ANALYSIS OF TAX INCOME ON REVENUE GENERATION IN NIGERIA

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Abstract

This study investigated the effect of tax revenue on revenue generation in Nigeria for the period of 1985-2015, with the purpose of finding effect of the various tax revenue represented by Petroleum Profit Tax, Company Income Tax and Customs and Excise Duties taxes had impacted on revenue generation in Nigeria for the period of the study. The data which are secondary in nature were analysed using Simple Regression Analysis for the three research questions and three hypotheses in the study. The findings reveal that, Petroleum income tax have significant relationship on revenue generation in Nigeria, while company income tax and customs and excise duties does not have significant relationship on revenue generation in Nigeria. The study therefore recommends amongst others that, government should enhance policy measures that will help to improve on marketing of petroleum income tax so as to sustain and improve on the successes recorded in the collection. Measures should also be taken to ensure that proper assessment is carried out on tax administration in companies so as to ascertain the actual tax that ought to be payable by companies in the country and also government should try to improve on management of customs and excise duties so as to allow importers and exporters go through proper process of importation and exportation in the country.

Keywords: *Petroleum income tax, Company income tax, customs and excise duty tax.*

Introduction

One major means or generating the revenue for providing the needed infrastructure is through a well-structured tax-system (Ogbonna & Appah, 2012). Aguolu (2004) stated that taxation is the most important source of revenue to the government; owing to the inherent power of the government to impose tax, the government is assured at all times of its tax revenue no matter the circumstances. Azubike (2009) agreed to the above fact when he stated that tax is a major player in every society of the world. The tax system is an opportunity for government to collect additional revenue needed in discharging its pressuring obligation. Appah (2004) defines tax as a compulsory levy imposed on a subject or his property by the government to provide security, social amenities and create conditions for the economic well-being of the society. In the same view, Nightingale (2001) described tax as a compulsory contribution imposed by government and concluded that while tax payers may receive nothing identifiable in return for their contribution, they nevertheless, have the benefit of living in a relatively educated, healthy and safe society. She further explains that tax is part of the price to be paid for an organized society and identified six reasons for tax; provision of public goods, redistribution of income and wealth, promotion of social and economic welfare, economic stability, harmonization and regulation. Olotu (2012) cited monthly revenue increase from N275 million per month to over N1.6 billion per month, as is the case in Edo State. She attributed the cause mainly due to increase in tax revenue. Syndelle (2009) observed that in 2007, Lagos state achieved a gross domestic product of N3.68 trillion an equivalent of $29.028 billion making it the biggest contributor to the federal government. Olotu (2012) mentioned that these states have seen their tax revenues tripled and quadrupled in recent times and this has enabled the implementation of numerous life and community transforming projects and programmes leading to an increasingly more satisfied populace.

The economic history of both developed and developing countries reveal that tax is an important tool in the hand of the government to generate revenue. Mobilization of tax revenue as a source of revenue generation in less developed economies such as Nigeria has been a difficult task primarily because of various forms of resistance, such as tax evasion, tax avoidance, poor and corrupt practices attending to it. These activities are considered as sabotaging the economy and are readily presented as reasons for the low income generation from tax which ultimately results in under development of an economy (Adegbie & Fakile, 2011). To address the issue of tax management, the study will comparatively analyse the relationship of various tax income to revenue generation in Nigeria.

Objectives of the Study

The objective of this study is to comparatively analyse the effect of tax income on revenue generation in Nigeria for the period 1985 - 2015. Specifically, the objectives are as follows:

1) To investigate the relationship between petroleum income tax and revenue generation in Nigeria
2) To investigate the relationship between company income tax and revenue generation in Nigeria
3) To investigate the relationship between customs and excise duties and revenue generation in Nigeria

Research Questions

The following questions will guide the study:

1) Does petroleum income tax affect revenue generation in Nigeria?
2) Does company income tax affect revenue generation in Nigeria?
3) Does customs and excise duty affect revenue generation in Nigeria?

Research Hypotheses

The hypotheses guiding the study will be stated in its null form:

1) Petroleum income tax does not have significant relationship with revenue generation in Nigeria.
2) Company income tax does not have significant relationship with revenue generation in Nigeria.
3) Customs and excise duties do not have significant relationship with revenue generation in Nigeria.

Review of Related Literature

The Institute of Chartered Accountants of Nigeria (2006) and the Chartered Institute of Taxation of Nigeria (2002) defined tax as an enforced contribution of money to government pursuant to a defined authorized legislation. Tax yields very substantial revenue to the government. A government's decision of what proportions and on whom to levy tax is referred to as tax policy. Tax policies are introduced with the primary goals of raising revenue to finance government spending, resource utilization and reducing inequality resulting from wealth distribution among customers. Furthermore, Romer and Romer (2010) reported that tax policies are introduced to fund a government to carry out its basic duties, such as providing public goods, preserving law and order, defending against foreign threats and controlling trade and industry to ensure social and economic support. The tax has microeconomic implications (income distribution and resource efficiency) and also macroeconomic effects (capacity, production, jobs, prices and growth) (Musgrave and Musgrave, 2004)

Taxation is a tool used by government to take interest in the incomes of individuals in return for goods and services provided by government to the people. Tax revenue is classified as income received by the government by taxation. Tax income is the money that the government has levied on its people as a way of fulfilling its duties and commitments for its citizens. (Sanni, 2007). In that regard, tax could have a positive or negative effect on both the individual and on the government. To the individuals, low income tax rate constitutes an incentive to work or save, while high income tax rate represents a disincentive to work or save. To the government, high tax rates provides the most reliable, important and dominant source of government revenue for promoting the economic development of the nation. The tax rate is often a major consideration in the choice of organizational form of business (Okafor, 2008); and may also be associated with varying levels of foreign direct investment. Apere (1999) in his view, asserted that taxation is the art or process of being taxed. It can also be defined as the transfer of resources from the private sector to the public sector in order to accomplish some economic development and social goals. Anyanwu (1993) pointed out that, there are three basic objectives of taxation. These are to raise revenue for the government, to regulate the economy and economic activities and to control income and employment. Also, Nzotta (2007) noted that taxes generally have allocation, distribution and stabilization function. The allocation function of taxes entails the determination of the pattern of production, the goods that should be produced, who produces them, the relationship between the private and the public sector and the point of social balance between the two sectors. The distribution function of taxes relates to the manner in which the effective demand over economic goods is divided, among individuals in the society.

Musgrave and Musgrave (2006) posit that the distribution function deals with the distribution of income and wealth to ensure conformity with what society considers fair or just state of distribution. The stabilization function of taxes seeks to attain high level of employment, a reasonable level of price stability, an appropriate rate of economic growth, with allowances for effects on trade and on the balance of payment. Nwezeaku (2005) argues that the scope of these functions depends, inter alia, on the political and economic orientation of the people, their needs and aspirations as well as their willingness to pay tax. Thus, the extents to which a government can perform its functions depend largely on the ability to design tax plans and administration as well as the willingness and patriotism of the governed.

There are various taxes that are federally collected, these include: Company Income Tax (CIT), Petroleum Profit Tax (PPT), Personal Income Tax (PIT), Value Added Tax (VAT), Custom and Excise Duties (CED) amongst others;

Company Income Tax (CIT): Company Income Tax is regulated by Companies Income Act 2004 and 2020 as amended. All income accruing to a company chargeable to CITA is taxed on preceding year basis not on actual year basis. Therefore, companies income tax is a tax imposed on the profit of companies (excluding profit from companies engaged in petroleum operations) accruing in, derived from, brought into or received in Nigeria in respect of any trade or business, rent, premium, dividends, interest, loyalties and any other source of annual profit. The tax is charged at the rate of 30%.

Petroleum Profit Tax (PPT): Petroleum profit tax involves the charging of tax on the income accruing from petroleum operations. It is a tax applicable to upstream operations in the oil industry (Odusola, 2006). The importance of petroleum to the Nigeria economy gave rise to the enactment of the different law regulating the taxation of incomes from petroleum operations. This means that companies engaging petroleum operations will not be subjected to tax under the CITA, but rather on the Petroleum Profit Tax Act. For this reason, the Petroleum Profits Tax Act, cap. P13 LFN 2004 imposes tax on the profit of companies engaged in petroleum operations. A petroleum operation is defined as the mining or obtaining and transportation of petroleum or chargeable oil in Nigeria by or on behalf of a company for its accounts by any drilling, mining, extracting or other like operations or process of a business earned on by the company incidental thereto and any sale of or any disposal of, chargeable oil or on behalf of the company. Petroleum profit tax is charged at 85% profit.

Personal Income Tax (PIT): This is a type of tax charged on the income of individual. The chargeable income of an individual is the aggregate amount from all sources (whether from employment, investment, profit from trade, profession or vocation etc) after deducting all non-taxable incomes and relief granted.

Value Added Tax (VAT): Value added tax is a tax on consumption which is collected at each point of sale of goods and services from production to consumption but eventually borne by the final consumer. Each person is required to charge and collect VAT at a flat rate of 5% and presently 7.5% on all invoiced amounts. VAT was introduce by the Federal government of Nigeria in January 1993 (Ochei, 2010). Analyst says that the tax was intended to be a super tax to eradicate completely many other taxes related to goods and services especially sales tax. Under the Value Added Tax Act 1993 but main tax rate in Nigeria is 7.5% (raised on 1st February, 2020) as amended, every person whether resident in Nigeria or non-resident in Nigeria who sells goods or render services in Nigeria under the VAT Act is obliged to register for VAT within six months of it commencement of business in Nigeria. Registration is done with the Federal Inland Revenue Service (FIRS).

Custom and Excise Duty (CED): Customs Duty is a tax imposed on imports and exports of goods, while excise or excise tax is any duty on manufactured goods which is levied at the moment of manufacture, rather than at sale. Excises are often associated with customs duties (which are levied on pre-existing goods when they cross a designated border in a specific direction); customs are levied on goods which come into existence - as taxable items - at the border, while excise is levied on goods which came into existence inland.

Theoretical Review:

The Expediency Theory

This theory on its part is based on the assumption that, there need not be any relationship between tax paid and benefit received from the government. The proponents assert that every tax proposal must pass the test of practicability. It must be the only consideration of weighing the authorities in choosing a tax proposal.

This proposition has a truth in it, since it is useless to have a tax which cannot be levied and collected efficiently. The expediency theory is related to the tax structure development theory advanced by Hinrichs in 1966 which presupposes that improvements in tax structure have the propensity to increase government revenue and improve the economy of a nation.

The Agency Theory : Ingram (2009): In an agency relationship, one party called the agent makes decisions and acts on behalf of another, called the principal. The agency theory attempts to summarize and solve problems arising from the relationship between a principal and an agent. Agency relationships are common in financial management, due to the future of the industry. When one person manages another person's financial affairs. Specific agency relationship is the one that exist between the corporate executives and the company shareholders. Financial planners and mutual fund managers act as agents on behalf of individual clients and fund participants. Agents are required to work towards meeting his principal's goals, which is the primary function of that relationship. The principal should be aware of their agents decisions and actions and the agents are always clear and guided by their principal's priorities

Empirical Reviews:

Abiola and Asiweh (2012) also highlighted the contribution of Lagos State to government revenue generation in Nigeria. They stated that Lagos State is among a few states in Nigeria that have left a land mark in terms of independence and use internally generated revenue. Folayan and Adeniyi (2018) studied tax evasion on revenue generation, a case study of Nigeria using both qualitative and quantitative data, where the quantitative data were sourced from the internally generated revenue of Oyo State in Nigeria. The study found out that, tax evasion revealed an adverse relationship on revenue generation.

Lee and Gordon (2004) in their paper, Tax structure and economic growth, explore how tax policies affect a country's growth rate, using cross-country data during 1970-1997. Their findings revealed that statutory corporate tax rates are significantly negatively correlated with cross-sectional differences in average economic growth rates, controlling for various other determinants of economic growth, and other standard tax variables. Olotu (2012) (Tell Magazine, April 30, 2012). She pointed examples of Governor Okorocha (Imo State), former Governor Oshiomole (Edo State), former Governor Fashola (Lagos State) and former Governor Amaechi (Rivers State) were among the list of states where tax revenues are being harnessed to transform their various jurisdiction. Adegbie and Fakile (2011) concentrated on the Company Income Tax and Nigeria Economic Development relationship. Using Chi-square and Multiple Linear Regression analysis in analysing the data, they concluded that there is a significant relationship between company income tax and Nigerian economic development and that tax evasion and avoidance are major hindrances to revenue generation. Animasaun (2017) investigated the connection between tax administration and Ogun State revenue generation in Nigeria. The study employed descriptive and inferential statistics and found that, there is no connection between tax administration and Ogun State revenue generation during the period of the study.

Ogbonna and Ebimobowei (2012) on their part, examined the Impact of Tax Reforms on Economic Growth of Nigeria using relevant descriptive statistics and econometric analysis and concluded that the various test shows that tax reforms is positively and significantly related to economic growth and that tax reforms generally cause economic growth. Ogbonna and Ebimobowei (2012) in their work disaggregated tax revenue into its various components such as; excise duties, personal income tax, petroleum profit tax, companies' income tax, value added tax and education tax and concluded that the included tax revenue variable have positive relationship with economy. To address the issue of tax management, the study will analyse the relationship of various tax income to revenue generation in Nigeria. Owolabi and Okwu (2011) also examined the contribution of Value Added Tax to Development of Lagos State Economy, using simple regression models as abstractions of the respective sectors considered in the study. The study considered a vector of development indicators as dependent variables and regressed each on VAT revenue proceeds to Lagos State for the study period. Development aspects considered included infrastructural development, environmental management, education sector development, youth and social development, agricultural sector development, health sector development and transportation sector development. The results showed that VAT revenue contributed positively to the development of the respective sectors. On the aggregate, the analysis showed that VAT revenue had a considerable contribution to development of the economy during the study period. The study of Soetan (2017) examined the connection between tax administration and its revenue generation in Nigeria. The study used quantitative survey while descriptive and regression methods were used. It was found that in the study that tax administration revealed on significant impact on revenue generation during the study period. From the above premise, the researcher found a gap to carry out a research on the topic, "Analysis of Tax Income on Revenue Generation in Nigeria"

Methodology

The expost facto research design was adopted in conduct of the study. A sample of three major tax income which include: petroleum income tax, company income tax and customs and excise duty, while the federally collected revenue was adopted as the government revenue. Data used in the study were collected from various editions of the CBN statistical bulletin and FIRS publications relating to tax revenue collection for the period of the study as shown in the appendix. Regression Analysis was used to analyse the data collected for the purpose of the study. A model was formulated for the study as specified below: y= a+ b lx1+ b2x2....bnxn+ei……………….

Where : y is the dependent variable, xl, x2... xn is the set of independent variables, a is the constant term, b I, b2. bn is the coefficients of the independent variables and ei is the error term.

For the purpose of this study, we posit that the proceeds of the various taxes collected by the federal government will lead to increased revenue generation. To this end, we propose that:

Revenue Generation = f (Total Government Income) (ii)

Where Revenue Generated is measured by Total Government Income (TGI) and Tax Revenue is measured by Petroleum Income Tax (PIT), Company Income Tax (CIT), Custom and Excise Duties (CED). It follows that: TGI = f (PIT CIT, and CED)……….. (iv)

Where: TGI is Total Government Income; PIT is Petroleum Income Tax,

CIT is Company Income Tax, and CED is Customs and Excise Duties.

Thus, TGI = a + blPIT + b2CIT + b3 CED + ei …… (vi)

We expect to find that: b I, b2, b3> 0

Results and Interpretation :

The tables below shows that result of the study.

Table 1: showing Model Summary

Model	R	R Square	Adjusted R square	Std. Error of the Estimate	R Square Change	Change statistics				
						F change	df 1	df2	Sig. F Change	Durbin Watson
1	.744[a]	.554	.504	1.10227E7	.554	11.176	3	27	.000	1.476

a. Predictor: (Constant, Custom & Excise Duties (CED), Corporate Income Tax (CIT) Petroleum Income Tax (PIT)
b. Deponent Variable: Federally Revenue

Table 2: Showing ANOVA[a]

Model		Sum of Squares	D	Mean Square	F	Sign.
1	Regression	4.074E15	3	1.358E15	11.176	.000[a]
	Residual	3.281E15	27	1.215E14		
	Total	7.354E15	30			

a. Predictors: (Constant, Custom & Excise Duties (CED), Corporate Income Tax (CIT) Petroleum Income Tax (PIT)

b. Deponent Variable: Federally Collected Revenue

Table 3: showing Coefficients[a]

Model	**Unstandardized Coefficient**		**Standardized Coefficients**			**Correlations**		**Collinearity Statistics**		
						Zero order	Partial	Part	Tolerance	VIF
	B	Std. Error	Beta	**T**	**Sig.**					
(Constant)	55764.466	2.651E6	-113.	.021	.983					
Petroleum Income Tax(PIT)	-1.732	3.414	346	-507	616	.548	-097	-065	332	3.010
Corporate Income Tax (CIT)	8.627	4.045	.577	2.133	042	.627	.380	.274	.629	1.589
Custom & Excise Duties (CED)	18.305	7.322		2,500	.019	.692	.434	.321	.310	3.228

a Dependent Variable: Federally Revenue

Table 4: Coefficient Correlations [a]

Model		Custom & Excise Duties (CED)	Corporate Income Tax (CIT)	Petroleum Income Tax (PIT)
1.Correlations:	Custom & Excise Duties (CED)	1.000	-299	-721
	Corporate Income Tax (CIT)	-299	1.000	-153
	Petroleum income Tax (PIT)	-721	-153	1.000
Covariances:	Custom & Excise Duties (CED)	53.605	-8.846	-18.008
	Corporate Income Tax (CIT)	-8.846	16.361	-2.108
	Petroleum Income Tax (PIT)	-18.008	-2.108	11.653

a Dependent Variable : Federally Collected Revenue

Result above as indicated on tax revenue relationship with federal income in Nigeria as shown in table 4 above indicated that petroleum income tax has high negative relationship value of -.721 with the federal government income. Also looking at the significance of PIT tax as shown on table 3 indicated a value of .616 which is above traditional significance value of 0.05 indicated that the negative relationship is significant to revenue generation in Nigeria. To this end the, the null hypothesis is rejected while the alternate hypothesis is accepted to the effect that, petroleum income tax has significant relationship with revenue generation in Nigeria.

The result on relationship between company income tax and federal government income also shows a value of -.299 which indicates a low negative relationship between company income tax and government income. The result on the significance of CIT tax as shown on table 3 indicated a value of .045 which is lower than the traditional significance value of 0.05 indicated that the negative relationship is not to revenue generation in Nigeria. To this end the, the null hypothesis is accepted to the effect that, company income tax does not have significant relationship with revenue generation in Nigeria.

On customers and excise duties, it was discovered that there is a perfect relationship as indicated by a value of 1 with federal government income in Nigeria. Also looking at the significance of CED as shown on table 3 indicated a value of .019 which is less than the traditional significance value of 0.05 indicated that the positive relationship is significant to revenue generation in Nigeria. To this end the, the null hypothesis is accepted to the effect that, customs and excise duties do not have significant relationship with revenue generation in Nigeria.

Finally, from the summary of the results of all the tax instruments on revenue generation in Nigeria with a r-value of .744 indicating high positive relationship value and the r2 value of .554 indicating that tax income has 55.4% impact on revenue generation (Table 1). Considering significance value on table 2 indicating a significance of 0.00 lower than the traditional significance value of 0.05, it can thus be concluded that tax income is not significant on revenue generation in Nigeria.

Discussion of Findings

From the findings of the study, it can be observed that, it is only petroleum income tax that is significant on revenue generation in Nigeria, while the company income tax and customs and excise duties is not significant on revenue generation. The analysis of all these tax instruments also shows that tax income is not significant on revenue generation which means revenue from tax, is minimal compared to other source of government revenue. This is in line with the findings of Lee and Gordon (2004) that revealed that, ‘statutory corporate tax rates are significantly negatively correlated with cross-sectional differences in average economic growth rates, controlling for various other determinants of economic growth and also in line with the findings of Ogbonna and Ebimobowei (2012) and found out that, in their work after disaggregating tax revenue into its various components such as; excise duties, personal income tax, petroleum profit tax, companies' income tax, value added tax and education tax and concluded that the included tax revenue variable have positive relationship with economy.

Conclusion

Based on the findings of the study, the researcher concluded that:

Petroleum income tax have significant relationship on revenue generation in Nigeria. Company income tax and Custom and Excise Duties does not have significant relationship on revenue generation in Nigeria.

Recommendations In the light of the study conclusions, the researchers recommends amongst others that:

1. Government should enhance policy measures that will help to improve on marketing of petroleum income tax so as to sustain and improve on the success recorded in the collection.
2. Measures should also be taken to ensure that proper assessment is carried out on tax administration in companies so as to ascertain the actual tax that ought to be payable by companies in the country.
3. Government should try to improve on administration of customs and excise duties so as to allow importers and exporters go through proper and approved processes of importation and exportation in the country so as to improve custom and excise duty revenue, block leakages as a result of loopholes in collection and remittances from the authorities as this is capable of limiting the economic growth.

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APPENDIX

YEAR	Federally Collected Revenue N' Million	Petroleum Income Tax (PIT) N' million	Corporate Income Tax (CIT) N' Million	Custom & Excise Duties (CED) N' million
1985	15050.4	6711	1004	2183.5
1986	12595.8	4811	1103	1728.2
1987	23580.6	12504	1235	3540.8
1988	27596.7	6815	1551	5672.0
1989	53870.4	10598	1914	5815.5
1990	98102.4	26909	2997	8640.9
1991	100991	38616	3828	11456.9
1992	190453	51477	5417	16054.8
1993	192769	59208	9554	15486.4
1994	201910	42803	12275	18294.6
1995	459987	42858	21878	37364
1996	523597	76667	22000	55000
1997	582811	68574	26000	63000
1998	463668	68000	333000	57700
1999	949187	164300	46200	87900
2000	989187	525100	51100	101500
2001	1906159	639200	68700	170600
2002	2321600	39320	89100	181400
2003	1731837	683500	114800	195500
2004	2575095	1183600	113000	217200
2005	392205	1904900	140300	232800
2006	5965101	3038300	244900	177700
2007	5715500	1600600	275300	241400

2008	786690	1809612	290666	1133701
2009	48445925	1924016	295717	1132923
2010	73036671	1999008	2028700	1147268
2011	11116900	2011988	297516	1160029
2012	10657724	2113614	298460	1186250
2013	16602015	2120018	299010	1190024
2014	18721586	2456010	299900	1200100
2015	19715235	2785301	3012641	1284122