TITLE PAGE

THE IMPACT OF TAXATION ON THE ECONOMIC AND SOCIAL DEVELOPMENT IN NIGERIA

BY

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PG/MBA/2010/54647

BEING A RESEARCH PROJECT WORK PRESENTED AND SUBMITTED TO THE DEPARTMENT OF ACCOUNTANCY, FACULTY OF BUSINESS ADMINISTRATION, UNIVERSITY OF NIGERIA, ENUGU CAMPUS IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTERS (MBA) IN ACCOUNTANCY

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CERTIFICATION

I, Ene, Uchechukwu Rosemond, with the registration number (PG/MBA/2010/54647) has satisfactorily completed the requirements for the course and research work for the award of the Master of Business Administration Degree in Accountancy of the University of Nigeria Enugu Campus.

The work embodied in this project is original and has not been submitted in part or in full for any other diploma or degree of this or any other university.

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APPROVAL PAGE

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DEDICATION

This project is dedicated to God Almighty for His Mercies, Guidance and direction. Thank you Lord.

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I wish to express my profound gratitude to my supervisor, Ugwuoke R.O. whose understanding, patience and untiring effort provided direction, motivation, guidance and constructive correction to ensure that this work came out exceptionally good.

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ABSTRACT

This research work focuses on the impact of Taxation on the economic and social development in Nigeria. Using secondary data gotten from the CBN statistical bulletin with the help of regression as a statistical tool, we analyzed the postulated hypothesis which dwelt on the relationship that exist between taxation and Economic and social development in Nigeria. It was discovered that taxation has a positive relationship with the economic and social development in Nigeria. The researcher then recommends a well defined policy for inter governmental collaboration, co-operation and co-ordination between different tiers and agencies of government, awareness on the tax payers on the role of taxation in the economic and social development in Nigeria should be created and has been created in this research work. Efforts should also be made by the government to ensure they channel revenue from taxation towards socio-economic activities that will benefit the tax payers.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The world we live in presents a picture of appalling contrasts. Some Countries are immensely prosperous, nearly two-thirds of the population of the world subsists on sub-standard incomes. Some Countries of the world are considered as developed and others developing, underdeveloped, or less developed with characteristics including illiteracy, inadequate housing and infrastructural facilitates, lack of medical care, malnutrition, unemployment and low levels of technology.

Nigeria is the most populous Nation in Africa and the 11th in the world and is also endowed with vast human and natural resources but unfortunately, Nigeria is also one of the Nations regarded as underdeveloped or developing.

According to Udabah (2000:1) "the fundamental challenge facing counties like Nigeria is in the transformation of their economic or economic structures from an underdeveloped to a developed status". This entails the development of their economic wealth for the well-being of their citizens and the formation of social structures in a manner which improves their capacity to fulfill their aspirations.

Okpe (1998:1) stated that the existence of government is a necessity that cannot continue without financial means to pay it's expenses as there are certain services which the government must provide to it's citizens because of their essential nature. Government does this to ensure that the supply of such goods and services are evenly distributed in any given society so that the rich and poor alike may benefit. One may ask how does government get such huge amounts to finance the supply of such essential good and services to her citizens. It is true that government mints money but there are other important economic factors that should be considered so that excessive money is not, in circulation in any economic. Thus Olashore (1999:23) noted that for an economic and social balance to be maintained in an economy government found ways of financing her activities and one of such finance apart from loans and grants is taxation.

Taxation plays a crucial role in promoting economic and social activities and growth. Though taxation, government ensures that resources are channeled towards important projects in the society while giving succor to the weak. Orjih (2001:153) stated that taxation is useful in raising revenue, controlling the consumption of certain commodities, controlling monopoly, reducing income inequalities, improving the balance of payments as well as protecting infant industries.

In essence, taxation is a core pillar of a country's regulatory framework for investment and growth. It features prominently in investment decision making motivated by profit maximization while also spurring local enterprise development but this can only happen when taxation and it's administration are properly designed.

1.2 STATEMENT OF THE PROBLEM

Nigeria and other African Countries at large are facing a series of challenges when it comes to optimizing taxation for economic and social growth while aiming to reach development targets. Perhaps the most inherently difficult challenge is how to find the optimal balance between a tax regime that is business and investment friendly while at the same time leveraging enough revenue for public service delivery which in turn makes economics more attractive to investors.

The taxation system in Nigeria has not been fully tapped and maximized and its role in promoting economic and social activities and growth is not felt because of it's poor administration. Thus, Olashore (1999:53) stated that the economy has remained in deep slumber as all macro economic indicators show an economy in dire need of rejuvenation, balancing and indeed radical reform.

Identifying the impact of taxation on economic and social development in Nigeria is a research work born at the right time as there is an urgent need to delve deep and look into the situation of tax evasion and the likes which are punishable by law and also to look into measures required to meet challenges.

This will not only guarantee improved revenue base for the country but also position the country properly to take full advantage offered by the new millennium global tax reform system. This research work shall examine the impact of taxation on economic and social development in Nigeria by analysing the tax gap in the system over the years thereby revealing the critical challenges that need to be tackled.

1.3 OBJECTIVES OF THE STUDY

The primary objective of this research work is identifying the impact of taxation on economic and social development in Nigeria. Also the research work will attempt to:

a. Critically examine tax administration challenges in Nigeria in the last decades and in the new millennium
b. Review measures that have been advanced in the time past by tax authorities and practitioners to meet these challenges.
c. Expose factors militating against the impact of taxation as a tool for socio-economic development in Nigeria.
d. Recommend policies to help in effective tax administration to enable social and economic growth and development in Nigeria.

1.4 RESEARCH QUESTIONS

The following research questions were formulated to guide this study effectively and successfully.

a. Does tax Administration have any significant impact in an economy?
b. Is there any tax gap in the Nigeria tax system?
c. What factors are responsible for the ineffective nature of tax system in Nigeria?
d. What measures could be adopted to improve the tax Administration process in Nigeria?

1.5 HYPOTHESES OF THE STUDY

The hypotheses are stated below:

1. There is no significant relationship between taxation and economic and social development in Nigeria
2. There is a significant relationship between taxation and economic and social development in Nigeria.

The decision criteria is to accept the null hypothesis and reject the alternative hypothesis or otherwise based on the result of the test carried out.

1.6 SCOPE OF THE STUDY

This research work shall cover the following areas:

a. The origin of taxation in Nigeria
b. The objectives of taxation

c. A time line of the growth of tax Administration system in Nigeria
d. An evaluation of tax Administration and the critical tax Administration challenges in the new millennium in Nigeria.
e. Measures that have been advanced by the tax Authorities and practitioners to meet those challenges.

1.7 SIGNIFICANCE OF THE STUDY

The significance of this study can be viewed from two major stands points-academic and practical.

a. Academic Significance:

In the academic arena, this study will prove to be significant in the following ways:

i. It will contribute to the enrichment of the literature by adding a new body of knowledge to the existing body of knowledge in the research work related to the research topic.
ii. The study aims at exposing factors responsible for low level of revenue from taxation in Nigeria

iii. It will suggest ways (of interest to academics) based on empirical evidence of improving tax Administration process in Nigeria.

iv. The research work also aim at providing recommendation to address the savagery impact of poor taxation and tax system as an aid to economic and social development in Nigeria

B. Practical Significance

This kind of study will assist in broadening understanding and scope of knowledge of the following:

i. To policy makers and regulators, it will present a scheme through it's analysis of the loopholes in the taxation Administration and taxation system.

ii. To economic watchers and interested public, it will provide some insight into the factors militating against the impact of taxation as a tool for socio-economic development in Nigeria

iii. To students, it will provide more information on the origin of taxation in Nigeria and it's importance to economic and social development when properly designed.

1.8 OPERATIONAL DEFINITION OF TERMS

a. Development: this is a multidimensional process involving the reorganization and reorientation of the entire economic and social system.

b. Impact: The effect or influence that an event, situation etc has on someone or something.

c. Taxation: this is the transfer of resources and income from the private sector to the public sector in order to achieve some of the Nation's economic and social goals.

d. Tax Administration: This is the Administration, management, conduct, direction and supervision of the execution and application of the internal revenue laws or related statutes and tax conventions.

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CHAPTER TWO

2.0 LITERATURE REVIEW

This chapter aims to review the theoretical and analytical framework of the research topic as well as literary works advanced by many scholars. The review of literature is done under the following sub headings

- Concept of taxation
- Origin of Taxation in Nigeria
  - Roles and objectives of taxation
  - Principles of good tax system and different categories of taxes
  - Tax Administration in Nigeria
- Taxation and fiscal Regulations in Nigeria
- Current taxation Reforms
- Challenges of the Draft National tax policy
- Challenges of Tax Administration and Collection
- Tax system in Nigeria: issue and challenges
- Tax Administration across the global
- Economic and social effects of taxation
- Lessons from the Islamic tax system
- The economy of Nigeria –an overview
- Need for repositioning – The macro economy, in Nigeria
- Role of taxation in economic and social development in Nigeria

Summary of literature review

2.1 CONCEPT OF TAXATION

According to Okpe 1:1 (1998:1), Taxation is regarded as a Compulsory charge imposed by the public authority (Federal, State and Local Government) for the general purposes of Government. It is also defined as the act of laying a tax or imposing taxes on the subjects of a state by government or on the members of a Corporation or Company by the proper Authority. It is levy regularly imposed and regarded as contribution to the general pool from which government expenditure are made. A.L Buhari (1993) defined taxation as "a compulsory contribution from individuals and or business organizations for the purpose of financing government expenditure" According to him, government of almost every country engages in a number of activities which requires the expenditure of funds. In order for the government to be able to undertake most of these activities, it raises funds through Taxation.

In summary, Taxation can be defined as the transfer of resources and income from the private sector to the public sector in order to achieve some of the Nation's economic and social goals. Some of the goals may be in the form of provision of additional Government basic services regularly and particularly in education, public health, transportation, capital formation and in the provision of facilities. Taxes may be levied upon wealth or income or in the form of surcharge on prices.

There are so many reasons which account for the imposition of tax by the government of any country on the citizens. In Nigeria for instance, such reasons include

a. To raise Revenue: The government uses taxes to raise revenue necessary for the provision of essential services to the people which include: building of schools, construction of roads, provision of pipe-born water and the establishments of industries- all geared towards raising the living standards of the citizens.

b. To check inflation: To stabilize prices with reasonable level of full employment and economic growth, certain taxes are imposed. A higher taxation that is not accompanied by increased government expenditure will decrease consumers purchasing power and hence check inflation.

c. To control monopoly: According to Orjih J (2001:147), “some taxes, are imposed by the government as anti-monopoly measures”. Such taxes include undistributed profit tax, excess profit tax etc.

d. To reduce income inequalities: taxation is used to redistribute income and bridge the gap between the income of the rich and poor. Specifically, gift tax and wealth tax are used to achieve the purpose.

e. To improve the balance of payments: Certain taxes may be imposed to reduce imports and encourage exports such that the balance of payments deficits are avoided or corrected when they arise.

f. To protect infant industries: The government owes it as duty to protect and encourage domestic infant industries. Protective tariffs are imposed as a result of foreign competition. Import duties serve this purpose.

Taxation is also a tool for checking the production of harmful goods in the sense that certain commodities harmful to the health are regulated and controlled and in the long run reduce the consumption of such harmful commodities like marijuana. Taxes can be categorized as following according to Orjih J (2001:147)

a. **Direct Taxes** – These are taxes levied directly on the income and property of individuals and Companies. Their burden is borne directly by the tax payer and may take these forms.

   i Personal income tax: this is levied on an individual's income which he earned during a specified period of time usually one fiscal year. It varies with the size and sources of the tax payers income and some other factors contained in the personal income tax Act. 104 of 1993

   ii Company income tax: This is levied on the net profits of companies. The gross income of companies are adjusted by deducting all allowable expenses before taxation is imposed on the net profit.

   iii Expenditure tax: it is levied on that part of a person's income he is actually left with after deduction of savings iv Capital gains tax: A capital gain accrues when the value of capital assets goes up and is realized when the asset is sold. Capital gains are unearned increments brought about by market and development forces. Capital gains tax is levied with references to it's realization and it rates are progressive.

iv. Petroleum profit tax: Nigeria law by virtue of the petroleum profits tax act requires all companies engaged in the extraction and transportation of petroleum to pay tax. The taxable income of a petroleum company is subject to tax at 85% but this percentage is lowered to 65.75% during the first 5 years of operation.

b. **Indirect Taxes:** These are levied on persons or groups who are not intended to bear the burden or incidence but who will shift them to other people. They are normally levied on commodities or services hence their incidence does not fall directly on the final payers. They include:

i. Export duties: these are taxes levied on goods which are exported or sold to other countries by the home country

ii. Import duties: these are taxes levied on goods coming into a country from abroad. The duty is collected from the importer at the point the goods enter the country.

iii. Excise duties: these are levied on goods produced or manufactured locally

iv. Sales tax: these are taxes on selected transactions but applied at only one stage of business activity. Usually, it is collected either at the wholesale level or at the retail level. Sellers charge the sales tax on their sales and deposit the proceeds with the authorities.

v. Value Added Tax (VAT): This is not a tax on the total value of the goods being sold but only on the value added (the difference between the value of factor services and materials that the firm purchased as input and the value of the output) it requires a taxable person upon registering with the federal board of inland revenue to charge and collect VAT at a flat rate of 5% of all invoiced amounts of taxable goods and services.

Nigeria tax is an assessment imposed by the states and the Federal government to enable them to provide services for Nigerian citizens. According to Okpe I (1998:5) tax Administration in Nigeria is guided by the following Acts

a. Personal income tax Act referred to as Decree 104 of 1993. This governs the taxation of individuals.

b. Company Income Tax Act: referred to as the 1979 Act which regulates the taxation of registered companies.

c. Petroleum Profits Tax Act (PPTA) 1959 as amended up to 1995. This Act regulates the assessment and collection of petroleum profit tax payable by organizations that engage in the extraction and sale of petroleum products in Nigeria.

d. Capital Gains Tax Decree 1967 which takes care of gains accruing to any person on or after 1st April 1967 on the disposal of chargeable assets.

e. Value Added Tax (VAT) Decree 102 of 1993 which imposes tax on some selected goods and services manufactured in or imported into the country. The Decree repealed sales tax in the country.

f. Education Tax Decree No 107 of 1993.

2.2 ORIGIN OF TAXATION IN NIGERIA

Tax polices represent key resources allocator between the public and private sectors in a country. It is usually imposed on individuals and entity that make up country. The funds provided by tax are used by the state to support certain state obligations such as education system, health care systems, pensions for the elderly, unemployment benefits and public transportation. A national tax system is often a reflection of its communal values or the values of those in power. To create a system of taxation, a Nation must make choices regarding

the distribution of the tax burden- who will pay taxes and how much they will pay and how the taxes collected will be spent.

In Nigeria, the taxation system dates back to 1904 when the personal income tax was introduced by the colonial masters. It was later implemented through the Native Revenue ordinance to The Western and Eastern regions in

1917 and 1928 respectively. Among other amendments in the 1930's; it was later incorporated into Direct Taxation Ordinance No 4 of 1940. Since then, different governments have continued to try to improve on Nigeria's taxation system. The general opinion among scholars is that Nigerian fiscal regimes is characterized by unnecessary complex, distortionary and largely inequitable taxation laws that have united application in the formal sector that dominates the economy.

2.3 TAXATION AND FISCAL REGULATIONS IN NIGERIA

The Nigerian Tax system has undergone significance changes in recent times. The tax laws are being reviewed with the aim of repelling obsolete provisions and simplifying the main ones. Under the current Nigerian law, taxation is enforced by the 3 tiers of government ie Federal, State and Local government with each having it's sphere clearly spelt out in the taxes and levies Decree 1998.

The importance of tax regulations cannot be over-emphasized as most transactions with any ministry, department, or government agency cannot be concluded without evidence of tax clearance. ie a tax clearance certificate certifying that all taxes due for the three immediately proceeding years of assessment have been settled in full. The main bodies recognized by law as tax authorities in Nigeria are the federal board of Inland Revenue, State Board of Internal Revenue and Joint Tax Board.

A list of taxes and levies for collection by the three tiers of government has been approved by government and published by the Joint Tax Board (JTB) as follows:

A. Taxes collectible by the Federal government

i. Companies income Tax

ii. Withholding Tax on companies

iii. Petroleum profit Tax

iv. Value Added Tax (VAT)

v. Education Tax

vi. Capital gains Tax – Abuja residents and corporate bodies

vii. Stamp duties involving a corporate entity

viii. Personal income tax in respect of

- Armed Forces Personnel
- Police Personnel
- Residents of Abuja FCT

- External Affairs Officers and
- Non Residents

B. Taxes/levies collectible by State Government

Personal Income Tax

- Pay as you Earn (PAYE)
- Direct (self and government) assessment
- Withholding tax (individuals only)

ii. Capital gains Tax

iii. Stamp duties (instruments executed by individuals)

iv. Pools betting, lotteries, gaming and casino taxes

v. Road Taxes

vi. Business premises Registration

vii. Rates in markets where State finances are involved

viii. Naming of Street Registration fee in State capitals.

c. Taxes/levies collectible by local government

i. Shops and kiosks rates

ii. On and of liquor licence

iii. Slaughter slab fees

iv. Marriage, birth and death registration fees

v. Tenement rates

vi. Naming of street registration fee (excluding state capital)

vii. Market/motor park fees (excluding market where state finance are involved).

viii. Customary, burial ground and religious place permits.

2.4 CURRENT TAXATION REFORMS IN NIGERIA

In 2002, a study group (the SG) was inaugurated to review the entire tax system in Nigeria. The terms of reference included:

- Review all aspects of the Nigerian tax system and recommend improvements therein.
- Review the entire tax Administration and recommend improvements in the structure for the whole country.
- Consider measures to bring international developments in tax Administration to be in Nigeria

In 2004, a working group (the WG) was inaugurated to review the report and recommendations of the SG. The WG agreed with the SG's recommendations for a National tax policy and recommended the creation of an autonomous National

Customs and Revenue Authority to assimilate all tax administration powers and duties with funding from retained earnings. The WG also reviewed each SG proposed modification to existing tax laws and provided comments there on. They include: strengthening of tax administration, proposed prioritized strategies for implementing the proposed reform and passage of new tax bills.

Subsequent to the report of the WG in 2004, the government has presented the following tax legislation to the National Assembly.

i. The Federal Inland Revenue services Act to establish the agency as an autonomous body and guarantee it's funding from a percentages of retained tax collections

ii. Amendments to the personal income tax Act, companies income tax Act and the VAT Act. For the most part, the amendment bills reflect the recommendation of the SG and WG. It is expected that the new tax legislation will be passed into law by 2006. However today, 4 out of the 8 tax bills namely.

Bill for an Act to establish the FIRS as an autonomous service, Bill for an Act to amend the Companies Income Tax Act, Bill for an Act to amend the petroleum profit tax and Bill for an Act to amend the National Automotive Council Act have been passed by the National Assembly and signed into laws by President Olusegun Obasanjo on April 16, 2007 while the remaining four tax bills are still at the fiscal debate stage of the parliament.

2.5 CHALLENGES OF THE DRAFT NATIONAL TAX POLICY

A thorough examination of the Current National Taxation policy reveal that it is comprehensive when compared with earlier attempts at designing a policy. However, there are some perceived challenges that this Draft is likely going to face challenges because of the experiences of past taxation laws. These challenges are as follows:

Administration Challenges: experience has shown that the institutional capacity to administer taxes effectively is woefully lacking in this country. Procedures reinforced by third parties audit appear to ensure that taxes are paid and received albeit with potentially serious and costly internal lags. However

Nigeria lacks capacity to assess the reasonableness of the returns submitted by tax payers including costs and staffing, skills, pay scales and other funding and computer and information technology infrastructure. Meanwhile, the current draft has not put in place an administrative strategy.

Compliance Challenges: A recurring problem with PIT Nigeria is the non- compliance of employers to register their employees and to remit such taxes to relevant authorities. To address this, in 2002, the government amended the 1993 PIT Act to make non- compliant employers liable to penalties up to N25,000 as well as liable for the payment of all tax arrears. Employers failing to keep of open records would also face a penalty of N5,000. A fine this small tends to encourage tax evasion since the penalty for being caught is lower than the cost for non-compliance. The issues of unremitted funds from the PAYE System and withholding taxes particularly among government ministries and agencies as well as tax adherence by all three levels of government to the approved list for tax collection as stipulated by the 1998 taxes and levies act 21, have over the past five years attracted the attention of joint tax board (JTB) This same issue of compliance was not properly addressed in the draft National Tax policy:

Challenge of multiplicity of taxes: there is the challenge of multiplicity of taxes which is a major problem with the draft document. Already Nigeria is known for having problems with compliance. It must be noted that a good tax policy set out the fundamental objectives of a country's tax system and prescribe some guidelines that would shape government policy actions.

Poor taxation drive from tiers of government:- the political economy of revenue allocation in Nigeria even with the current draft document does not prioritize tax efforts. It is instead anchored on such factors as equality of states (40%), population (30%), land mass and terrain (10%), social development needs (10%) and internal revenue efforts (10%).

The approach discourages a proactive revenue drive particularly for internally generated revenue, makes all government tiers heavily reliant on unstable oil revenues which are affected by the volatility of the international oil markets.

2.6 OVERVIEW OF TAXATION SYSTEM IN NIGERIA

The Nigeria Tax system is basically structured as a tool for revenue collection. This is a legacy from the pre-independence government. Based in 1948 British tax laws and have been mainly static since enactment. The need to tax personal incomes throughout the country promoted the income tax management Act of 1961. In Nigeria, personal income tax (PIT) for salaried employment is based on a "pay as you earn" (PAYE) system and several amendment have been made to the 1961 ITMA Act. For instance, in 1985, PIT was increased from N600 or 10 percent of earned income to N2000 plus 12.5 percent of income exceeding N6,000. In 1987, a 15 percent withholding tax was applied to savings deposits valued at N50,000 or more while tax on rental income was intended to cover chartered vessels, ships or aircraft. In addition, tax on the fees of direction was fixed at 15 percent. These policies were geared to achieving effective protection for local industries, greater use of local raw materials, generating increased government revenue among others.

Since the implementation of the Structural Adjustment Programme (SAP), however, taxes have been used to enhance the productivity and competitiveness of business enterprises. Consequently, attention has been focused on promoting exports of manufactures and reducing the tax burden of individuals and companies. In line with this charge in policy focus, many measures were undertaken. These involved, among others, reviewing custom and excise duties, continuing with the reduction of company and income taxes, expanding the range of tax exemptions and rebates introducing capital allowances, monetizing fringe benefits and implementing VAT. Nigeria has a number of tax treaties referred to as double taxation Agreements with a number of countries. This is to ensure that the tax payable in Nigeria on the profit of a Nigerian Company being remitted into the country are reduced by the amount of 'Foreign Tax" paid abroad and vice versa. In the last few years, Nigeria has entered into double taxation agreements with a number of countries.

These agreements are entered into with a view to affording relief from double taxation in relation to taxes imposed on profit taxable in Nigeria and any taxes of similar character imposed by the laws of the country concerned. Wher an Overseas Company receives profits from Nigeria that have already been taxed in Nigeria. Some of these countries include the UK, France, the Netherlands Belgium Canada and Pakistan. The following are however exempted from tax:

- Medical or Dental expenses incurred by the employee
- Retirement gratitude and compensation loss of office.
- The cost of passage to or from Nigeria incurred by the employees.
- Interest on loans for developing an owner-occupied residential house.
- Leave allowance which is computed as 10% of annual basic salary subject to a maximum of N7,500 per annum.

2.7 VALUE ADDED TAX

According to Okpe I. (1999:108) Value Added Tax (VAT) was first introduced by France in 1954, it has since been embraced by well over 80 countries all over the world. In Nigeria, the idea of VAT, started with the acceptance of the recommendation of Dr. Sylvester Ngoh led study group on indirect Taxation in November 1991. The decision to accept the recommendation was made public in the 1992 budget speech. A committee was latter set up in the middle of the year to examine the feasibility of the earlier recommendation. The administrative of VAT was however, given to the federal Inland Revenue service which was already charged with the responsibility of administering most other taxes in Nigeria. The introduction of VAT in Nigerian through Decree 102 of 1993 marks the phasing out of the Sales Tax Decree N0. Of 1987

Value Added Tax, is on “Value Added”. The value added of a firm is the difference between a firm’s sales and its’ purchase of inputs form other firms. It is the amount of value a firm contribute to a good or service by applying its own factors of production namely: Land, Labor, Capital and entrepreneurial ability. Professor Aluko in his paper “Classical Value Added Tax” (CVAT) as operated in selected countries described “valued added” as the increase in the value of goods or services in the process of their production or delivery”.

VAT is “multi-stage tax imposed on the value added to goods and services as they rocked through various stages of production and distribution and to services as they are rendered” which is eventually borne by the final consumer but collected at each stage of the production and contribution chain. This definition brings out the three essential characteristic of a value added tax which is emphasized in the definition. The characteristics are:

i) VAT is a Consumer Tax

ii) VAT incidence is on the final consumer

iii) VAT is a multi-stage Tax

REASONS AND ADVANTAGES OF VAT

In Nigeria, introduction of VAT became necessary because government expenditure was steadily over-shooting revenue, resulting in wide deficit financing. Besides, the authorities of ECOWAS were pursing a tax harmonization programme in the process of introducing free-trade within the community. Many community members such as cote-D'ivore Senegal, Niger, Benin Burkina FASO etc have embraced VAT.

Additionally, records show that between 1960-1971, income from indirect taxes in Nigeria constituted the single most important of government revenue. However, with the oil book of the 1970's its contribution declined,. It came down from 85% in 1970 to 12% and 13% in 1980 and 1990-

respectively. The share of direct taxes rose from 23% in 1970 to 60% in 1980 but came down to 45% in 1990. Specifically

VAT has the following advantages that justified its introduction in Nigeria

a) It will reduce our dependence of oil revenue
b) It has the tendency of bringing a lot of money because the expended base
c) It will also bring much money because the incidence is on the consumer where the price is highest
d) VAT is central to international trade because of the destination principles which ensures that vat is paid at the point of consumption
e) vat has no cascading effect because of the credit and refined mechanisms
f) VAT provides incentive for exports and therefore enhances balance of payment positions; this is because export goods are precisely zero- rated in Nigeria
g) VAT is free from complicated computation for instance no capital allowances,. No capital gains, no balancing

allowance; no minimum tax, no balancing charges etc are calculated in arriving at VAT payable.

- VAT is invoice based so it encourages the issuing of receipts for sale and demanding of receipts for purchases
- VAT is self policing, buyers tend to demand receipts because they want to claims credit.
- VAT encourages record keeping by small businessmen

Finally, VAT is good gauge of the business health of the country: when the earning power of the populace goes up, it is immediately reflected in VAT proceed and it can also be used as a tool of fiscal policy in which case, you can exempt some items, vary the rates etc to achieve specific economic objective.

DEMERITS OF VAT

- Its burden is distributed regressively especially where there is a single rate. The degree or regressively can be government policy-exemption, multiple rate and making VAT revenue for certain social issues.
- One time increase in prices –inflation
- High administrative cost because of the expanded based of the tax.

- The burden of record keeping can be very high on VAT agents in terms of materials and time spent.
- There is tendency for the text official to rely on the self policing nature of the tax to do this work for him.

TYPES OF VAT

There are three types of VATS depending on how purchase of new capital inputs (plants, furniture, equipment etc) is treated in the computation of the tax base.

The Consumption VAT

Under the consumption VAT, capital purchases are treated the same way as the purchases of any other input. This tax treatment of capital purchase is equivalent to expensing. One advantage of this is that tax burden from capital expenses is shifted to the consumer in full and immediately instead of being borne wholly or in part by the company.

Income method: under the income VAT, paid on purchase of capital inputs is amortized i.e credited against the firm's VAT liability over the expected lives of the capital inputs. The treatment is very much like the capital allowance with the different that the VAT amount is amortized against the output rather than against income.

Gross Product VAT: under this, no deduction on input of capital purchase is allows against the firms liability. Nigeria has adopted these types of VAT over the years. VAT was introduced to Nigerian tax law in 1993 to replace sales tax and came into force on 1 January 1994. Vat is 5%

The following are excluded from VAT

- Pharmaceutical and medical products
- Basic foodstuffs
- Educational books and materials
- Newspapers and magazine
- Baby product
- Medical services
- Exports of any nature
- Services exports

Services carried out by the equivalent of people's banks VAT declarations must be made every month. Default by the tax payer leads to the application of a fire of 5.000 naira per month of delay and default of payment leads to the application of a penalty of 5% plus interest calculated at the rate of interest in force.

2.8 CHALLENGES OF TAX ADMINISTRATION AND COLLECTION IN NIGERIA

In discussing an efficient and effective system of tax Administration, there must always be consideration of the challenges which militate against the creation and maintenance of such a system. In Nigeria, most of the issues faced cut across the three tiers of government. Accordingly, these issues will be discussed without references to which tiers are affected or otherwise. The major challenges faced in tax Administration in Nigeria include:

- Lack of an overall understanding of the role of taxation in National development.
- Dependence on oil revenue leading to a neglect of taxation as a source of revenue
- Lack of sufficient political support for the tax Administration
- Level of business activity in the economy
- Large informal sector outside the tax net

- Poor attitude to taxation, lack of tax culture low awareness amongst tax payers.
- Low level of voluntary compliance
- Deliberate evasion and non-compliance
- Multiple taxation
- Corruption, leakage and diversion of tax revenues by tax officials before and during collection, by Government officials after distribution
- Lack of accountability for tax revenue
- Lack of inter-governmental collaboration, co-operation and co-ordination between different tiers and agencies of government
- Lack of sufficient government impact on citizens
- Issue within the tax administration setup which include: capacity issues, quality and quantity of human resources, technology issues, manual system of tax operations, lack of records, law level of tax payer education and funding challenges.

2.9 TAX SYSTEM IN NIGERIA: ISSUES AND CHALLENGES

The Nigerian tax system has undergone several reforms geared at enhancing tax collection and Administration with minimal enforcement cost. The recent reforms include the introduction of TIN-unique tax payers identification number which became effective since February 2008, automated tax system that facilitates tracking of tax positions and issues by individual tax payer, E-payment system which enhances smooth payment procedure and reduced the incidence of tax touts, Enforcement Scheme-(special purpose tax officers), this is a special tax officers scheme in/collaboration with other security agencies to ensure strict compliance in payment of taxes. The integrated tax offices and authority new have autonomy to assess, collect and record tax. This enabling environment which came into being on the basis of (section 8Q of FIR Establishment Act 2007) has led to an improvement in the tax administration in the country.

The Nigerian tax system has undergone significant changes in recent times. The tax laws are consistently being reviewed with the aim of repealing obsolete provisions and simplifying the main ones. Under current Nigerian law, taxation is enforced by the 3 tiers of government ie federal, state and local government with each having it's sphere clearly spelt out in the taxes and levies Decree 1998. Despite this improvement, there are still a number of contentious issues that requires urgent attention and among them is the issue of appropriate tax authority to administer several taxes. The recent crises between Lagos state and Federal Government on the tax jurisdiction of VAT in the state is still a contentious issue in the Court. Other states like Ogun, Oyo and Benue have joined Lagos state while states like Abia have gone against this.

Also the issue of multiple taxes severally administered by all the three tiers of government sometimes imposes welfare cost. Furthermore, the issue of the paucity of data base which contributes to tax avoidance in the country. The issue of corruption is still a perennial issue in the country, this reduces the confidence and trust of the tax payer in discharging his civil duty. The issue of infrastructural development is also a crucial issue.

In Nigeria the level of infrastructural facilities is in a deplorable state, most of the facilities (electricity, water etc) are often privately sourced, thus a number of people wonder what the tax collected are used for, hence tendency to evade or avoid tax payment. Furthermore, the problem of the tax language that is legally codified makes it difficult for an average Nigerian to be conversant with these laws. Its is the duty of the government to erect stringent laws and institutions to combat tax evasion by deducting taxes automatically from the salary of it's employees. In case of industries that are not under the government, the agency responsible for tax collection should be constantly on their heels to collect tax.

2.10. TAX ADMINISTRATION ACROSS THE GLOBE

Taxation is the most important source of revenue for modern governments, typically accounting for about 70 – 90% or more of their income while the remainder of government revenue comes from borrowing both domestic and external. Countries differ considerably in the amount of taxes they collect. As at 2005, in the Untied States, about 30 percent of the Gross Domestic Product (GDP) is spent on tax payment. In Canada about 35 percent of the country's gross domestic product goes for taxes.

In France the figure is 45 percent and in Sweden it is 51 percent. Government imposes many those of taxes. In most developed countries, individual pay income taxes when they earn money, consumption taxes when they spend it,. Property taxes when they own a home or land and in some cases estate taxes when they die. In the United States, Federal, State and Local Governments all collected taxes. Taxes on people incomes pay critical role in the revenue system of all developed counties. In the untied states, personal income taxation is the single largest sources of revenue for the government. In 2006 it accounted for nearly 50%   of all Federal Revenue

From the foregoing non-oil revenue especially tax has been mainstay of most developed countries in contrast to developing countries that still depend on primary products. Also, indirect taxes appear to be in vogue in developed countries due to higher return, lower administration cost and higher compliance rate, however, most developing countries still rely on direct taxes with low compliance rate.

Tax on personal income in Australia. Other states followed and the common wealth started taxing in 1915. Between 1915 and 1942, income tax was levied by both State and Federal Government; control of personal tax shifted to the common wealth during the Second World War and stayed there by agreement of the state which take their shares by way of grants. PAYE was introduced in Australia in 1942, in The US in 1943 and in the UK in 1944.

2.11 ECONOMIC AND SOCIAL EFFECTS OF TAXATION

Orjih J. (2001:147) enumerated these effects to include,

- Effects on Supply of Resources: if savings are taxed, investors would naturally be able to have smaller volume of savings and the overall level of investment will decline. When the government taxes earnings from investment, it might become a problem for firms to raise adequate capital in the financial market.
- Effects on Retained Profits: When retained profits are taxed, firms fail to depend on their internal resources for expansion but resort to borrowing of they can obtain such loans. Thus the internal capacity to invest is likely to decrease as retained profits are taxed.
- Effects on Corporate Profit: Taxation has the effect of reducing the net profit after tax available to the

shareholders. If the tax rate is high, the net profit of the firm will be low and this hampers ability of the firm to raise money internally.

- Effects on Inflation: During periods of rapid and unsustainable economic depression, especially when such expansion has inflationary consequences, the government may attempt to dampen the level of economic activities by increasing tax rate. When tax rates are raised, both personal disposable incomes and corporate profits after tax are reduced, this reduces the purchasing power of both firms and individuals and their demand falls and prices consequently fall as well
- Effects on Dividends: when dividends are taxed very heavily, the shareholders would prefer to capitalize their earnings instead of receiving it as cash dividend. However, those investors who are dependent on cash dividend for their living will no longer invest in shares and the implication for the firm would be a fall in available resources.
- Effects on Retained Profits: when retained profits are taxed, firms fail to depend on their internal resources for

expansion, but resort to borrowing of they can obtain such loans. Thus the internal capacity to invest is likely to decrease as retained profits are taxed.

2.12 LESSONS FROM THE ISLAMIC TAX SYSTEM

It could be recalled that he notion of ethical values led to the emergence of the welfare economics in the 1930's which led economists considering the well being in their analysis and policy recommendations. However, the field soon got trapped in self interest models of the conventional economics and thus leading to the new call for ethically based studies.

Sen (1987) argues that "the distancing of economics from ethics has impoverished welfare economics and also weakened the basis of a good descriptive and predictive economics". Also Inglemart et al (2004) argue that "human beings and beliefs or values are valuable tools for understanding how social, political, economic and cultural attitudes differ form one society to another and how they are changing with economic and technological development.

Tax Compliance cost is likely to be higher and less effective in ethically neutral economics than ethically-sensitive economics like the Islamic economic system since compliance is exogenously enforced in the system (former) and endogenously embraced in the latter. This suggests that the role of religious teachings and ethics is important to elicit voluntary compliance and generating substantial revenue from tax. Unlike in the conventional system, the object of taxation in Islam is wealth and not income. This suggests that taxable person will be left with more disposable income and will be liable for tax on left over income when necessarily incurred expenses have been deducted. This system that allows more expenditure to be undertaken by taxable persons with an attendant accelerator/multiplier effect on the economy. As more expenditure occurs, more income is generated in the society. Secondly, the tax system in Islam is based on a unity or single uniform rate of 2.5% i.e. the Zakah system. This forecloses the problems of reducing the incidence of tax evasion and avoidance

Farridi (1976) argues that "Zakah occupies a central place in Islamic fiscal policy and operations. Since its rate is given, it lends an element of stability to public revenues which is particularly useful in maintaining budget stability. A set of

Zakah rate however does not involve a fixed collection since a rise or fall in individual incomes would be automatically reflected in corresponding changes in the total Zakah collections. The revenue collection from Zakah would however provide the stable minimum quantum of revenues required for the promotion of the above objectives of fiscal policy.

The expenditure categorization of Zakah takes care of eight categories of people mentioned in the Quaran (Qa:60), thus the tax is a wealthy distribution tax which are distributed to the poor, needy, debtors etc. therefore, the Zakah system is considered as the principal tax of the Islamic economic system and it sets the trend for other taxation. This is because its incidence is in proportion to the individual's wealth. Thus people with greater means pay more than people with smaller source. As a matter of fact, the principles of taxation like justice, economy, certainty, administration and convenience are well observed under the Zakah system.

According to Al-Qardawi (1999) who argues that since the expenditure of the state are many and Zakah proceeds cannot be used for any other purpose except those categories, then the proceeds from Kharaj or land tax, Ghanimah (booty revenue and Jizyah or security levy should be used but if insufficient, additional taxes could be imposed. He gave the following as the conditions for imposing taxes.

- Real need
- Just distribution
- Lawful use of funds and
- Due consultation

As a matter of fact, payment of taxes in Islam are considered as religiously sacred duty and thus elicit voluntary compliance, evoking minimal enforcement cost and generating maximum revenue but the conventional system can only be enforced with high cost yet there are several cases of tax evasion or avoidance with the least cooperation from the tax payers. The distribution mechanism of the taxes collected in Islamic framework suggests more development oriented and people focused especially to the eight categories of beneficiaries mentioned in the Quaran. However, the tax system in Nigeria does not enjoy voluntary compliance due to non-visible impact of the taxes so collected.

In western capitalist countries, their taxation penalizes the poor and vulnerable in society. Clever accounting and off shore Swiss bank accounts ensure the rich in western societies can avoid paying the majority of taxes altogether. In the Uk for example, the Queen is ore of the richest person in Britain yet she pays no income tax whereas a poor single mother or an old age pensioner must pay income tax. With regressive taxes like the sales taxes on goods and services which hurt the poor more than the rich since the tax rates are the same for both. This is not to mention the endemic corruption where tax revenues are derived from the state treasury into the personal bank accounts of the rulers and other government officials. These happenings fundamentally negate the principles of justice and economy on taxation.

If any tax is taken over and above the obligatory expenditure then this is considered a Mazlamia (injustice). The court of unjust Acts (Malikamet Almazabin) has the power to investigate any excessive taxation. If after the courts investigation the tax or tax rate is deemed to indeed be a Mazlama then the court can oblige the state to abolish or lower the tax and return any excess money to the Muslims.

2.13 THE ECONOMY OF NIGERIA – AN OVERVIEW

According to National Bureau of statistics, the economy of Nigeria is a middle income mixed economy emerging market with well developed financial, legal, communications, transport and entertainment sectors. It is ranked 31st in the world in terms of GDP (PPP) as at 2009 and its emergent though currently underperforming manufacturing sector is the second largest on the continent, producing a large proportion of goods and services for the West African region. Previously hindered by years of mismanagement, economic reforms of the past decade have put Nigerian back on track towards achieving its full economic potential. Nigerian GDP at purchasing power parity more than doubled from 170.7 billion dollars in 2005 to 374.3 billion dollars in 2010 although estimates of the size of the informal sector put the actual numbers closer to 520 billion dollars.

Correspondingly, the GDP per capita doubled from 1200 dollar per person in 2005 to an estimated 2,500 dollar per person in 2009. Again with the inclusion of the informal sector, it is estimated that GDP per capita hovers around 3,500 dollars per person. It is the largest economy in the West African region and the third largest economy in Africa behind south Africa and Egypt and on trade to becoming one of the top 30 economies in the world in the early part of 2011. Although much has been made of it's status as a major exporter of oil, Nigeria produces only about 3.3% of the world supply and though it is ranked as 15th in production at 2.2 million barrels per day.

To put oil revenue in perspective: at an estimated export rate of 1.9 million barrels per day with a projected sales prices of 65 dollar per barrel in 2011, Nigeria's anticipated revenue from petroleum is about 52.2 billion dollars. This accounts for less than 14% of official GDP figures (and drops to 10% when the informal economy is included in the calculations).

Therefore, although the petroleum sector is important, it remains infact, a small part of the country's overall vibrant and diversified economy. Oil alone accounts for 40 percent of the country's GDP, 70 percent of budget revenues and 95 percent of foreign exchange earnings. Nigerian's dependence on petroleum is much greater than that of many other major producing countries. In 1970, the non-oil revenue was higher than the oil revenue, however from the mid 1970's, the share of the oil sector in total revenue became higher and substantial. This trend has continued to date.

2.14 NEED FOR REPOSITIONING: THE MACRO ECONOMY IN NIGERIA

The external condition is vastly deteriorating, output in major nations of the world is shrinking and commodity prices especially oil are falling. The world output growth was 5.2% in 2007 but fell to 3.4% in 2008 (IMF, 2009). This falling oil prices with rising domestic costs, calls for urgent revenue of our revenue generation sources. This is further worsened by the external sector performance which shows that both the current account surplus and foreign exchange reserves are declining relatively compared to 2007 before the shock.

Despite this dismal performance and tight revenue collection, the anticipated spending of the government is expected to be 8.3% higher than the proposed expenditure for 2008; with higher inflation, this represents a decline in real value of the expenditure. Due to this harsh macro economic environment, the revenue collection to government may further fall by 22% (FIRS 2009).

As a result of the recent restructuring in the Inland Revenue, we except greater enforcement of taxes, greater likelihood of delays in rendition of returns and payment and higher borrowing resulting in further crowding out effect on the private sector.

According to CBN bulletin (2009), the external conditions fell from 93.4 billion dollars to 44.5 billion dollars, the output level rose from 187.2 billion dollars to 233 billion dollars, external sector rose from 34.14 billion dollars to 35.21 billion dollars and in financial markets, growth in net credit rose from 69.5% to 72.4 percent, and interbank market at call rate rose from 8.99 percent to 15.77 percent. Also government revenue –oil and non oil revenue has been on the increase with an estimate of 26.3 percent in 1970, 81.1% in 1980, 73.3 percent in 1990, 83.5 percent in 2000 and 88.6 percent in 2006 for oil revenue as a ratio of total revenue while non- oil revenue as a ratio of total revenue was an estimate of 73.7 percent in 1970, 18.9 percent in 1980, 26.7 percent in 1990, 16.5% in 2000 and 11.4 percent in 2006.

Nigeria's economy is struggling to leverage the country's vast wealth in fossil fuels in order to displace the crushing poverty that affects about 57 percent of its population. Economists refer to the co-existence of vast wealth in natural resources and extreme personal poverty in developing countries like Nigeria as the “resource curse”. Although “resource curse” is more widely understood to mean an abundance of natural resources which fuels official corruption resulting in a violent competition for the resource by the citizens of a nation. Nigeria’s exports of oil and natural gas at a time of peak prices have enabled the country to post merchandise trade and current account surpluses in recent years.

In 2005, Nigeria’s central government had expenditures of 13.54 billion dollars but revenues of only 12.86 billion dollars resulting in a budget deficit of 5 percent. Nigerian tax authorities face the challenge of widespread tax evasion, which is motivated by complaints about corruption and the poor quality of services. In recent years, Nigeria has expended its trade relations with other developing countries like India. Nigeria is the largest African crude oil supplier to India. It annually exports 400,000 barrels per day to India valued at 10 billion us dollars.

2.15 ROLE OF TAXATION IN ECONOMIC AND SOCIAL DEVELOPMENT

Economists generally agree that there is a need for minimal direct government intervention in resources allocation and development process. The government intervenes through fiscal policies and instruments such as taxation, public expenditure and regulation.

Jhingan (1995) argue that the most potent fiscal instrument is taxation which facilitates reduction of private consumption, increasing investment and transferring resources to the government for economic development. Therefore, taxation is the compulsory levy imposed by government to defray the cost of governance and communal services. It facilitates resource re-allocation, promotion of social equity through wealth distribution, enhances economic growth and development and ensures economic stability by correcting and controlling macro economic shocks.

There has been a renewed attention by the policy makers and academic on the need for repositioning the nation's tax system. Nigeria is a monolithic economy with strong dependence on the oil sector. This dependence makes the economy to be vulnerable to external manipulation and adversely affect the planning horizons in the country. The recent global crisis in the world has brought to the fore the need to note that this overdependence on the oil creates unnecessary shocks and thus, the need for diversification of the nation's resource base and long term growth path. The oil is an exhaustible resource while taxation is the only non exhaustible veritable source of resource generation to government.

Oil alone accounts for 40 percent of the country's GDP, 70 percent of budget revenues, and 95 percent of foreign exchanger earnings. Nigeria's dependence on petroleum is much greater than that of many other major producing countries. In 1970, the non-oil revenue was higher than the oil revenue, however from the mid 1970's the share of the oil sector in total revenue became higher and substantial. This trend has continued to date. However,

despite this dominant position of the oil sector, its impact on the economy is grossly negligible and sometimes counter productive confirming the Dutch disease syndrome where net beneficiaries of explorative resources do not benefit much from the net transfer of wealth. There is an urgent need for reversal of this trend if Nigeria wishes to actualize her dream of becoming one of the best twenty economies in the world. One source that can make the nation actualize the vision 2020 is to have a strong tax system that conveniently generates revenue with minimal welfare cost.

Tax policy influences economic behavior both at the micro and macro level, hence an important stabilization tool for economic policy makers. The level of taxation in any nation will affect people's economic behavior including their choices in working, saving and investing. A high tax regime not only imposes high welfare cost but also drastically affects consumer spending through reduction of the disposable income. A high tax burden can have a drastic adverse effects on the overall economy. It also contributes or worsens tax evasion and avoidance. While tax rate in the developed countries is

high, there is also an adequate social security system that mitigates the welfare cost inform of job seekers allowance, child allowance and various students scholarship and loan facilities.

Consideration of a nation’s tax policy influences multinational firms decisions on setting up of their businesses or firms in a particular country, thus most countries attract multinational firms through general and generous tax incentives and holidays. Investment decisions by companies are also affected by taxation. Taxes also influence the types of physical investments that businesses make. This is because the government taxes return on some types of investment are at higher rates than others. By distorting physical investment decisions, the tax system may sometimes lead to an inefficient pattern of investment.

Taxation is the most important source of revenue for modern governments, typically accounting for about 70-90 percent or more of their income while the remainder of government revenue comes from borrowing both domestic and external. Countries differ considerably in the amount of taxes they collect. As at 2005, in the

untied states, about 30 percent of the gross domestic product is spent on tax payment. In Canada, about 35 percent of the country’s gross domestic product goes for taxes. In France, the figure is 45 percent and in Sweden, it is 51 percent.

Government impose many types of taxes in most developed countries, individuals pay income taxes when they earn money, consumption taxes when they spend money, property tax when they own a home or land and in some cases, estate taxes when they die. In the United States, federal, state and local government all collect taxes. Taxes on people's incomes play critical roles in the revenue systems of all developed countries. In the United States, personal income taxation is the single largest source of revenue for the government. In 2006, it accounted for nearly 50 percent of all federal revenues. From the foregoing, non-oil revenue especially tax has been mainstay of most developed countries, in contrast to developing countries that still depend on primary products. Also indirect taxes appear to be in vogue in developed countries due to higher returns.

SUMMARY OF LITERATURE REVIEW

After reviewing related literature it is clear that taxation as a concept did not emerge from nowhere. It has an origin and also has it's roles and objectives which account for the imposition of tax by the government of any country on its citizens. In Nigeria, taxation dates back to 1904 when the personal income tax was introduced in northern Nigeria. It is also clear that taxation has different categories with each being guided by relevant tax laws and administration

It is also clearly shown from the review that tax administration has a lot of issues and challenges as well as the tax system in Nigeria which include tax evasion and tax avoidance but policies have been recommended which when fully implemented, will help in effective tax administration in Nigeria. Islamic tax system was also highlighted and unlike in the conventional system, the object of taxation in Islam is wealth and not income. Lessons can be learnt from this because payment of taxes in Islam are considered as religiously sacred duty and thus elicit voluntary compliance.

Finally, the economy of Nigeria was reviewed and the roles taxation play in economic and social development was highlighted which when properly designed and administered in Nigeria will aid in economic and social growth and development.

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CHAPTER THREE

3.0 RESEARCH METHODOLOGY

This chapter presents the method the researcher adopted in carrying out this research. It gives full details on the Research Design, Area of study, Sources of data, Instruments for data collection, Model specification, Apriori expectation and Method of data analysis.

3.1 RESEARCH DESIGN

Basically, this study is an Econometrics research and involves the use of time series data. According to Gujarati (2003:43), Econometric research has to do with measuring parameters of economic relationships and making forecasts or predictions of values of such variables

Time series data on Nigerian Tax revenue, Gross Domestic product, Inflation rates and Unemployment rates from 2000 to 2010 will be used in order to effectively analyze the impact of taxation on the economic and social development in Nigeria.

3.2 AREA OF THE STUDY

This study seeks to highlight the impact of taxation on the economic and social development in Nigeria. Therefore, Nigeria as a nation is the focal point in this research.

3.3 SOURCES OF DATA

Data needed for this study is secondary data which was gathered from journals of economics and various publication of the Central bank of Nigeria comprising Economic and Financial review, Annual report and Accounts as well as from National Bureau of Statistics.

3.4 INSTRUMENTS FOR DATA COLLECTION

Specifically, this study involves the use of time series data which is non- experimental in nature and data is got from Nigerian Tax Revenue, VAT (Value Added Tax), Gross Domestic Product (GDP) Unemployment rates and Inflation rates. These are some economic and social indices necessary to identify the impact of taxation on economic and social development in Nigeria.

3.5 SPECIFICATION OF MODELS

This involves specifying the models to be utilized in measuring the relevant economic and social phenomenon. A model is a small representation of the entire economy. According to Gujarati (2003:66), the model in use is an Econometrics model being the economic measurement that consists of mathematical statistics.

The research model is stated below:

$Y = \alpha + \beta_1 + \beta_2 \, x \, 2 + \beta_3 \, x \, 3 + \mu$

$Y = \alpha + \beta_1 \, In + \beta_2 \, GDP + \beta_3 \, UR- + \mu$

Where Y = Taxation figure

In = Inflation rate

GDP = Gross domestic product

UR = Unemployment Rate

β = Beta coefficients

X = Number of variables

μ = Stochastic error term

α = Parameter of the equation

From the specified model above, the dependent variable is Y = taxation figure while the independent variables are

In = Inflation Rate

GDP = Gross Domestic Product

UR = Unemployment Rate

3.6 A PRIORI EXPECTATION

According to Gujarati (2003:209) "a priori involves a deductive reasoning from a general economic principle to a necessary effect" it is based on hypothesis or theory rather than experiment. In this study, different economic and social factors, facts and principles will be used in defining the theoretical expectation of the sign or magnitude of the parameters of the specified model.

These a priori expectations are determined by the principles of economic theories guiding the economic and social relationships among the variables under consideration.

Hence the expected sign of the estimated parameters is expected to have a positive relationship with investment.

$$\frac{\text{Taxation}}{\text{GDP + INFLATION RATE + UNEMPLOYMENT RATE}} > \text{O}$$

3.7 METHOD OF DATA ANALYSIS

The analysis of the stated model was carried out using the various statistical data of each macroeconomic variable employed, using the method of multiple regression analysis. The rule of the ordinary least square (OLS) was adopted and for accuracy of results; econometric views software (EVIEWS) was used to run the regression analysis to empirically test the relationships among all the listed models in judging the impact of taxation on the economic and social development in Nigeria.

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CHAPTER FOUR

4.0 DATA ANALYSIS, PRESENTATION AND INTERPRETATION

This chapter aims at presenting, analyzing and interpreting the results collected on Nigerian tax revenue, GDP, inflation rates and unemployment rates between the years 2000- 2010 in order to effectively judge the impact of taxation on the economic and social development in Nigeria.

4.1 DATA ESTIMATION AND EVALUATION TECHNIQUES

Statistical and Econometrics tools are used as evaluation techniques and they include: standard error, t-test, R – squared, F – test and Durbin Watson statistics. The standard error is used to test the statistical significance of the parameter estimates whether they are significantly different from zero. The rule of thumb guiding standard error is that for statistical significance to be ascertained, the standard error of the parameter estimate must be less than half of the parameter estimate. When this happens, we are to accept the alternative hypothesis and reject the null hypothesis and vice versa.

More so, T-test is also used to test the statistical significance of the estimated parameter at a certain level of significance usually 5% or 1%. The rule of thumb guiding the t-test states that for statistical significance to be established, the t-calculated must be greater than the t-tabulated. When the t-statistics is greater than the critical value, we are to accept the alternative hypothesis and reject the null hypothesis and also if the critical value is greater than T – statistics, we are to accept the null hypothesis

F – Statistics is used to test the joint statistical significance of the explanatory variable and the dependent variable. When F – calculated is greater than F- critical, it shows that there is a joint significant relationship and vice versa. Finally, an econometric criterion is needed to test the presence or absence of positive serial correlation. The Economic measurement used for this is Durbin Watson statistics. If Durbin Watson statistics falls between zero (0) and two (2) but not approximately two (2), this implies that there is presence of positive correlation whereas if approximately two (2) or above, there is absence of positive serial correlation. R^2 or R squared measures the goodness of fit of model selected.

4.2 STATEMENT OF HYPOTHESES

The research hypotheses formed for the purpose of this study are:

H_0: There is no significant relationship between taxation and economic and social development in Nigeria.

H_1: There is a significant relationship between taxation and economic and social development in Nigeria

The decision criteria is to accept the null hypothesis (H_0) and reject the alternative hypothesis (H_1) or otherwise based on the result of the test carried out.

4.3 TABULAR PRESENTATION OF OVERALL REGRESSION RESULTS

Variable	Coefficient	Standard error	t-statistics	prob
Tax figures	0.000966	0.000926	1.04385	0.3156
GDP	13.06653	0.052625	248.297	0.0000
Inflation	2.0068	0.031068	2.5464	0.02244**
Unemployment	3.0713	0.000837	1.03257	0.13040
R-Square	0.385544	F-statistics	4.0785	
Adjusted R-square	0.291012	Prob. (f-statistics	0.047188	
Durbin Watson statistic	0.545918			

Source: EVIEWS RESULTS

Note: figures with ** indicates the points of statistical significance between the dependent variable and the explanatory variables.

4.4 INTERPRETATION AND ANALYSIS OF RESULT

From the results of the analysis from EVIEWS which is econometrics software for data analysis, taxation has a positive relationship with the Gross Domestic Product (GDP). In Nigeria, the result can be further justified in the sense that taxes imposed especially in the manufacturing sector is always higher than expected which is not coupled with the provision of appropriate social amenities and basic infrastructure. Most of the manufacturing industries and firms are discouraged that despite the high taxes imposed, there is no stable power supply thereby making these industries to incur so much cost in running their firms as other means of power supply and other social amenities are sourced privately by them. For example, Dunlop Tyre company relocated it's headquarters to south Africa on grounds that Nigeria has poor power supply and also charges higher taxes.

Also from the results of the analysis, tax also shows a positive relationship with inflation. In Nigeria, government raises tax in periods of inflation depending on the type prevalent especially income tax so as to dampen the level of economic activities by reducing the purchasing power of individuals. In inflation era, factors of production as well as cost of production increase astronomically and industries who can't cope with the incessant increase in costs will be forced to close shop or downsize its workforce thereby bringing untold hardship on the workers who become unemployed as a result.

In Nigeria, unemployment rates increase daily even as taxation figures or Government Revenue increase. Millions graduate yearly without provision made for them in terms of employment by the Government. As a result of inadequate funding, political instability, inadequate infrastructure, a lot of industries closed shops and some are operating below expectations. AVOP Nachi, NIGERCEM Nkalagu, etc are examples of such industries that would have employed a lot of people thereby reducing the rate of unemployment in the country. Also if schools were adequately funded by the government, vocational and technical centers would have been established or provided in schools so as to help students become more self reliant and more towards becoming self-employed after graduation.

As stated earlier, there is statistical significance between Taxation and Gross Domestic product (GDP) as shown with the standard error estimates. Figures with ** indicates that there is significant relationship between the dependent variable and the explanatory variable. More so, the t-statistics is greater than the critical value thereby supporting the a prior criteria stated in the interpretation of result'

R^2 (R-squared) measures the goodness of fit of model. In the analysis, the R^2 is 38.5% which shows that 38.5% account for systematic variation as a result of variations in the explanatory variables whereas the remaining 61.5% are factors which affect the dependent variable but were not captured in the model which was represented earlier as the stochastic variables or Error term.

F – Statistics is used to test the joint statistical significance of the parameter estimates. From the result, the F- statistics value of ($P < 0.05$) shows that there is a joint statistical significance but not a sufficient one because of low F- value of 4.07 between the explanatory variables and the dependents variable.

Durbin Watson statistics is used to test for the presence or absence of position serial correlation. Since the Durbin Watson statistics falls between zero and two (0 and 2), that is 0.54, it shows that there is presence of positive correlation and or no negative correlation. Therefore the decision rule or criteria is to reject the null hypothesis and accept the alternative hypothesis which states that there is a significant relationship between taxation and economic and social development in Nigeria.

CHAPTER FIVE

5.0 SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATION

This chapter presents summary of findings of this research work as well as recommendations, conclusion and suggestions for the further studies. The previous chapter dealt with analyses and interpretation of data obtained by way of data collection from the CBN statistical bulletin and National Bureau of statistics. In this chapter, a brief summary on the research work will be presented including the findings from the literature review. Lastly, the recommendations that will serve as guidelines to assist in the economic and social development in Nigeria.

5.1 SUMMARY OF MAJOR FINDINGS

The purpose of this research work is to look into the role and impact of taxation in the economic and social development in Nigeria and also the need for setting taxation policies that will aid in the growth the development of an economy. From this study, it was discovered that Nigeria faces a series of challenges when it comes to optimizing taxation for economic and social growth and development.

Olashore (1993:53) stated that the taxation system in Nigeria has not been fully tapped and maximized and it’s role in promoting economic and social development is not felt because of it’s poor administration and thus all macro economic indicators shows an economy in dire need of rejuvenation, balancing and indeed radical reform.

According to Tabansi, A (1994:63), Tax Administration in Nigeria is faced with a lot of challenges which cut across the three tiers of government and include: lack of an overall understanding of the role of tax in National development, Lack of accountability for tax revenue, lack of inter-governmental collaboration, co-operation and coordination between tiers and agencies of government as well as dependence on oil revenue leading to a neglect of taxation as a source of revenue.

Taxation is a core pillar of a country's regulatory framework for investment and growth. It features prominently in investment decision making motivated by profit maximization while also spurring local enterprises development. The Nigerian tax system is currently undergoing several reforms geared at enhancing tax collection and administration with minimal enforcement cost. The tax laws are consistently being reviewed with the aim of repealing obsolete provisions and simplifying the main ones. The introduction of unique tax payers identification number (TIN) since February 2008, Automated tax system that facilitates tracking of tax positions and individual tax payer, E-payment system which enhance smooth payment procedure and reduces the incidence of tax touts.

Ikwueze (2000:43) stated that despite this improvement, there are still a number of contentious issues that requires urgent attention and among them is the issue of appropriate tax authority to administer several taxes. Also, the issue of multiple taxes severally administered by all the three tiers of government sometimes imposes welfare costs. Tax Evasion and avoidance and the issue of corruption is still a perennial issue in the country. One source that can make the nation to actualize its vision 2020 is to have a strong tax system that conveniently generates revenue with minimal welfare cost.

5.2 CONCLUSION

The aim of this research work has been identified and related to the need for formulating and implementing taxation policies that will aid both economic and social development in Nigeria. It was gathered from the data analysis that taxation has a positive relationship with economic and social development in Nigeria thus rejecting the null hypothesis.

The objectives of taxation include to raise revenue necessary for the provision of essential services to the people which include building of schools, industries, construction of road, provisions of pipe borne water- all geared towards raising the standard of living of the citizen

In periods of inflation, taxation is useful in stabilizing prices with reasonable level of full employment and economic growth. A higher taxation that is not accompanied by increased government expenditure will decrease consumers' purchasing power and hence check inflation. Taxation also helps to protect infant industries, improve balance of payment, reduce income irregularities and also control monopoly.

Taxation increases government revenue in Nigeria but unemployment rate is on the increase. ASUU recently went on strike because of lack of funding from the government. Schools are in deplorable situation, no adequate infrastructure and health facilities. Most industries source power supply privately thereby incurring high costs in production. Dunlop Tyre Company relocated its headquarters to South Africa on grounds that Nigeria has poor power supply and also charges higher taxes.

Taxation plays a crucial role in promoting economic and social growth and development. It is a core pillar for a country's regulatory framework for investment and growth but this can only take place when taxation and its administration are properly designed and channeled to it's purpose and objectives. This will bring about the much desired economic and social development in Nigeria.

5.3 RECOMMENDATIONS

The following recommendations are made to assist government in making taxation policies that will aid both economic and social development in Nigeria

- There should be awareness on the part of tax payers on the role of taxation in the economic and social development in Nigeria.

- Efforts should be made by the government to channel the revenue from taxation towards socio-economic activities that will benefit the tax payers. This will discourage tax evasion and avoidance.
- There should be inter governmental collaboration, co-operation and co-ordination between different tiers and agencies of government.
- Government should reduce the tax rate placed on private investors as this will encourages more private investment in the economy.
- Emerging organizations should be made tax-free in order to help them find their feet in the economy.
- Other forms of taxation should be taken with all seriousness ensuring that they are not being evaded in order to allow inflow of money into the economy.
- Tax rates should be reduced when the economy is depressed and requires some form of stimulation thereby helping in the stabilization of the economy
- Taxing powers and responsibilities of the state and local government should be looked into as well as the challenges

they encounter. These challenges can be addressed for a more effective administration.

All the above mentioned recommendations are futile if not implemented and monitored squarely. In this respect, efforts should be made for research advanced for the benefits of this country, Nigeria to be made available to government and their advisers and also to see to it that these research work do not end it's journey in the library without achieving it's main purpose.

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APPENDIX 1

Data on Taxation Revenue and Economic/Social indices from 2000-2010

Year	Tax revenue (N billion)	GDP (N million)	Inflation rate (%)	Unemployment rate (%)
2000	1906.2	412332	6.9	7.4
2001	2231.6	431783.2	18.9	8.1
2002	1731.8	451785.7	12.9	8.6
2003	2575.1	495007.2	14	10.8

2004	3920.5	527576	15	11.4
2005	5547.5	561931.4	17.9	11.9
2006	5965.1	595821.6	8.2	12.3
2007	5686.7	573228.1	5.4	12.7
2008	5872.3	588290.4	11.6	14.9
2009	5748.6	578248.9	12.5	19.7
2010	8224.2	32311.3	13.7	21.1

Source: CBN statistical Bulletin, National Bureau of Statistics

APPENDIX 2

EVIEWS OVERALL REGRESSION RESULTS

DEPENDENT VARIABLES: GDP, INFLATION, UNEMPLOYMENT

METHOD: LEAST SQUARES

DATE: 10/19/11 **TIME**: 20: 43

SAMPLE: 2000 -2010

INCLUDED OBSERVATION: 11

Variables	Coefficients	Standard error	t-statistics	Prob.

Taxation	0.000966	0.000926	1.04385	0.3156
GDP	13.06653	0.052625	248.297	0.0000
Inflation	2.0068	0.031068	2.5464	0.02244
Unemployment	3.0713	0.000837	1.03257	0.13040
R-squared	0.385544	Mean dependent variable		13.03101
Adjusted R-square	0.291012	S.D dependent variable		0.200576
S.E of regression	0.168888	Akaike info criteria		-0.551804
Sum squared residual	0.370800	Schwarz criterion		-0.406943
Log likelihood	7.414430	F-statistics		4.078458
Durbin Watson Stat.	0.545918	Prob. (f-statistic)		0.042188

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