Revenue generation in Nigeria	The examined variables have positive effect except customs & excise duties that have negative effect on revenue generation in Nigeria	Source of data
6	Inyiama & Ubesie	2016	The effect of Value Added Tax and Customs and Excise Duties on Nigeria Economic Growth	The researcher found out that VAT and CED are major contributors to GDP	The researcher only used Value added Tax and Custom and excise duty without using other sources of non-oil revenue

2.4 Gaps in Literature

Many of the empirical review revealed that tax is being measured against GDP unlike this research that measures tax against the FCR i.e. there is a gap in the source of data. The different methodologies used by the diverse authors, the settings or surroundings under which the studies were carried out, the nature of data and sources in different jurisdictions and the policy thrust, among others could also account for the gap in literature.

CHAPTER 3

RESEARCH METHODOLOGY

3.0 Introduction

This chapter explains the research design, research method and the population of the study. It also provides information about the sources of data which is secondary data and how it was derived. The sampling size and technique used will also be discussed in this research methodology. Other important aspects of the methodology contained in this chapter include; methods of data analysis validity and reliability.

3.1 Research Design

To achieve the objective of this study, an ex-post facto research design was employed using time series data obtained from various Annual Reports by the Central Bank of Nigeria (CBN). The study employed graphical methods to depict the trends in the relationship between the variables. The study also employs descriptive statistics of mean, standard variation, co-variance (skewness and kurtosis). The study also used regression analysis to establish the relationship between the variables. This research design was chosen because it has been used by prior studies (for example Igbasan, Emmanuel 2017) and it is an excellent way of finalizing results and proving or disproving a hypothesis.

3.2 Population of the Study

The population of the study consist of Nigeria, represented by Federal Inland Revenue Service, Ministries, departments and Agencies (MDA) of the Federal Government of Nigeria.

3.3 Sample Size and Sampling Technique

The research size of this study shall be limited to the non-oil revenue especially tax which comprises of the: value added tax (VAT), company income tax (CIT) and customs & excise duties (CED) that

are being administered by the Federal Inland Revenue Service Board. The Central Bank of Nigeria (CBN) and Federal Inland Revenue Service (FIRS) have been chosen for the purpose of this study.

The main reason this body is chosen is because it is the custodians of information relating to government revenue and includes aggregate tax figures in Nigeria. Hence the researcher deemed it fit to draw from the pool of resources of these organization and believes that any information which elicits from these is expected to be effective in meeting the objectives of this study.

3.4 Sources of Data

The main source of data for this study is the secondary data obtained from the quarterly economic report release by the Central Bank of Nigeria (CBN) for the period of 9 years (2010-2018).

Data from the secondary sources are considered appropriate and are used for this study due to the following reasons:

i. They have been used in previous research, making it easier to carry out further research. For example, Igbesan (2017), Olanlokun (2010).
ii. They reduce stress as much of the background work needed has already been carried out.
iii. They are already validated by professionals and other regulatory bodies before they were published by the Central Bank of Nigeria (CBN).

3.4.1 Validity of the Research Instrument

Validity is defined as the degree or ability of a tool or a measuring instrument to measure what it is designed to measure. Content validity denotes that the contents of the scale are broad enough to cover the full range of the subject matter while construct validity tests the accurate measurement of the diverse phenomena associated with that construct. The figures used for this work were verified and certified by the appropriate regulatory bodies of Central Bank of Nigeria.

3.5 Method of Data Collection

The study used time series data downloaded from the Central Bank of Nigeria (CBN) Annual Report.

3.6 Method of Data Analysis

The quantitative method of data analysis will be used to analyse the data of these research work. The study will be carried out in four ways. Firstly, trend analysis will be carried out using descriptive statistics of mean, standard deviation, (skewness and kurtosis). This aims at describing the data so as to determine the normality of the series. Secondly, this study also examined the relationship between non-oil and oil revenue in revenue generation in Nigeria economy, lastly, this study uses simple regression analysis to establish the relationship between variables.

3.7 Modelling

Using Multiple Linear Regression Model, the following functional relationship were formulated for the study:

The model of the study is expressed in functional form as

FCR = f (VAT, CIT, CED) …………………………………………. (1)

it can be expressed in equation form as shown below:

$FCR = \alpha_i + \lambda_1 VAT + \lambda_2 CIT + \lambda_3 CED + £_t$ …………………………….. (2)

where:

FCR = Federally Collected Revenue which is the sum of the Oil Revenue (OR) and Non-

oil Revenue (NOR).

VAT = Value Added Tax.

CIT = Company Income Tax.

CED = Custom and Excise Duties.

3.8 Method of Data Analysis

The quantitative method of data analysis will be used to analyse the data of these research work. The study will be carried out in four ways. Firstly, trend analysis will be carried out to determine the trend using graphical analysis. Secondly, using descriptive statistics of mean, standard deviation, (skewness and kurtosis). This aims at describing the data so as to determine the normality of the series. Thirdly, this study will examine the relationship between non-oil and oil revenue in revenue generation in Nigeria economy, lastly this study uses simple regression analysis to establish the relationship between variables.

CHAPTER FOUR

DATA ANALYSIS, RESULT AND DISCUSSION ON FINDINGS

4.0 Introduction

This chapter deals with the presentation, analysis, interpretation of data and discussion of findings. The chapter, in essence, deals with the detailed analysis of the effect of tax efficiency on the revenue collected by federal government in Nigerian economy. Quarterly data of Companies Income Tax (CIT), Value Added Tax (VAT), Customs and Excise duty (CED) and the Federally Collected Revenue (FCR) for the period of 2010-2018 were obtained from Central Bank of Nigeria (CBN) economic report. In this chapter, the empirical results based on formulated models were descriptive statistics and regression models in the preceding chapter are presented, while the interpretation and discussion of each result is aligned with the stated objectives. It also provides the platform on which conclusion and recommendations are based.

4.1 Descriptive Statistics

This section of the analysis provides an overview on the data set while attempt is also made to describe the main attribute of data.

Table 4.1.1 Descriptive Statistics of FCR, CIT, VAT and CED

	N	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Federal Collected revenue	36	1118.56	3327.80	2175.8578	534.77982	285989.452	-.157	.393	-.539	.768
Company Income Tax	36	109.80	543.40	251.4739	123.49674	15251.444	.991	.393	-.278	.768
Value Added Tax	36	133.10	279.69	199.0797	39.32827	1546.713	.503	.393	-.243	.768
Custom &Excise Duty	36	50.10	196.37	127.0561	33.09292	1095.141	-.210	.393	-.199	.768
Valid N (listwise)	36									

Source: Researcher's Study, 2019

Table 4.1.2: Contribution of tax to FCR

	CIT	VAT	CED	TOTAL TAX
Average	11.5%	9.1%	5.8%	26.5%

Source: Researcher's Study, 2019

Specifically, the mean values of the Companies Income Tax (CIT), Value Added Tax (VAT) and Customs and Excise duty (CED) stood at about 251.4739, 199.0797 and 127.0561 respectively. Also, the mean of Federally Collected Revenue (FCR) stood at about 2175.8578. This shows the average values of Tax revenue and FCR of Nigeria for the period of study. These average values were used in the determination of the contribution of each form of tax revenue to FCR shown on Table 4.1.1. Their respective minimum and maximum values are equally shown indicating variations over the years for the respective series.

The standard deviation values shown on Table 4.1.1 indicates the dispersion or spread in the data series. The higher the value, the higher the deviation of the series from its mean and the lower the value, the lower the deviation of the series from the mean. The variable with a higher degree of dispersion from the mean is the Federally Collected Revenue (FCR), this further explains its variations over the years under study. The skewness and kurtosis of all variables shown on Table 4.1.1 shows the asymmetric behavior of the data.

Table 4.1.2 shows that on the average, CIT contributed about 11.5% to FCR; CED contributed about 5.8% to FCR; VAT contributed about 9.1%; and the total tax revenue contributed about 26.8% to FCR during the years under study and this can be interpreted that for every ₦100 FCR, CIT constituted ₦11.50, VAT constituted ₦9.1 and CED constituted ₦5.8.

4.2 Empirical Analysis

4.2.1 HYPOTHESIS ONE

OBJECTIVE: To ascertain the effect of Company Income Tax (CIT) on the federally collected revenue in Nigeria.

H_0: CIT does not have significant effect on the federally collected revenue in Nigeria.

H_1: CIT have significant effect on the federally collected revenue in Nigeria.

Table 4.2.1.0: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.279[a]	.078	.050	521.10633

a. Predictors: (Constant), Company Income Tax

Source: Researchers computation, 2019

The model summary shows the predictive power of the model. R is the correlation coefficient between the dependent variable (observed) and the independent variable(s) (the predictor(s). The sig of R indicates the direction of the relationship (positive or negative). The value of R ranges from -1 to 1. The absolute value of R indicates the strength, with larger absolute value indicating strong relationship.

In Table 4.2.1.0, R= 0.279. This mean there is a low (27.9%) positive relationship between federally collected revenue and company income tax.

The R squared (coefficient of determination) show the degree of linear- correlation of variables (goodness of fit) in regression analysis. This is the proportion of variation in the dependent variable explained by the regression model. In other words, it shows the extent to which the independent variable(s) can explain the variance in the dependent variable. The sample R squared tends to be optimistically estimate how well the model fit the population.

Table 4.2.1.0, show R square of 0.078, which means that the company income tax can only explain 7.8% variation in the value of federally collected revenue while holding the other independent variables constant.

Adjusted R square only adjust for the number of variables in the regression model. Standard error of the estimate is the standard deviation of the residuals. It attempts to correct R squared to a more closely reflect the goodness of fit of the model. It is also R squared value adjusted for the number of variables in the regression model. The value of Adjusted R in this table 4.2.1.0 is 0.050.

The standard error of estimates is the standard deviation of the residuals. As R squared increases, the standard error of the estimate decreases. In other words, a better fit lead to less estimate error. It is an important indicator of how precise an estimate of the population parameter the sample statistic is.

Table 4.2.1.1: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	776869.441	1	776869.441	2.861	.100[b]
	Residual	9232761.368	34	271551.805		
	Total	10009630.809	35			

a. Dependent Variable: Federal Collected revenue

b. Predictors: (Constant), Company Income Tax

Source; Researcher's conmputation,2019

The ANOVA table tells us the overall significance of the model. The F-statistics is the regression mean square (MSR) divided by the residual mean square. F- Statistics determine whether the model is a good fit for the data based on its significance level. A significant value of F- statistics shows that the model is better at predicting the outcome value of the dependent variable than its average. If the significance value of the F-statistics is smaller than 0.05 then the independent variable(s) is significant to explaining the variation in the dependent variable and the null hypothesis is accepted. Table 4.2.1.1 show an F-statistics value of 2.861 and a p-value of 0.100 which is more than 0.05. It suggests that there is no significant relationship between federally collected and company income tax. H_0 is therefore accepted and H_1 rejected.

Table 4.2.1.2: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1872.484	199.283		9.396	.000
	Company Income Tax	1.206	.713	.279	1.691	.100

a. Dependent Variable: Federal Collected revenue

Source: Researchers' computation, 2019.

Interpretation

The standardized coefficients or beta is an attempt to make the regression coefficient more comparable. It provides a useful way of seeing what impact of changing the explanatory variable by one standard deviation it will have on the dependent variable. It is usually equal to the correlation coefficient between the variables.

The correlation coefficient (R) stood at 0.279 indicating that there is a (27.9%) positive relationship between company income tax and federally collected revenue. This relationship is weak.

R-square of 0.078, which means that company income tax can only explain 7.8% variation in the value of federally collected revenue while holding other independent variables constant. Also, the R-square value adjusted for the number of variables in the regression stands at 0.050. The F-statistics value of 2.861 was greater than the p-value of 0.100 suggesting that there is no significant relationship between company income tax and federally collected revenue and that H_0 is therefore accepted and H_1 rejected.

4.2.2 HYPOTHESIS TWO

OBJECTIVE: To evaluate the effect of Value Added Tax (VAT) on the federally collected revenue in Nigeria.

H_0: VAT does not have significant effect on the federally collected revenue in Nigeria

H_1: VAT has significant effect on the federally collected revenue in Nigeria.

Table 4.2.2.0 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.040[a]	.002	-.028	542.14950

a. Predictors: (Constant), Value Added Tax

Source: Researchers' computation, 2019.

In Table 4.2.2.0, R value is 0.040. This mean that the positive correlation between the valued added tax and federally collected revenue is 4.0%. The R square value is 0.002 (0.2%) meaning that value added tax can only explain 0.2% variation of federally collected revenue while holding the other independent variables constant.

Table 4.2.2.1: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16143.950	1	16143.950	.055	.816[b]
	Residual	9993486.859	34	293926.084		
	Total	10009630.809	35			

a. Dependent Variable: Federal Collected revenue

b. Predictors: (Constant), Value Added Tax

Table 4.2.2.1 show an F-statistics value of 0.55 with a p-value of 0.816. This is more than 0.05 (5%) level of significance. This suggest the adoption of H_0 of no significant relationship and the rejection of H_1 of significant relationship between federally collected revenue and valued added tax.

Table 4.2.2.2: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2284.574	472.600		4.834	.000
	Value Added Tax	-.546	2.330	-.040	-.234	.816

a. Dependent Variable: Federal Collected revenue

Source: Researchers' computation, 2019

This table confirms the f statistics level of significance.

Interpretation

The R value stood at 0.040 (4.0%). This revealed a positive correlation between valued added tax and federally collected revenue. The R square value is 0.002 (0.2%) meaning that a variation in value added tax can only be explained to the tune of 0.2% by the federally collected revenue.

The f-statistics value is 0.055 with a corresponding p-value of 0.816. The p-value is more than the significance value of 0.05 (5%). This suggests no statistically significant relationship between federally collected revenue and the valued added tax. This signifies the acceptance of H_0 and the rejection of H_1.

4.2.3 HYPOTHESES THREE

OBJECTIVE: To examine the effect of Custom and Excise Duties (CED) on the federally collected revenue in Nigeria.

H_{02}: CIT does not have significant effect on the federally collected revenue in Nigeria.

H_3: CIT have significant effect on the federally collected revenue in Nigeria.

Table 4.2.3.0: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.081[a]	.007	-.023	540.79183

a. Predictors: (Constant), Custom &Excise Duty

Source: Researchers computation, 2019

Table 4.2.3.0 showed a value of R equals 0.081 which implies 8.1% positive relationship between federally collected revenue and customs and excise duty. The R square result depict a variation of 0.7% in federally collected revenue attributed to custom &excise duty.

Table 4.2.3.1 : ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	66133.563	1	66133.563	.226	.637[b]
	Residual	9943497.246	34	292455.801		
	Total	10009630.809	35			

a. Dependent Variable: Federal Collected revenue

b. Predictors: (Constant), Custom &Excise Duty

Source: Researchers'' computation, 2019

Table 4.2.3.1 revealed an F-statistics value of 0.226 with a corresponding p-value of 0.637. This signify an insignificant relationship between federally collected revenue and custom & excise duty, as the p-value is more than 0.05 level of significance. It suggests the adoption of H_0 of no significance relationship and rejection of H_1 of significant relationship.

Table 4.2.3.2: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2342.751	362.348		6.465	.000
	Custom &Excise Duty	-1.314	2.762	-.081	-.476	.637

a. Dependent Variable: Federal Collected revenue

This table confirms the f statistics level of significance.

Table 4.2.4.0: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.352[a]	.124	.042	523.53686

a. Predictors: (Constant), Custom &Excise Duty, Company Income Tax, Value Added Tax

Source: Researchers' computation, 2019

The overall model showed an R value of 0.352 which means low (35.2%) positive relationship between the dependent variable (federally collected revenue) and the independent variables (customs

&excise duty, company income tax and valued added tax). The R squared value of 0.124 signify 12.4% variation in federally collected revenue is attributed to the three independent variables.

Table 4.2.4.1: ANOVA [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1238723.915	3	412907.972	1.506	.232[b]
	Residual	8770906.894	32	274090.840		
	Total	10009630.809	35			

a. Dependent Variable: Federal Collected revenue

b. Predictors: (Constant), Custom &Excise Duty, Company Income Tax, Value Added Tax

Table 4.2.4.1 showed an F-statistics value of 1.506 with a corresponding p-value of 0.232. This p-value is more than the 0.05 (5%) significance level. It suggest that the independent variables cannot significantly impacted on the federally collected revenue jointly.

Table 4.2.4.2: Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2329.055	461.686		5.045	.000
	Company Income Tax	1.667	.814	.385	2.047	.049
	Value Added Tax	-1.244	4.229	-.092	-.294	.770
	Custom &Excise Duty	-2.555	4.819	-.158	-.530	.600

a. Dependent Variable: Federal Collected revenue

Source: Researchers' computation

Table 4.2.4.2 revealed the individual independent variable contributed to the model. Apart from company income tax that has a significant contribution (0.049), the other two independent variables reported a non-significant contribution to the model (0.770 & 0.600).

Interpretation

The R value of 0.081 shows a low (8.1%) positive relationship between federally collected revenue and Education Tax. The R squared value shows the variation in the value of federally ollected revenue that is attributed to education tax. The value is 0.007 signify 0.70% variation. This suggests no statistically significant relationship between federally collected revenue and education tax. The F-statistics value stood at 0.226 and p-value of 0.637 respectively. The p-value is more than 0.05 (5%) critical value. This imply the adoption of H_0 (Null) hypothesis and the rejection of H_1 (Alternate) hypothesis.

Therefore:

$FCR= 2329.055 + 1.667 (CIT) + (-1.244) (VAT) + (-2.555) (CED) +e_t$

SUMMARY OF TABLE

Table 4.2.5.0: Summary of all results

	Ho1	**Ho2**	**Ho3**	**SUMMARY**
R	.279[a]	.040	.081	.352[a]
R^2	.078	.062	.007	.124
AR^2	.050	-.028	-.023	.042
S.E	521.10633	542.14950	540.79183	523.53686
F	2.861	.055	.226	1.506
P Value	.166[b]	.816	.637[b]	.232[b]
Constant	1872.484	2284.574	2342.751	2329.055
Coefficient	1.667	(-1.244)	(-2.555)	
CIT β_1				.385
VAT β_2				-.092
CED β_3				-.158
CIT P-value				.049
VAT P- value				.770
CED P-value				.600

SUMMARY

The overall R value of 0. 352 shows a low (35.2%) positive relationship between the federally collected revenue and the independent variables jointly. The R square value of 0.124 (12.4%) depicts the value of variation in federally collected revenue than can be attributed to the three independent variables jointly. The F-statistics of 1.506 and the corresponding p-value of 0.232 depict that jointly, there is no statistically significant relationship between federally collected revenue and independent variables jointly. Therefore, the overall contribution of the independent variables to the model show that all the variables do not contribute significantly to the model as their p-values were more than 0.05 (5%).

Therefore, the regression equation extracted from the analysis is thus given as:

$FCR = 2329.055 + 1.667 (CIT) + (-1.244) (VAT) + (-2.555) (CED) + e_t$

4.3 DISCUSSION ON FINDINGS

When tax was regressed with federally collected revenue, it was discovered that non-oil revenue especially value added tax, company income tax and custom and excise duties are not contributing significantly to the federally collected revenue unlike the oil revenue. This is part of the clamor that the federal government should diversify to non-oil revenue base

I recommend that the federal government should diversify to non-oil revenue handling sources especially in this time that the price of oil is going down in international market so that Nigeria will have another source of revenue.

In view of the population size and consumption of Nigerians, the non-significant contribution of the company income tax to the federally collected revenue is as a result of the following; government

gives more focus on oil companies neglecting other companies, Nigerians depends so much on imported goods and this has resulted in the establishment of few companies in Nigeria and this also brings about the low taxes that the government generates from companies. The government of Nigeria still needs to encourage more industries and ensure that all companies are brought into compliance with tax law and that they should subject their assessable profit/income to tax authority. The government should also create an efficient tax administration system to avoid tax evasion and avoidance.

There is no significant relationship between value added tax and the federally collected revenue because of low consumption of the citizens which is caused by the low per capital income of the citizens. The federal government needs to increase the minimum wage of citizens so as to encourage consumption. If the minimum wage of the citizens is increased from ₦18,000 to ₦30,000 as the bill has been signed by the executive arm of government (The President) into law as at 18th April 2019 waiting to be effected, the rate of consumption will be high which will yield increase in value added tax to the government because value added tax is being raised from consumption ie., the higher the rate of consumption, the higher the rate of value added tax that will accrue to the federal government.

There should be a proper screening of the revenue that is being generated from custom and excise duties because there is no significant relationship between custom and excise duty and federally collected revenue in Nigeria. Nigeria is an import dependent nation which means that the revenue generated from custom and excise duty should be high and significant to the federally collected revenue. This must have been hampered by the following

i. Poor administration

ii. Under invoicing

iii. Leakages

The government should ensure that there is an efficient tax system that will help to curb the leakages, under invoicing, poor administration etc. of custom and excise duties.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Study

This study examined the effects of tax efficiency on revenue generation in Nigerian economy. Previous researchers have also worked on this topic but the different methodologies used by the different authors, the environments or settings under which the studies were carried out, the nature of data and sources in different jurisdictions and the policy thrust, among others could account for the difference between this research and previous researchers work.

This study was structured into five chapters. Chapter one looked into the background of the study identified the problems of the study, objectives of the study were defined, research questions and hypothesis to guide the investigation were formulated. The chapter also highlighted the justification and significance of the study and as well described its scope. Also terms relevant to the study were defined based on their contextual use in the work. In summary the chapter serves as the introduction to the study.

The chapter two dealt with three basic components of the study. These are the conceptual framework which emphasized the history of tax in Nigeria, the concept of tax and taxation, Tax system in Nigeria, Nigerian government revenue system, problems of taxation in Nigeria; the theoretical framework which includes the benefit theory, cost of service theory, Laffer curve theory and the theory of maximum social advantage; empirical review for in-depth knowledge of previous efforts in investigating tax revenue on the economy.

Chapter three presented the methodology for the study. Essentially, the chapter discussed the design and population of the study. An appropriate sample size was determined and selected using stratified

and purposive sampling method. Type and source of data was also discussed, instruments of data collection, validity, reliability and administration of the instrument. Furthermore, the perceived functional relationships, associated models, techniques for the evaluation of the models coefficient, apriori expectation and ethical consideration were described.

In chapter four, the data were analyzed. This chapter gives the summary of the data and interpretation as well as the findings and their implications. Conclusions were drawn and recommendations made.

5.2. Conclusion

The main objective of this research work is to examine the effects of tax on revenue generation in Nigerian Economy. All the independent variables (Value Added Tax, Company Income Tax and Custom and Excise Duty) has positive relationship with the dependent variable (Federally Collected Revenue). A graphical representation of the movement and variations in the values of Companies Income Tax, Valued Added Tax and Customs & Excise Duties for the 9 year period (2010 – 2018) was captured to depict the movement of values and also to compare the influence of each of the independent variables on the dependent variable.

Findings of this study therefore provide perception into the effect of tax administration and federal government tax generation on government revenue. It further provided perception as to the extent to which each of the independent variables affects the dependent variable through the graphical corroboration and also provides an affirmation of the extent to which the variations in the dependent variable are caused by the independent variables covered in the models as depicted by the R-square and adjusted R-square.

Based on the findings, the study concludes that the value added tax, company income tax and custom and excise duties has no significant relationship with the federally collected revenue.

5.3 Recommendation

Based on the findings and conclusion of this study, the researcher made the following recommendations;

1. I recommend that the federal government should diversify to non-oil revenue handling sources especially in this time that the price of oil is going down in international market so that Nigeria will have another source of revenue

2. Tax authorities should establish good rapport with the professional associations involved in tax matters in order to reduce tax malpractices committed by tax payers with the involvement and often active support of external auditors and tax consultants.

3. Efforts should be augmented by the government towards increased collection of tax revenue as a result of the low contribution of tax revenue to FCR over the period of study. This can be done through blocking all loopholes in our tax laws as well as bringing more prospective tax payers into the tax net.
4. Government should also be able to use the revenue received from tax taxpayers' to provide infrastructural facilities. This will in no doubt boost the morale of the citizens to pay more.
5. Staff that work with the Tax Authorities should be adequately rewarded and motivated in order to enhance revenue generation and improve the percentage of tax revenue to FCR.
6. The tax collection mechanism used by tax officials must be free from corruption and embezzlement. If this is done the revenue collected may reach the desired point.

5.4 Limitation of the Study

The major limitation of the study is the lack of access to, adequate and satisfactory data from institutions with the duty of tax administration in Nigeria. However, available data obtained from the quarterly economic report of CBN were used to analyze the relationship between the dependent and independent variables. The results were adjudged good enough to give a reasonable insight on effect of tax efficiency on revenue generation in Nigerian economy.

5.5 Suggestion for Further Studies

This study focused on the effects of tax efficiency on revenue generation in Nigerian economy. It specifically dealt with the Companies Income Tax, Valued Added Tax and Customs and Excise duties. It is suggested that future studies should extend the research to other categories of taxes and measure their effect on both federally collected revenue and economic growth.

Future researchers can also look into the causes of the non-significant relationship between the value added tax and custom and excise duties and the federally collected revenue and proffer solution to the federal government on how this can be curbed so as to generate more revenue to finance the state

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APPENDIX

APPENDIX I: DATA USED

FCR	CIT	VAT	CED
('Billion)	('Billion)	('Billion)	('Billion)
2461.23	168.1	183.8	121
2425.3	158.3	185.5	109.9
2373.7	183	193.6	97.3
2746.7	475.1	194.4	97.4
2201.9	169.1	222	129
2495.74	178.12	213.8	121.63
2613.3	404.2	194.15	136.28
2783.46	422.6	193.39	151.53
2210.81	202.38	192.88	156.8
2055.64	174.94	195.66	138.08
1397.2	159.36	203.18	127.59
1911.71	415.67	202.11	138.83
1547.96	279.13	177.78	141.67
1276.38	176.26	196.57	135.51
1118.56	171.71	194.61	106.54
1882.26	453.74	210.35	150.15
1338.31	186.72	209.47	156.62
1446.14	158.95	222	144.17

1546.72	206.38	243.31	150.67
2315.84	543.4	248.89	164.15
2040.59	297.56	253.46	169.05
2135.46	256.86	277.26	158.42
2362.14	315.14	264	169.6
2534.69	510.79	279.69	181.06
2412.22	347.15	276.41	196.37

Keys:

FCR= Federal Collected Revenue

CIT = Company Income Tax

VAT = Value Added Tax

CED = Customs and Excise Duty