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## GAUGING THE RELATIONSHIP BETWEEN INCOME TAX AND ECONOMIC GROWTH IN NIGERIA

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### Abstract

*This study examined the nexus between income tax and economic growth in Nigeria. The study utilized panel data sourced from the Central Bank of Nigeria (CBN) statistical bulletins, World Bank, Federal Inland Revenue Service (FIRS) annual publications and National Bureau of Statistics (NBS). The study explored the impact of six income tax streams which are Company Income Tax (CIT), Personal Income Tax (PIT), Value Added Tax (VAT) Petroleum Profit Tax (PPT), Capital Gain Tax (CGT) and Education Tax (EDU) on economic growth represented by Gross Domestic Product for the period of 12 years from 2011 to 2022. To achieve the objectives of the study, descriptive statistics, Pearson correlation coefficient and linear panel-data were employed in analyzing the data for the purpose of presentation and discussion of outcomes. The findings revealed that company income tax and personal income tax has positive and significant impact on the growth of the Nigerian economy. Moreover, value added tax and education tax revealed a negative and non-significant impact on the growth of the Nigerian economy, petroleum profit tax has a negative and significant impact on the growth of the Nigerian economy. Finally, capital gain tax has positive but insignificant impact on the growth of the Nigerian economy. The study government should assure that all tax loopholes are minimized and corporate tax evasion and avoidance should be properly investigated and sanctioned, tax collection mechanism used by tax officials must be free from corruption and embezzlement government should modernize and automate all its tax system to enhance efficient collection of taxes, government should ensure greater transparency, integrity and accountability in other to manage and utilize income tax revenue so as to give taxpayers greater assurance of its application.*

**Keywords:** Company Income Tax, Personal Income Tax, Value Added Tax, Petroleum Profit Tax, Capital Gain Tax, Education Tax and Economic Growth.

### 1. Introduction

The contribution of governments in discharging social and economic responsibilities cannot be over emphasized especially in developing and underdeveloped countries like Nigeria, the responsibilities will be fulfill based on the amount of income or revenue generated by the government through available number of means (Adefolaje &

Omodero 2022). Taxation is the main instrument that is used in order to generate revenue. Taxation is one of the oldest potential ways by which the price of providing essential offerings for the generality of human dwelling in given geographical vicinity is funded (Ahmed et al., 2025). Globally, governments are saddled with the accountability of imparting some fundamental infrastructures for their citizens. Some obligations that

the authorities may additionally owe its citizens include but are not limited to; stabilization of the economy, redistribution of profits and provisions of services in the structure of public items (Abiola & Asiweh, 2012).

In Nigeria, the recent economic recession contributed to inconsistencies in the tax laws which had made it difficult for the tax authorities to administer, and for taxpayers to comprehend tax system (Okeja et al., 2016). The intention of the Federal Government to maintain a uniform tax system proved abortive because of economic condition of each state which gives room for divergence system. The main aim of any developing country like Nigeria is to increase the rate of economic growth and per capital income which will lead to increase in the standard of living thus taxation can be used to accelerate such growth (Gnangnon 2024). Nigeria is often called the “the Giant of Africa”. This name comes from its huge population (the largest in Africa), and being the country with the highest Gross Domestic Product (GDP).

Despite Global recognition of Nigeria as the giant of Africa, Nigeria is still battling with issues like, insufficient energy supply, negative education, lack of infrastructure, failure to execute reforms passed by legislatives, an inefficient property regulation system, poor electoral processes, restrictive trade policies, militancy, insecurity, an inconsistent regulatory environment, a sluggish and ineffective judicial system, pervasive corruption, among others that assist in maintaining high level of poverty in the country (CBN Statistical Bulletin). The regular reliance on the oil revenue for political, economic, and social improvement for the provision of infrastructure in the economy has turn out to be worrisome as the price of crude oil continues to decline beneath the finance's benchmark. This situation prompted this research study to check out the influence of taxation as another source of revenue in Nigeria. The fundamental functions of taxation is to finance government expenditure and to redistribute wealth which will have a causation effect on national enhancement.

In Nigeria, this vital function of taxation lacks in our system. Odusola (2006) noted that the device is lopsided and dominated with the aid of oil revenue, that over the past two decades, oil revenue has accounted for at least 70% of the revenue, through implication typical tax revenue has by no means assume a strong role in the country's administration fiscal policy. The view of Jhingan (2002) that taxation efficiently curtails conspicuous consumption and other wasteful expenditure of the rich, training does no longer hold water in Nigeria. The rich are obtaining and amassing properties and paying much less or no tax whilst the negative are getting poorer and paying tax. The redistribution of profits through taxation in Nigeria has not been achieved. On the other hand, there is no tangible improvement in our infrastructural facilities. Nigerian roads are terrible and have end up a death lure to the citizens. Tax revenue has accounted for a small percentage of complete government income over the years (10.20% in 2019, 8.4% in 2020 and 10.86% in 2021) compared with the bulk income wanted for improvement functions that is derived from oil (Otu & Adejumo, 2014). The serious decline in the prices of oil in recent times actually has led to decrease in the funds available for distribution to the federal, state and fairly local governments in a major way (Afuberoh & Okoye, 2014).

Globally, there is a paradigm shift to taxation income as an alternative supply of revenue in which Nigeria is not an exception. The machinery and techniques for implementing a proper tax machine in Nigeria are inadequate, therefore, this led to tax evasion and avoidance of self-employed humans and organizations whose database is now not captured in the applicable tax authority's facts system (Fasoranti, 2013). The want for the authorities to generate adequate revenue from interior sources has therefore emerged as a count number of excessive urgency and significance (Afuberoh & Okoye, 2014). To this end, authorities have usually enacted more than a few tax laws and reformed existing ones to stand the check of time. These legal guidelines include Income Tax Management Act (ITMA), Companies Income Tax Decree (CITD). All

these are aimed at ensuring adherence to tax fee and discouraging tax evasion and avoidance.

Economic improvement has a series of problem in Nigeria since from independence, as numerous efforts toward economic growth have failed to give out a good result. Some of the problems identified in this research are poor educational system, high mortality rate occasioned by means of terrible health care system, lack of necessary infrastructures, insecurity and defense. Below is showing the applicable percentage spend on each of the sectors mentioned above in Nigeria comparing with the Global percentage on various sectors (Public Presentation of Approved 2022 FGN Budget-Breakdown & Highlights and World Expenditures. Tax collection is a vital undertaking on the government. It must be amassed with caution particularly in Nigeria. It has been found that profits generated by the government from tax levied on company and non-public income may want to be greater if tax laws have been powerfully enforced. As a result of that, authorities can be capable of increasing a funds that would assist the authorities to attain growth. Comparing the spent on various economic sectors in Nigeria and globally indicate that Nigeria is spending less on the major sectors of the economy and the budget allocation of the sectors are not implemented well which will lead to inflation. The existence of all these outstanding issues and current drop in the prices of crude oil in the world market necessitate an evaluation of the impact that tax revenue has on economic growth. Also, the force by the management of the Federal Inland Revenue Service (FIRS) and the unique tax reforms introduced by using authorities to shore up revenue from taxation and the projected to have an effect on economic growth needs a critical examination of the effect of taxation on Nigeria's economic growth. The study appraised the influence that income tax has toward the improvement of the Nigerian economy.

From the foregoing above, answers to the following questions were sought;

- i. Does company income tax have impact on growth of the Nigerian economy?

- ii. Does personal income tax have impact on the growth of the Nigerian economy?
- iii. Does value added tax has impact on the growth of the Nigerian economy?
- iv. Does petroleum profit tax have impact on the growth of the Nigerian economy?
- v. Does capital gain tax have impact on the growth of the Nigerian economy?
- vi. Does education tax have impact on the growth of the Nigerian economy?

The study specific objectives are:

- i. To examine the impact of company income tax on the growth of the Nigerian economy.
- ii. To evaluate the impact of personal income tax on the growth of the Nigerian economy.
- iii. To investigate the impact of value added tax on the growth of the Nigerian economy.
- iv. To evaluate the impact of petroleum profit tax on the growth of the Nigerian economy.
- v. To investigate the impact of capital gain tax on the growth of the Nigerian economy.
- vi. examine the impact of education tax on the growth of the Nigerian economy.

## 2. Literature Review

### 2.1 Conceptual Review

#### Concept of Income Tax

The word "Tax" has been defined by various authors. According to Egwa, Udu and Agu (1999), tax was once defined as an obligatory fee made via every eligible citizen toward the expenditure of the state. Taxation can be seen as the process of collecting tax while tax is a compulsory but non-penal levy by the government through its agent on the profits, income, or consumption of its subjects or citizens. "It is also viewed as a compulsory and obligatory contribution made by individuals and organization towards defraying the expenditure of government" (Ehinomen & Adeleke, 2012).

According to Okafor (2012) defined tax as a charge levied by the government on the income or wealth of a person or corporate organization for the common benefit of all. The term does not include specific

charges made against a particular person or properties for current or permanent benefits and privileges. In this study, taxation can also be seen as the system of tax. Similarly, Omotoso, (2001) defines taxation as the transfer of real economic resources from private sector to the public sector to finance public sector activities. Based on this assertion, taxation is the transfer of financial resources from private economic agents like households and corporate bodies, to the public sector to finance the growth and development of the society. Going by the definition of taxation, Sharodi, (2010) identified four key issues which must be understood for taxation to play its functional roles in any society. Firstly, a tax is a compulsory contribution made by the citizens to the government and this contribution is for general use. Secondly, a tax imposes a general obligation on the tax payer. Thirdly, there is a presumption that the contribution to the public revenue made by the tax payer may not be equivalent to the benefits received. Finally, a tax is not imposed on a citizen by the government to render specific services to him or his family. Therefore, a good tax structure plays a multiple role in the process of economic growth of any nation which Nigeria is not an exception (Appah, 2010). Furthermore, Income tax is a tax that authorities imposes on financial earnings generated with the aid of all entities inside their jurisdiction. By law, commercial enterprise and persons should file a profits return each year to decide whether they owe any taxes or are eligible for a tax refund (Adam, 2001).

### **Direct Taxes**

Direct tax refers to taxes that are based on earnings of individual or corporations. Direct tax is a tax that a person or organization pays directly to the government. In Nigeria, direct tax is progressive, because you are levied according to how much you make. Examples of direct taxes are: personal income tax, company income tax, petroleum profit tax, capital gain tax, etc.

### **Indirect Taxes**

These are taxes imposed on one person or group, like a manufacturer and then shifted to a different payer, usually the consumer. Indirect taxes are levied on

consumption of goods or services, and every character will pay according to the degree and the price of consumption. Some examples of indirect taxes include custom duties, excise duties, licenses fee, sales tax and price added tax:

### **Functions of Taxation**

**Revenue Generation:** A tax extracts cash from people on businesses and affords revenue for government. This makes it possible for humans to have less cash for spending, while the government has cross to spend. The reduction in the spending potential of the public zone and the corresponding make bigger in the viable of the public area is absolutely by power of taxation as a result tax was completely delivered to assist the government out of financial desires instead than from a public objective of lowering the residents spending power.

**Resource Re-Allocation:** Tax can alter the product combine generated within the private sector. The imposition of taxes may make positive commodities expensive. Examples include tobacco, liquor etc. whereas the use of subsidies or poor taxes should make certain commodities of critical nature much less expensive. As a result of this, humans will have a tendency to use extra of the latter group and less of the farmer. The tax blanket cost in the product combine which reason about through the outcomes of taxes on fees and traits produced. Also, the viable income tax purposely leaves some positive aspects problem to little or no tax and thereby encouraging source activities.

**Income Redistribution:** Economic energy as measure via earnings or wealth ought to be redistributed using taxation. When tax is appreciably innovative it takes are increasing proportion of income.

### **Administration of Income Tax**

The fundamental administration authority consists of the Federal Board of Inland Revenue, the Joint Tax Board, State Board of Internal Revenue and Local Government Revenue Committee. Sequel to the tips of the Riesman's Commission of 1960, based totally on the Nigeria Constitution of 1960, special electricity was

once given to the parliament to make regulation for Nigeria with admire to tax. In exercising this power, the Federal Government enacted the Income Tax Management Act (ITMA) 1961, additionally because Lagos territory was beings administered as a region. It enacted the non-public profits tax (Lagos Act 1963). It should be stated that by way of 1979 constitution as amended, the energy to legislate on profits and profit for the specific legislative list. Furthermore, it routinely follows that the range of nation regulation has now grown to become that of Federal Government. However, the administration of income tax under the Income Tax Management Act (ITMA) is vested on the Joint Tax Board (JTB). The palace of Joint Tax Board is a unique one in the deferral taxation network, as it acts as a connecting hyperlink between all the country authorities within the Federation.

The Federal Board of Inland Revenue is the physique charged with administration of businesses tax in Nigeria. It used to be first established below section three of the income tax administration ordinance of 1958 as amended by subsequent acts and decrees of the latest, of which is Company Income Tax of 1979. (CITA) as amended to date. Efficiency and effectiveness should be the watch word in designing a tax administration structure that will give the desired result (McPherson 2004). Tax administration in Nigeria is the responsibility of the various tax authorities as established by the relevant tax laws (Kiabel and Nwokah 2009). The Joint Tax Board (JTB) approves and published the following code of ethics for efficient tax administration, which will be observed by means of all its contributors for the duration of the country. Observance of the code and ethics will beautify the picture and efficiency of tax administrators and restore the lot of wanted taxpayer's self-belief in tax authorities. According to Eze et al. (2016) he stated that, the Joint Tax Board (JTB) in 1999 approved a protocol for efficient tax administration which requires all staff to among other things ensure prompt and correct payment of their salaries, exhibit honesty and impartiality in the discharge of their services, be professional in service delivery and avoid collusion

with tax payers in the process of evading taxes and other forms of tax planning.

### **Challenges of Tax Administration and Collection in Nigeria**

According to Quadri as cited in Ogbonna (2010), the lack of records to showcase who pay tax in Nigeria is the first undertaking that needs to be addressed as it accounted for very excessive charge of evasion in the country. The crude approach of tax collection applied increases administrative value, hence, impacts the whole profits generated. The entire manner makes for a complexity of administration to taxation. Nigeria does no longer have a comprehensive database of all the taxpayers and organizations in the country; this is not equal with other growing nations, human beings and firms. According to Onyekwu (2010), the autonomy of each State in tax administration has added about multiplicity of tax burden on the taxpayers, he delivered that, the businesses have each so frequently been subjected to identical tax or ideal tax of equal nature with the resource of the use of greater than a few tiers of government.

The Federal government tax jurisdiction overlaps into that of the State, and likewise the State's jurisdiction into that of the shut via government. The flaws are constitutionally accredited in what is referred to as the one-of-a-kind list, the concurrent listing and the residual list which archives administrative decision through the Federal, State and Local governments respectively. The multiplicity of tax on the taxpayers (individual and organization entities) was once influenced by way of the usage of the charter, which approves the wide variety of tiers of authorities' fiscal independence (Onyekwu, 2010). This has the attendance end result of impacting severely on the revenue or profits, which is now no longer in consonance with the nation's policy intention (Presidential Committee on National Tax Policy, 2008). The system approves most important tax insurance plan factors for the whole country to take vicinity at the federal stage and waft down through the state's businesses to the nearby government. Among the three

tiers of government, close by authorities' authority is the closest to the grassroots, then again lack the viable to formulate insurance policies profitable of boosting the nation's financial system because of their dependence on state authorities' allocation. The policymakers at the Federal diploma are mindful of little or nothing about the taxpayers at grassroots, for who polices have been being made. (Sekaran, 2010). Other challenges faced in tax administration in Nigeria include:

### **Impacts of Taxation on Economic Growth**

Economists generally agree that there is a need for minimal direct authorities' intervention in resources allocation and improvement process. The authorities intervene via fiscal policies and gadgets such as taxation, public expenditure and regulations. Jhingan (2009) argue that the most essential fiscal instrument is taxation which facilitates discount of personal consumption, growing investment and transferring resources to the authorities for economic growth. Therefore, taxation is the compulsory levy imposed by using authorities to defray the fee of governance and communal services. It facilitates resource allocation, merchandising of social fairness through wealth distribution and ensures financial steadiness correcting and controlling macro-economic shocks.

Nigeria is a monolithic economic system with secure dependence on the oil sector. This dependence makes the financial system to be prone to external manipulation and adversely affect the planning horizons in the country. The current international crisis in the world has introduced to the need note that this overdependence on oil creates pointless shocks and thus, the want for diversification of the nation's resource base and long-term increase path. The oil is an exhaustible useful resource while taxation is the only non-exhaustible veritable supply of income technology to government. Oil on my own money owed of the 40% of the country's GDP, 70% of finances revenues, and 95% of foreign change earnings. Nigeria's dependence on petroleum is much larger than that of many other most important producing countries. In 1970, the non-oil revenue used to be higher than the oil revenue,

however from the mid-1970s; the share of the oil zone in whole revenue grew to be greater and substantial. This vogue has persisted to date. However, despite this dominant function of the oil sector, its effect on the economy is grossly negligible and from time to time counter-productive confirming the Dutch ailments syndrome the place net beneficiaries of explorative sources do not benefit an awful lot from the internet transfer of wealth.

There is a pressing need for reversal of this style if Nigeria needs to actualize her dream of becoming one of the first-class twenty economies in the World. One source that can make the nation actualize the imaginative and prescient 2023 is to have a substantial tax system that is comfortably generated revenue with minimal welfare value (Ogwola & Amadasun, 2017). Tax coverage influences financial behavior each at the micro and macro level, subsequently a vital stabilization tool for economic coverage makers. The stage of taxation in any state will affect people's economic behavior consisting of their picks in working, saving and investment. An excessive tax regime not solely imposes excessive welfare price but also appreciably affects client spending thru reduction of disposable income. An excessive tax burden can have drastic adverse results on the average economy.

Consideration of a nation's tax coverage influences multinational firm's selections on placing up of their businesses or corporations in a specific country, for this reason most nations attract multinational corporations via familiar and beneficent tax incentives and holidays. Investment decisions with the aid of organizations are also affected via taxation. Taxes also influence the sorts of physical investments that corporations make. This is due to the fact the government taxes return on some types of investment are at excessive quotes than others. By distorting bodily funding decisions, the tax machine may from time to time lead to an inefficient pattern of investment. Taxation is the most necessary source of income for present day governments, usually accounting for about 70%-90% or extra of their earnings while the remainder of government income

sourced thru domestic and external borrowings. Countries fluctuate significantly in the amount of taxes they collect. As at 2005, in the United States, about 30% of their Gross Domestic Product is spent on tax payment. Government imposes many types of taxes in most developed countries, men and women pay income taxes when they earn money, consumption taxes when they spend money, property taxes, etc.

## 2.2 Theoretical Framework

Theoretical review refers to the various theories which have been propounded or postulated by various scholars. For this study, benefit received theory and the ability-to-pay approach (Ogbonna and Ebimobowei, 2012).

### Benefit Received Theory

This benefit precept theory, also referred to as vertical fairness, stipulates that an individual ought to be taxed in accordance to the advantages he receives from authorities' provision of goods and services. This, in different words, is an advantage cost approach in which tax is a cost and government amenities are the advantages (Bhartia, 2009; and Anyanfo, 1996). This principle assumes a kingdom of equality between the marginal tax fee (MTF) and marginal benefit acquired (MBA) to determine the quantity of taxes to be paid.

However, the advantage principle does not work properly for the environment friendly provision of public (near public) goods. Example; military defense thus, the conditions of equality between taxes paid and benefits-received, which sound so egalitarian in principle, do not preserve in practice.

### The Ability-To-Pay Approach

This strategy is involved with the equitable distribution of taxes in accordance to assumed taxable capacity or ability to pay of any man or woman or group. This approach, sometimes referred to as horizontal equity, permits the distribution and stabilization of objectives of taxation to be achieved greater equitably. We know that taxes are potential of transferring the buying electricity of income to governments; the ability to pay is primarily based on income. It is then potential that

these who have more earnings can manage to pay for extra taxes. Although this idea has the above-stated advantages, it is no longer free from flaws. Its drawback is that the criterion on which "ability" is judged is now not clear. (Ogbonna, Ebimobowei and Chigbu, 2012).

## 2.3 Empirical Review

Several empirical studies have been performed and conducted on the impact of income tax on economic growth. The empirical research of Okafor (2012), Raimi (2021), Agbo and Onuegbu, Olatunji (2009), Uzoka and Chiedu (2018), Worlu and Nkoro (2012), Uzoamaka christ-Ejiogu (2022), Okoli and Matthew (2015) and Ogbonna and Ebimobowei (2012) furnished different evidences on the impact of income tax or taxation on the growth of the economy.

Dabor et al. (2025) investigated the effect of tax revenue components, including company income tax (CIT), on Nigeria's economic growth over the period 1995–2022. Using a Vector Error Correction Model (VECM) to assess both long-run and short-run relationships, the authors found that CIT has a negative and significant relationship with economic growth in Nigeria, alongside other trends such as a significant negative impact of custom excise duties. In contrast, value-added tax (VAT) exhibited a positive and significant relationship with economic growth in both the long and short run. The study concludes that strengthening tax administration and closing revenue leakages could improve the tax-growth nexus in Nigeria.

Ananwude et al. (2025) examined how different tax structures—including company income tax, petroleum profit tax (PPT), and value-added tax (VAT)—affected Nigeria's real GDP growth from 1999 to 2023. Although the full findings are pending formal publication, the study underscores that *tax structure components distinctly influence economic growth*, with certain direct and indirect taxes exerting varying effects.

Osamor et al (2025) explored the broader impact of tax

revenue (including CIT and VAT) on Nigeria's economic growth using secondary data. This research emphasized how tax evasion and avoidance significantly reduced actual revenue, thereby weakening the positive role that tax collection could play in supporting GDP growth.

Obadiaru, Okon, and Ayeni (2024) investigated the impact of tax revenue components—including personal income tax (PIT), corporate income tax (CIT), and value-added tax (VAT)—on Nigeria's gross domestic product (GDP) over a thirty-year period (1991–2021). Using time-series data sourced from the Federal Inland Revenue Service (FIRS), Nigerian Bureau of Statistics (NBS), and Central Bank of Nigeria (CBN), the study found that tax revenue exerts a statistically significant effect on economic growth. Their results showed that while PIT and VAT positively influenced GDP growth, the effect of CIT was mixed and dependent on model specification, highlighting the importance of tax structure composition for effective growth outcomes. This underscores the complex role of income taxes in stimulating economic performance when framed within a broader tax revenue system.

Oladejo (2024) examined the effect of federal government tax and non-tax revenue on Nigeria's economic growth using data spanning 2001–2020 and simple linear regression analysis. The findings indicated that aggregate tax revenue has a significant positive influence on economic growth, reinforcing the notion that effective tax mobilization supports macroeconomic expansion. Although this study did not isolate income tax alone, its emphasis on total tax revenue points to the considerable role that income-based taxes play within the larger fiscal framework.

Adesanya et al. (2024) adopted a bi-directional approach to analyze the relationship between total tax revenue and nominal GDP from 2011 to 2022. Employing cointegration and error correction models, they demonstrated a positive and significant long-run relationship between tax revenue and economic growth, with causality running both from tax revenue to GDP and vice versa. This suggests that higher economic

output strengthens the tax base, while improved tax revenue reinforces growth prospects

Uzoamaka and Ejiogu (2022) examined the effect of taxation on the growth of the Nigerian economy from 1990-2019. The explanatory variables were VAT, PPT, CIT and CED which are proxies for taxation. The data were sourced from FIRS and the Nigerian Bureau of Statistics NBS while that of the Nigerian economy was sourced from CBN. For data analysis, Auto Regressive Distributive Lag (ARDL) techniques were used. The findings reveal that PPT, and CED have a positive impact on the growth of the manufacturing and processing sector, while CIT and VAT have a negative impact.

Raimi (2021) examined the impact of taxation on the growth and development of the Nigerian economy. The objectives of this paper are to examine the extent to which petroleum profit tax affect gross domestic product (GDP) in the Nigerian economy, ascertain the effect of capital gain tax on the gross domestic product (GDP) in the Nigerian economy and to determine the effect of capital gain tax on the gross domestic product (GDP) in the Nigerian economy. To achieve this objective, ex-post facto design was adopted, ordinary least square (OLS) regression method was used for the study as the statistical method for analyzing the data gathered. Result from this study reveals that CGT and PPT are insignificant in revenue generation towards the economic growth of Nigeria. CIT on the other hand is significantly effective on the economic growth of Nigeria.

Agbo, Elias and Onuegbu (2020) examined the impact of tax revenue on Nigeria's economic growth. The study adopted the ex-post facto research design and employed annual time series data for the period 1994 to 2020. The ordinary least square of multiple regression model was used for estimation. The findings revealed that value added tax has a positive and significant impact on the economic growth of Nigeria, company income tax has a negative and significant impact on the economic growth of Nigeria and petroleum profit tax

has a positive and week impact on the economic growth of Nigeria.

Uzoka and Chiedu (2018) studied the effect of revenues from taxation on the growth of the economic in Nigeria from 1997 to 2016. The unit root test was adopted and the result of their findings revealed that incomes from company tax, customs and excise duty and gains from sale of capital assets are stationary at level. While Real Gross Domestic Product (RGDP), Petroleum Profit Tax (PPT), Value Added Tax (VAT) and RDT are stationary at first order, that is after first difference. The co-integration tests showed that a long run relationship existed between the economic growth and RGDP, PPT, VAT and RDT CIT, CED. The results obtained from the analysis of the model revealed CGT and EDT have no major effect on economic growth but there is a significant effect from PPT, CIT, VAT and CED on the growth of Nigeria economic.

Okoli and Matthew (2015) examined the Extent to which VAT had contributed to Nigeria's total federally collected revenue and its position among the other tax components from 1994-2012. The study recommends that all identified loopholes should be plugged for VAT revenue to contribute more total federally collected revenue. Data spanning 1994-2012 sourced from CBN annual report and CBN statistical bulletin were used for the analysis. Using the error correction model (ECM) for the analysis. Findings show that VAT was the second-long term source of the total federally collected revenue.

### 3. Methodology

#### 3.1 Research Design

A research design is a blue print for selecting the sources and types of data relevant to the research questions. It basically provides answers to questions like: what techniques are to be used to gather data and what kind of sampling to be applied (Zikgmund, Barry, Babin & Carr, 2003). In other words, it is a framework that specifies the type of information to be collected, the sources of data and the data collection procedure. Thus, a research design basically provides an outline of how

the research will be carried out and the methods that will be used. This study used the Ex-post Facto, to examine the impact of income tax on the growth of the Nigerian economy by employing panel data for the period of twelve (12) years (2011-2022). The study considers all income tax paid in each year of the study, this is because the variables, (company income tax, personal income tax, value added tax, petroleum profit tax, capital gain tax, education tax and gross domestic product) are National variables. The research utilized secondary data obtained from Central Bank of Nigeria (CBN) statistical bulletin, World Bank, Federal Inland Revenue Service (FIRS) and National Bureau of Statistics (NBS) sources between 2011 and 2022. Secondary data are the type of data that has already been published or archived prior to the period of the study.

In view of the nature of the proposed sources of data for this research; specifically, the World Bank, Central Bank of Nigeria (CBN) Bulletin, Federal Inland Revenue (FIRS) and National Bureau of Statistics (NBS). The use of descriptive statistics, Pearson correlation coefficient, and linear panel-data analyses were employed in analyzing the data for the purpose of presentation and the discussion of the outcomes. The brief justification of the techniques that were utilized will be explained in the subsequent subsections.

#### 3.2 Model Specification

The model to be estimated can functionally be stated as:  

$$GDP = f (CIT, PIT, VAT, PPT, CGT, EDU)_{i,t} + \varepsilon_{i,t}$$
(1)

Equation (1) can further be represented as:

$$Y_{i,t} = \alpha_0 + \beta_1 CIT_{i,t} + \beta_2 PIT_{i,t} + \beta_3 VAT_{i,t} + \beta_4 PPT_{i,t} + \beta_5 CIT_{i,t} + \beta_6 EDU_{i,t} + \mu t + \varepsilon_{i,t}$$
(2)

Hence, a stronger assumption: strict exogeneity can be imposed from equation (2) above;

$$E[\varepsilon_{i,t} / CIT_{i,t}, PIT_{i,t}, VAT_{i,t}, PPT_{i,t}, CIT_{i,t}, EDU_{i,t}, GDP_{i,t}] = 0$$
(3)

Where:

GDP = Gross Domestic Product

CIT = Company Income Tax

PIT = Personal Income Tax

VAT = Value Added Tax

PPT = Petroleum Profit Tax

CGT = Capital Gain Tax

EDU = Education Tax

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6,$  and  $\beta_7$  = Short-run coefficients of the variables

$\alpha_0$  = constant parameter

$i$  = Unit of Observation

$t$  = Time Period

$\epsilon_{i,t}$  = Error Term

Variables Measurement (Operationalization)

Economic Growth

Economic Growth is proxy as Gross Domestic Product.

There are two primary methods or formulas that are used to calculate GDP:

Expenditure Approach: The expenditure approach is the most commonly used GDP formula, which is based on the money spent by various groups that participate in the economy.

$$GDP = C + I + G + NX (X-M)$$

GDP = Gross Domestic Product.

C = Consumer Spending

I = Business Investment

G = Total Government Expenditures

NX = X-M = Net exports or Export minus Import

Income Approach: This GDP formula takes the total income generated by the goods and services produced.

$$GDP = \text{Total National Income} + \text{Sales Taxes} + \text{Depreciation} + \text{Net Foreign Factor Income}$$

Total National Income: Is the sum of all wages, rent, interest, and profits.

Sales Taxes: Consumer taxes imposed by the Government on the sales of goods and services.

Depreciation: Cost allocated to a tangible asset over its useful life.

Net Foreign Factor Income (NFFI): Is the difference between a nation’s Gross Domestic Product (GDP) and Gross National Product (GNP).

Company Income Tax (CIT)

The Company Income Tax is regulated by the Company Income Tax Act and managed by Federal Inland Revenue Service.

Personal Income Tax (PIT)

Personal Income Tax (PIT) is a tax imposed by the government on the incomes of all individuals.

Value Added Tax (VAT)

Value added tax (VAT) is simply called the goods and services tax (GST), it is levied on the value added that results from each exchange.

Petroleum Profit Tax (PPT)

The Petroleum Profit Tax is regulated by the Petroleum Profit Tax Act (PPTA)

Capital Gain Tax (CGT)

capital gain tax is a levy on the profit that an investor makes when an investment is sold of the study.

Education Tax (EDU)

Education Tax is a tax imposed on the assessable profits of all companies registered in Nigeria (including companies subject to tax under Petroleum Profit Tax Act) for the enhancement of tertiary education in Nigeria

#### 4. Results and Discussion

**Table 1: Descriptive Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
GDP	12	13.83399	0.033625	13.76478	13.87949
CIT	12	12.08712	0.159951	11.81588	12.42311
PIT	12	11.57772	0.193003	11.30726	11.9303
VAT	12	12.02437	0.187817	11.81898	12.39994
PPT	12	12.3325	0.171241	12.06364	12.62418
CGT	12	10.05715	0.470458	9.423245	10.99739
EDU	12	11.29962	0.122648	11.11434	11.5168

Where: GDP = Gross Domestic Product, CIT = Company Income Tax, PIT = Personal Income Tax, VAT = Value Added Tax, PPT = Petroleum Profit Tax, CGT = Capital Gain Tax, EDU = Education Tax, OBS = Observation’s, MIN = Minimum, MAX = Maximum and Std. Dev. = Standard Deviation.

From the table the taxes collected in Nigeria, the mean of the CIT, as revealed in Table 4.2.1, was 12.087%

with the standard deviation of 0.159 along with the lowest of 11.815% and the highest of 12.423%. The

mean of PIT, as presented in Table 4.2.1, was 11.577% with the standard deviation of 0.193 as well as the minimum of 11.307% and the maximum of 11.930%. On the other hand, the VAT had an average of 12.024% with a disparity of 0.187% with the lowest and highest levels of 11.818% and 12.399%, respectively. However, the PPT had an average of 12.332% with a

disparity of 0.171% with the lowest and highest levels of 12.063% and 12.624%, respectively. The CGT had an average of 10.057% with a disparity of 0.470% with the lowest and highest levels of 9.423% and 10.997%, respectively. The EDU had an average of 11.299% with a disparity of 0.122% with the lowest and highest levels of 11.114% and 11.516%, respectively.

**Table 2: Correlation Matrix of the variables**

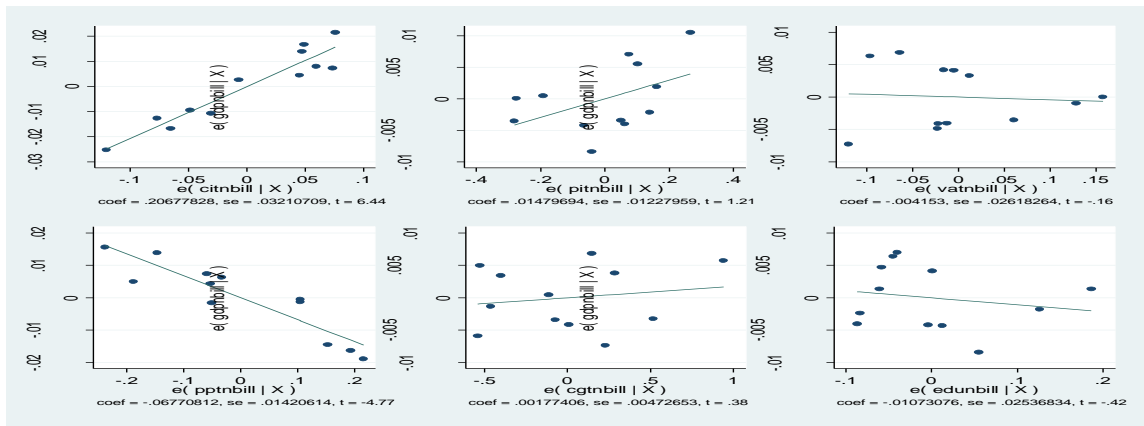
Variables	GDP	CIT	PIT	VAT	PPT	CGT	EDU
<b>GDP</b>	.0000						
<b>CIT</b>	0.9174*	1.0000					
<b>PIT</b>	0.3043	0.2269	1.0000				
<b>VAT</b>	0.7939*		0.3277	1.0000			
		0.8829*					
<b>PPT</b>	-0.2442	0.1255	-0.0407	0.1772	1.0000		
<b>CGT</b>	0.1474	0.1372	-0.0954	0.1706	-0.0013	1.0000	
<b>EDU</b>	0.4635		0.2032	0.5707	0.3886	0.0189	1.0000
		0.6426*					

Where: GDP = Gross Domestic Product, CIT = Company Income Tax, PIT = Personal Income Tax, VAT = Value Added Tax, PPT = Petroleum Profit Tax, CGT = Capital Gain Tax and EDU = Education Tax

The correlation coefficient between gross domestic product and company income tax is 0.9174 (91.74%) which implies that as GDP increases so does CIT, the strength of the relationship is strong. The relationship between gross domestic product and personal income tax is 0.3043 (30.43%) which implies that as GDP increases so does PIT. However, the strength of the relationship is weak. The relationship between gross domestic product and value added tax is 0.7939 (79.39%) which implies that as GDP increases so does VAT, the relationship is strong and positive.

Moreover, the correlation coefficient between gross domestic product and petroleum profit tax is negative (-0.2442 or -24.42%), the implication of this is that as GDP increases, petroleum profit tax decreases. The relationship between gross domestic product and capital gain tax is 0.1474 (14.74%) which implies that the relationship between GDP and PPT is positive but weak. Finally, the correlation coefficient between gross domestic product and education tax is 0.4635 (46.35%) which implies that as GDP increase so does EDU. However, the strength of the relationship is positive and moderate.

### Normality Test



The test of normality for company income tax shows a p-value of 0.2067 (20.67%) which is greater than alpha value of 0.05, therefore, the data is normally distributed. The test of normality for personal income tax shows a p-value of 0.0147 (1.47%) which is less than the alpha value, the data has deviated from a normal distribution. The test of normality for value added tax shows a p-value of 0.0041 (0.41%) which is less than alpha value of 0.05, the data is not normally distributed.

The test of normality for petroleum profit tax shows a p-value of 0.0677 (6.77%) which is greater than alpha value of 0.05. Therefore, the data is normally distributed. The test of normality for capital gain tax shows a p-value of 0.0017 (0.17%) which is less than

0.05; the data is not normally distributed. Finally, the test of normality for education tax shows a p-value of 0.0107 (1.07%) which is less than 0.05. Therefore, the data is not normally distributed.

### Cameron and Trivedi's Decomposition of IM-test

On the overall result of the test statistic shown in Table 4.5.1 below, the P = 0.4848, the normality and homoscedastic assumptions cannot be rejected. Furthermore, it is important to note that this model was estimated using robust standard error estimates which are free from heteroscedasticity. Therefore, the test was performed in order to further validate the homoscedasticity assumption in the estimated result.

**Table 3: Cameron & Trivedi's Decomposition of IM-test**

Source	chi2	Df	p
Heteroskedasticity	12	11	0.3636
Skewness	3.07	6	0.7995
Kurtosis	2.49	1	0.1147
<b>Total</b>	<b>17.56</b>	<b>18</b>	<b>0.4848</b>

Moreover, Cameron and Trivedi's test of heteroscedasticity and normality were used. The result has shown in Table 4 that this variable is statistically

significant at 5% level. It was found to have a positive relationship.

**Table 4: Variance Inflation Factor (VIF)**

Variable	VIF	1/VIF
CIT	5.7	0.175447
VAT	5.23	0.191349

EDU	2.09	0.477989
PPT	1.28	0.781905
PIT	1.21	0.823813
CGT	1.07	0.935829
<b>Mean VIF</b>	<b>2.76</b>	

Where: GDP = Gross Domestic Product, CIT = Company Income Tax, PIT = Personal Income Tax, VAT = Value Added Tax, PPT = Petroleum Profit Tax, CGT = Capital Gain Tax, EDU = Education Tax and VIF = Variance Inflation Facto.

**Table 5: Panels Corrected Standard Errors (PCSEs)**

GDP	Coef.	Panel-corrected Std. Err.	Z	P> z	[95% Conf.	Interval]
CIT	0.2068	0.0207	9.98	0.0000	0.1662	0.2474
PIT	0.0148	0.0080	1.87	0.0620	-0.0007	0.0303
VAT	-0.0042	0.0169	-0.25	0.8060	-0.0373	0.0290
PPT	-0.0677	0.0092	-7.38	0.0000	-0.0857	-0.0497
CGT	0.0018	0.0031	0.58	0.5610	-0.0042	0.0078
EDU	-0.0107	0.0164	-0.66	0.5120	-0.0428	0.0214
CONS	12.1517	0.1662	73.13	0.0000	11.8260	12.4774
<b>R-squared</b>	<b>0.9795</b>					
<b>Estimated autocorrelations</b>	<b>0</b>					
<b>Wald chi2(6)</b>	<b>574.43</b>					
<b>Prob &gt; chi2</b>	<b>0.0000</b>					

Where: GDP = Gross Domestic Product, CIT = Company Income Tax, PIT = Personal Income Tax, VAT = Value Added Tax, PPT = Petroleum Profit Tax, CGT = Capital Gain Tax, EDU = Education Tax and COEF = Coefficient

**Hypothesis 1** proposed that company income tax has positive impact on gross domestic product. The result revealed a positive and significant impact between GDP and CIT ( $\beta = 0.2068$ ,  $z = 9.9$ ,  $p = 0.0000$ ), supporting hypothesis 1. Similarly,

**Hypothesis 2** predicted a positive impact between personal income tax and gross domestic product. The result shows a positive significant level ( $\beta = 0.0148$ ,  $z = 1.87$ ,  $p = 0.0620$ ), therefore accepting the hypothesis.

**Hypothesis 3** advanced that value added tax has a negative impact on gross domestic product. The result revealed a negative and non-significant impact between the construct ( $\beta = -0.0042$ ,  $z = -0.25$ ,  $p = 0.8060$ ), there by rejecting the hypothesis.

**Hypothesis 4** predicts a negative impact between

petroleum profit tax and gross domestic product. The result provides support for this hypothesis as it reveals that ( $\beta = -0.0677$ ,  $z = -7.38$ ,  $p = 0.0000$ ) the impact was negative but significant which is accepted by the hypothesis 4.

**Hypothesis 5** predicted a positive impact between capital gain tax and gross domestic product. The result shows a positive but insignificant impact between the construct ( $\beta = 0.0018$ ,  $z = 0.58$ ,  $p = 0.5610$ ), therefore, this hypothesis was rejected. Similarly, hypothesis 6 predicts a negative impact between education tax and gross domestic product. The result the result revealed a negative and non-significant impact between the construct ( $\beta = -0.0107$ ,  $z = -0.66$ ,  $p = 0.5120$ ), therefore the hypothesis was rejected.

R-Square ( $R^2$  or the coefficient of determination) is a

statistical measure in a regression model that determines the proportion of variance in the dependent variable that can be explained by the independent variable.

Therefore, Table 4 above shows that the independent variables (company income tax, personal income tax, value added tax, petroleum profit tax, capital gain tax and education tax) all explains 0.9795 (97.95%) variability in dependent variable (Gross Domestic Product). This may be as a result of applying all tax revenue sources on the gross domestic product including petroleum profit tax there by explaining almost 98% of the gross domestic product.

### 5. Conclusion and Recommendations

This study investigated the impact of income tax on the growth of the Nigerian economy by looking income tax from different perspectives which include; (company income tax, personal income tax, value added tax, petroleum profit tax, capital gain tax and education tax) from 2011-2022. The findings revealed that income tax has significant effect on the growth of the Nigerian economy. From the findings, it can be concluded that income tax revenue has contributed to economic growth in Nigeria.

Based on the empirical findings of this study, the

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following recommendations are put forward:

The federal government should manage the financial resources generated from income taxes and also reduce waste of funds. Practical application of income tax revenue in solving problems surrounding productivity and welfare of the citizens will result into generation of more tax revenue which revealed effect on economic growth. Government should ensure all tax loopholes are minimized and corporate tax evasion and avoidance should be properly investigated and sanctioned. Also, tax collection mechanism used by tax officials must be free from corruption and embezzlement and the Federal Government, State Governments and Local Governments should urgently modernize and automate all its tax system to enhance efficient collection of taxes.

There should be greater transparency, integrity and accountability by Government in the management and utilization of income tax revenue so as to give taxpayers greater assurance of its application. Also, there should be an enhancement of Nigeria's tax administrative management efficiency by blocking leakages in tax revenue collection and the expansion of the nation's tax base to attract more tax revenue and promote economic growth in Nigeria.

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