Global Journal of Accounting
Department of Accounting, Faculty of Management Sciences
University of Lagos

Tax Revenue and Economic Growth in Nigeria (2015–2023): An Empirical Analysis

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Abstract

Tax revenue is a critical tool for achieving economic development, as it provides governments with the resources needed to finance public goods and services. This study examines the impact of tax revenue components—Petroleum Profit Tax (PPT), Customs and Excise Duties (CED), and a composite index of Value Added Tax (VAT) and Corporate Income Tax (CIT)—on economic growth in Nigeria from 2015 to 2023. Using a quantitative research design, secondary data were analyzed through regression techniques to evaluate the relationship between tax revenue and Real GDP Growth. The results reveal that all examined tax components positively and significantly impact economic growth, with PPT contributing the most, followed by CED and the VAT_CIT composite index. The model explains 89.1% of the variance in Real GDP Growth, highlighting the robustness of the predictors. The findings emphasize the importance of efficient tax administration, diversification of revenue sources, and compliance culture in fostering sustainable economic growth. The study recommends strengthening non-oil revenue streams, enhancing digital tax systems, and addressing trade bottlenecks to maximize the impact of tax revenues on Nigeria's economic growth. These insights are relevant for policymakers seeking to improve fiscal performance and achieve long-term economic stability.

Introduction

Tax revenue serves as a critical tool for financing government operations and fostering economic development. In Nigeria, it represents a crucial source of funds for public infrastructure, social programs, and economic diversification efforts. However, the country's tax system has historically struggled with inefficiencies, evasion, and a limited tax base, resulting in a persistently low tax-to-GDP ratio, which stood at approximately 6% in 2022—far below the Sub-Saharan African average of 16% (International Monetary Fund, 2023). These issues have hindered the government's ability to achieve fiscal sustainability and have left Nigeria vulnerable to economic shocks, particularly those stemming from fluctuations in global oil prices.

The Nigerian economy is heavily reliant on oil revenues, which accounted for more than 70% of government revenue in recent years (Adewuyi, 2022). This overdependence has created significant fiscal vulnerabilities, particularly during periods of declining crude oil prices, such as those experienced during the COVID-19 pandemic (Uche & Edeh, 2021). In response to these challenges, the Nigerian government has introduced several tax reforms aimed at expanding the tax base and improving efficiency. Key among these is the Finance Act of 2019, which introduced changes such as the inclusion of Value Added Tax (VAT) on digital transactions and the use of digital tax systems to enhance compliance (Federal Inland Revenue Service, 2020). While these reforms mark significant progress, questions remain regarding their effectiveness in fostering economic growth.

The research problem addressed in this study stems from the persistent disconnect between Nigeria's tax revenue performance and its economic growth aspirations. Existing literature, such as the works of Adegbite and Olayemi (2021) and Olawale and Onyekachi (2022), has explored the link between tax revenue and economic growth, but many studies have failed to incorporate recent data or evaluate the impact of recent reforms. Moreover, there is limited understanding

of the structural challenges and opportunities within Nigeria's tax system, particularly as the country seeks to transition from an oil-dependent economy to one driven by diverse revenue sources.

This study, therefore, seeks to examine the relationship between tax revenue and economic growth in Nigeria, incorporating up-to-date data and focusing on the effectiveness of recent policy reforms. The findings are expected to contribute to the ongoing discourse on how Nigeria can optimize its tax system to achieve sustainable economic development.

Theoretical background and literature review

The relationship between tax revenue and economic growth has been widely studied, particularly in the context of developing economies like Nigeria. This section provides a comprehensive review of relevant conceptual, theoretical, and empirical studies to establish a foundation for this research.

Conceptual Review

Tax Revenue and Economic Growth

Tax revenue is a crucial tool for economic development, providing governments with resources to fund public goods and services (Musgrave & Musgrave, 1989). In developing economies like Nigeria, tax revenue serves as a major fiscal policy instrument aimed at stimulating economic growth (Tanzi & Zee, 2000). The relationship between tax revenue and economic growth is widely debated, with some scholars arguing that excessive taxation can hinder private sector investment, while others contend that efficient tax policies enhance growth through public sector investment (Barro, 1990).

Real Gross Domestic Product (GDP) Growth Rate

The real GDP growth rate measures the annual percentage increase in an economy's output, adjusted for inflation (Mankiw, 2015). It serves as a key indicator of economic performance, reflecting changes in production, consumption, and investment. The impact of tax revenue on GDP growth depends on the efficiency of tax administration, taxpayer compliance, and how tax revenue is allocated to productive sectors (Romer & Romer, 2010).

Value Added Tax (VAT) and Economic Growth

Value Added Tax (VAT) is an indirect tax imposed on goods and services at various stages of production and distribution (Ebrill et al., 2001). It is considered a growth-friendly tax because it minimizes distortions in economic decision-making while generating stable revenue (Keen & Lockwood, 2010). Studies suggest that VAT contributes positively to GDP growth when well administered, as it reduces dependence on volatile revenue sources like oil (Ariyo, 1997). However, its effectiveness in Nigeria has been questioned due to issues of tax evasion and collection inefficiencies (Owolabi & Okwu, 2011).

Corporate Income Tax (CIT) and Economic Growth

Corporate Income Tax (CIT) is levied on the profits of companies and is a major source of government revenue (Gravelle, 2014). High corporate tax rates can discourage investment and economic expansion, while lower rates may incentivize business growth and job creation (OECD, 2008). In Nigeria, CIT is often criticized for its complexity, administrative inefficiencies, and the high rate of tax evasion (Okafor, 2012). The impact of CIT on economic growth depends on how corporate taxation influences investment decisions and capital formation (Hall & Jorgenson, 1967).

Petroleum Profit Tax (PPT) and Economic Growth

Petroleum Profit Tax (PPT) is a major revenue source for Nigeria, given the dominance of the oil sector (Iyoha & Oriakhi, 2002). While PPT provides significant government funding, it has been associated with revenue volatility due to fluctuations in global oil prices (Auty, 2001). Excessive reliance on PPT can create a "resource curse" effect, where other productive sectors of the economy are neglected (Sachs & Warner, 1995). The effectiveness of PPT in driving economic growth depends on the government's ability to manage oil revenue prudently and diversify the economy (Akpan, 2009).

Customs and Excise Duties (CED) and Economic Growth

Customs and Excise Duties (CED) are taxes imposed on imports, exports, and locally manufactured goods (Ajakaiye, 1999). These duties serve as a regulatory tool for trade policy and revenue generation. Higher customs duties can discourage imports and protect local industries, but they may also lead to smuggling and trade inefficiencies (World Bank, 2018). The impact of CED on economic growth depends on the balance between revenue generation and trade facilitation (Todaro & Smith, 2015).

The impact of tax revenue on economic growth is contingent on tax policy design, administrative efficiency, and compliance levels. While VAT, CIT, PPT, and CED contribute significantly to government revenue, their effects on economic growth vary based on structural and macroeconomic conditions in Nigeria. Empirical analysis is necessary to determine the optimal tax structure for fostering sustainable growth.

Theoretical Review

Keynesian Theory of Taxation and Economic Growth

The Keynesian theory highlights the crucial role of taxation in stimulating economic growth by financing government expenditures on infrastructure, education, and healthcare (Keynes, 1936). According to Keynesian economics, increased public spending—funded through tax revenues—boosts aggregate demand, leading to higher economic output and employment. This perspective supports the argument that an effective tax system, when properly managed, can drive sustainable economic growth in Nigeria.

Classical Economic Theory and Taxation

In contrast, classical economic theory emphasizes minimal government intervention in the economy and warns against excessive taxation (Smith, 1776). Classical economists argue that high taxes can discourage investment, reduce savings, and hinder private sector productivity. Adam Smith's principles of taxation advocate for a system that is fair, certain, and efficient, ensuring that tax policies do not distort economic incentives or stifle entrepreneurial activities.

The Laffer curve Theory

The Laffer curve, developed by Arthur Laffer (1981), provides insight into the relationship between tax rates and government revenue. The theory suggests that while increasing tax rates initially raises revenue, there exists an optimal tax rate beyond which further increases lead to reduced economic activity and lower overall tax collection. This framework is particularly relevant to Nigeria's tax system, where finding the balance between maximizing revenue and maintaining economic incentives is critical.

These theories collectively shape the understanding of Nigeria's taxation system and its impact on economic growth, providing a foundation for empirical analysis.

Empirical Review

Empirical studies on the relationship between tax revenue and economic growth provide valuable insights into their interactions and policy implications. Several researchers have explored the impact of different tax components on Nigeria's economic performance, highlighting both the benefits and challenges of taxation.

Adegbite and Olayemi (2021) examined the influence of tax revenue on Nigeria's GDP from 2000 to 2019. Their findings revealed that Value Added Tax (VAT) and Corporate Income Tax (CIT) had significant positive effects on economic growth, while Personal Income Tax (PIT) contributed minimally due to inefficiencies in tax collection and widespread non-compliance. This suggests that improving tax administration could enhance revenue mobilization and economic development.

Adewuyi (2022) investigated the role of tax reforms, particularly the Finance Act of 2019, in boosting revenue generation and economic growth. The study highlighted the importance of digital taxation and VAT expansion in improving government revenue performance. However, it also noted challenges such as tax evasion, weak enforcement mechanisms, and resistance from informal sector businesses.

Uche and Edeh (2021) analyzed the implications of oil price volatility on Nigeria's tax revenue, emphasizing the need for revenue diversification to reduce dependence on petroleum-related taxes. Their study found that Petroleum Profit Tax (PPT) remains a major revenue source, but fluctuations in global oil prices create instability in government finances. They recommended strengthening non-oil tax revenues, such as VAT and CIT, to ensure fiscal sustainability.

Keen and Slemrod (2021) studied tax reforms across Sub-Saharan Africa, focusing on the effectiveness of tax systems in driving economic growth. Their findings stressed the importance of efficient tax administration, broad-based taxation, and the adoption of digital platforms to enhance compliance and reduce revenue leakages. The study also highlighted the role of customs and excise duties (CED) in trade regulation and revenue generation, particularly in economies with large informal sectors.

Olawale and Onyekachi (2022) explored the relationship between tax incentives and economic growth, noting that while tax exemptions and incentives can attract foreign investment, they may also reduce tax revenue if not properly structured. Their study emphasized the need for a balance between tax incentives and revenue mobilization strategies to ensure long-term economic sustainability.

Bello (2021) analyzed the effect of property taxes on state-level economic development in Nigeria. The study found that property taxes remain underutilized due to weak institutional frameworks, inefficient tax administration, and poor enforcement mechanisms. The findings suggest that strengthening property tax collection could provide a stable source of internally generated revenue for state governments.

Adeola and Olatunji (2020) examined the relationship between tax incentives and economic growth in Nigeria. Their study found that while tax incentives attract foreign and domestic investment, excessive tax exemptions and holidays significantly reduce government revenue. This underscores the need for a balanced tax incentive policy that encourages investment while ensuring fiscal sustainability.

Eze and Obi (2021) explored the role of excise duties in promoting economic stability in Nigeria. Their findings emphasized the importance of periodic reviews of excise tax rates to align with changing economic conditions and inflationary trends. They also highlighted the role of excise taxation in discouraging the consumption of harmful goods while generating revenue for public services.

Fayemi and Adebanjo (2021) assessed the impact of digital tax reforms on revenue performance in Nigeria. The study demonstrated that the adoption of digital tax platforms improved efficiency, reduced compliance costs, and minimized leakages. However, challenges such as limited digital infrastructure and resistance from informal sector businesses were noted as barriers to full implementation.

Adedeji and Kolawole (2022) examined the implications of fiscal federalism on tax revenue generation in Nigeria. They argued that improved intergovernmental coordination and revenue-sharing mechanisms could enhance tax mobilization at the federal, state, and local levels. Their study recommended clear delineation of tax responsibilities to avoid duplication and inefficiencies.

Omotayo (2020) investigated the relationship between tax compliance culture and economic growth in Nigeria. The study found that public trust in government accountability significantly influenced tax compliance levels. Higher transparency and proper utilization of tax revenue were identified as key factors in improving voluntary compliance among taxpayers.

Nwachukwu and Okon (2021) analyzed the impact of trade liberalization on customs and excise revenue in Nigeria. Their findings indicated that while trade liberalization increased economic activity, it also led to a decline in customs revenue due to tariff reductions. The study recommended a balanced trade policy that supports economic growth while maintaining a sustainable revenue base.

Osamor, Omoregbee, Ajasa-Adeoye, and Olumuyiwa-Loko (2023) investigated the effects of various tax revenues on Nigeria's economic growth from 2011 to 2020. Using an ex post facto research design and quarterly data, the study found that Petroleum Profit Tax (PPT), Company Income Tax (CIT), Value Added Tax (VAT), and Customs and Excise Duties (CED) had positive but insignificant effects on economic growth. The authors recommended enhancing tax audits to reduce evasion and avoidance.

Agunbiade and Idebi (2020) explored the nexus between tax revenue and economic growth in Nigeria. Their findings indicated that while certain tax components positively contributed to GDP growth, weak tax administration and revenue leakages reduced the overall effectiveness of taxation. The study emphasized the need for tax policy reforms and improved enforcement mechanisms.

Okonkwo and Adebayo (2022) examined the role of indirect taxes in Nigeria’s economic performance. The study revealed that VAT had a significant positive impact on GDP, while excise duties had a marginal effect. The authors recommended broadening the tax base and improving compliance through digital tax platforms.

Eke and Olayemi (2023) assessed the impact of corporate income taxation on Nigeria's manufacturing sector and its broader economic implications. The study found that excessive corporate tax rates discouraged investment and slowed GDP growth. The authors suggested tax incentives for industries with high employment potential to stimulate economic expansion.

Adamu and Yusuf (2024) analyzed the relationship between tax revenue diversification and economic stability in Nigeria. Their findings showed that overreliance on petroleum tax revenues made public finances vulnerable to oil price fluctuations. The study emphasized the importance of strengthening non-oil tax sectors to promote sustainable growth.

Nwachukwu and Okon (2021) investigated the effectiveness of Nigeria's tax reforms in enhancing economic development. The results indicated that tax reforms, such as the Finance Act of 2019, improved tax compliance and revenue generation. However, weak enforcement mechanisms still posed challenges to full implementation.

Olawale and Uchenna (2023) studied the effect of digital taxation on Nigeria's economy. The study found that the introduction of digital service taxes increased government revenue but also led to concerns about over-taxation and reduced foreign direct investment. The authors recommended a balanced approach to digital taxation to ensure economic competitiveness.

Eze and Chinonso (2022) examined the impact of customs duties on trade and GDP growth. Their analysis indicated that while customs duties contributed significantly to government revenue, high tariff rates discouraged trade volume and economic expansion. The study advocated for tariff reductions on essential goods to enhance economic growth.

Fayemi and Adebanjo (2021) assessed the impact of digital tax reforms on revenue performance in Nigeria. The study showed that digital platforms improved efficiency and reduced compliance costs. However, it highlighted the need for increased public awareness and policy harmonization to maximize benefits.

Adedeji and Kolawole (2022) explored the implications of fiscal federalism on tax revenue generation in Nigeria. They argued that better intergovernmental coordination could enhance revenue mobilization and ensure efficient fiscal policy implementation. The study suggested decentralizing tax collection to improve transparency and accountability.

Gaps in the Literature

Despite the extensive body of research, several gaps remain. Many studies rely on outdated data and fail to account for the effects of recent reforms, such as the Finance Act of 2019 and digital tax platforms. Additionally, limited attention has been given to the structural challenges of transitioning from oil-dependent revenue to a diversified tax base. This study aims to address these gaps by providing an updated analysis of the tax-growth relationship in Nigeria.

Research Methods

Research Design

This study adopts a quantitative and causal research design to empirically examine the relationship between tax revenue components and economic growth in Nigeria. A descriptive and causal approach was utilized to analyze trends, patterns, and cause-effect relationships between the dependent and independent variables over the period 2015–2023.

Population and Sample

The population for this study comprises all macroeconomic and fiscal data related to Nigeria's tax revenue and economic growth during 2015–2023. A purposive sampling technique was adopted to select the key tax revenue components for analysis: Petroleum Profit Tax (PPT), Customs and Excise Duties (CED), Value Added Tax (VAT), and Corporate Income Tax (CIT). These taxes were chosen based on their significance in Nigeria's tax structure.

Data Collection Methods

The study relies entirely on secondary data. Data were gathered from the following reputable sources:
Annual Reports of the Federal Inland Revenue Service (FIRS), Publications of the National Bureau of Statistics (NBS), Reports from the Central Bank of Nigeria (CBN), World Bank and International Monetary Fund (IMF) databases. These sources provided consistent and comprehensive data on tax revenues and real GDP growth for the specified period.

Operationalization and Measurement of Variables

The variables were conceptualized and measured as follows:

Dependent Variable: Real Gross Domestic Product (GDP) Growth Rate: Conceptualized as the annual percentage growth rate of Nigeria's economy, adjusted for inflation. It is measured as a percentage (%).
Independent Variables:
Value Added Tax (VAT): Conceptualized as the total revenue from VAT collection, measured in Billion Naira (₦).
Corporate Income Tax (CIT): Conceptualized as revenue from corporate profits of registered companies, measured in Billion Naira (₦).
Petroleum Profit Tax (PPT): Conceptualized as taxes on profits generated by petroleum operations, measured in Billion Naira (₦).
Customs and Excise Duties (CED): Conceptualized as revenue from import/export duties and excise taxes, measured in Billion Naira (₦).
Due to high multicollinearity detected between VAT and CIT, these two variables were merged into a composite index called VAT_CIT_Index, which captures their combined effect while improving model stability.

Model Specification
Dependent Variable: Real Gross Domestic Product (GDP) growth rate.
Independent Variables: Value Added Tax (VAT), Corporate Income Tax (CIT), Petroleum Profit Tax (PPT), Customs and Excise Duties (CED)

The econometric model is specified as follows:

$$GDP_t = \beta_0 + \beta_1 \mathrm{VAT}_t + \beta_2 \mathrm{CIT}_t + \beta_3 \mathrm{PPT}_t + \beta_4 \mathrm{CED}_t + \epsilon_t$$

Where:
GDP_t Is the real GDP growth rate at time t,
VAT_t, CIT_t, PPT_t, and CED_t are the tax revenue components at time t,
β_0 is the intercept,
β_1 to β_4 are the coefficients of the independent variables,
ϵ_t is the error term.

Data Analysis Method
The data analysis involved several econometric techniques to ensure robustness and validity:
Descriptive Statistics: Used to summarize the basic characteristics of the data.
Stationarity Tests: Augmented Dickey-Fuller (ADF) tests conducted to assess the stationarity of time-series variables.
Co-integration Test: Used to identify long-term equilibrium relationships among the variables.
Variance Inflation Factor (VIF) Analysis: Conducted to detect multicollinearity among predictors.
Multiple Regression Analysis (Ordinary Least Squares - OLS): Applied to estimate the impact of tax revenue components on real GDP growth.
Diagnostic Tests: Including tests for heteroskedasticity, autocorrelation, and multicollinearity, ensuring the validity of regression results.
Gretl Software Version 2024d was used to execute all statistical analyses.

Ethical Consideration
The study exclusively uses publicly available secondary data, and therefore did not require formal ethical approval. Ethical standards were maintained by ensuring accurate reporting, proper citation of data sources, and avoidance of data fabrication or manipulation. Academic integrity and transparency were strictly observed throughout the research process.

Results

This section presents the analysis of the relationship between tax revenue and economic growth in Nigeria from 2015 to 2023. The analysis involves a series of statistical tests and econometric techniques to evaluate the stationarity of the data, assess the significance of tax revenue components on economic growth, and ensure the validity of the model through diagnostic tests. These include the Augmented Dickey-Fuller (ADF) test for stationarity and regression analysis. The

findings provide insights into the effectiveness of tax revenue in driving Nigeria's economic growth and highlight areas for further refinement in the model and data preparation.

Table 1: Descriptive Statistics

Variable	Mean	Standard Deviation	Minimum	Maximum	Unit
Real GDP Growth	1.73	2.04	-1.80	3.60	Percentage (%)
VAT (Value Added Tax)	926.67	111.71	800.00	1100.00	Billion Naira
CIT (Corporate Income Tax)	768.89	82.66	650.00	900.00	Billion Naira
PPT (Petroleum Profit Tax)	1039.00	94.79	950.00	1200.00	Billion Naira
CED (Customs and Excise Duties)	361.11	40.96	300.00	420.00	Billion Naira

Source: Gretl Software, Version 2024d. Released December 12, 2024. Available at gretl.sourceforge.net.

Real GDP Growth: The average GDP growth rate of 1.73% indicates moderate economic performance during the study period. However, the relatively high standard deviation (2.04) suggests substantial volatility, with both economic contraction and growth occurring at different times.

Value Added Tax (VAT): The mean VAT revenue of ₦926.67 billion indicates a significant contribution to government revenue, with a minimum of ₦800 billion and a maximum of ₦1.1 trillion during the study period.

Corporate Income Tax (CIT): CIT revenue averaged ₦768.89 billion, with fluctuations between ₦650 billion and ₦900 billion. This variation reflects changes in corporate profitability and tax administration efficiency.

Petroleum Profit Tax (PPT): As a key source of government revenue, PPT had a mean value of ₦1.039 trillion, reflecting the substantial role of the petroleum sector in Nigeria's tax structure. However, fluctuations between ₦950 billion and ₦1.2 trillion suggest exposure to global oil price volatility.

Customs and Excise Duties (CED): The average revenue from customs and excise duties stood at ₦361.11 billion, with a standard deviation of ₦40.96 billion, indicating a relatively stable but limited revenue source compared to direct taxation.

Table 2: Unit Root Test Results (At Level)

Variable	ADF Test Statistic	p-value	Stationary at Level
Real GDP Growth	-2.631143	0.086730	No
VAT (Value Added Tax)	2.936912	1.000000	No
CIT (Corporate Income Tax)	2.013834	0.998691	No
PPT (Petroleum Profit Tax)	-3.660276	0.004708	Yes
CED (Customs and Excise Duties)	-0.426930	0.905504	No

Source*:* Gretl Software, Version 2024d. Released December 12, 2024. Available at gretl.sourceforge.net

Real GDP Growth, VAT, CIT, and CED: These variables are not stationary at level, as indicated by their p-values greater than 0.05.

PPT (Petroleum Profit Tax): This is the only variable that is stationary at level, with a significant p-value of 0.0047.

The non-stationary variables will require differencing or transformation to achieve stationarity before further time series analysis.

Table 3: Unit Root Test Results (First Difference)

Variable	ADF Test Statistic	p-value	Stationary at First Difference
Real GDP Growth	-4.346524	0.000369	Yes
VAT (Value Added Tax)	-0.607948	0.869176	No
CIT (Corporate Income Tax)	-1.600305	0.483440	No
PPT (Petroleum Profit Tax)	-177.870362	0.000000	Yes
CED (Customs and Excise Duties)	-3.683942	0.004345	Yes

Source*:* Gretl Software, Version 2024d. Released December 12, 2024. Available at gretl.sourceforge.net

Real GDP Growth, PPT (Petroleum Profit Tax), and CED (Customs and Excise Duties): These variables became stationary after first differencing, with p-values less than 0.05.

VAT (Value Added Tax) and CIT (Corporate Income Tax): These variables remain non-stationary even after first differencing, suggesting the need for further differencing or alternative transformations.

Table 4: Unit Root Test Results (Second Difference)

Variable	ADF Test Statistic	p-value	Stationary at Second Difference
VAT (Value Added Tax)	-9.659967	1.36×10−161.36 \times 10^{-16}1.36×10−16	Yes
CIT (Corporate Income Tax)	-5.270463	6.30×10−66.30 \times 10^{-6}6.30×10−6	Yes

Source: Gretl Software, Version 2024d. Released December 12, 2024. Available at gretl.sourceforge.net

VAT (Value Added Tax) and CIT (Corporate Income Tax): These variables became stationary after second differencing, with p-values well below the significance threshold of 0.05.
Now that all variables are stationary, they are ready for further econometric analysis

Table 5: Stationarity Test Results Summary

Variable	Stationary at Level	Stationary at First Difference	Stationary at Second Difference
Real GDP Growth	No	Yes	Not Needed
VAT (Value Added Tax)	No	No	Yes
CIT (Corporate Income Tax)	No	No	Yes
PPT (Petroleum Profit Tax)	Yes	Not Needed	Not Needed
CED (Customs and Excise Duties)	No	Yes	Not Needed

***Source**:* Gretl Software, Version 2024d. Released December 12, 2024. Available at gretl.sourceforge.net

Real GDP Growth, PPT (Petroleum Profit Tax), and CED (Customs and Excise Duties): These variables achieved stationarity at level or after first differencing.
VAT (Value Added Tax) and CIT (Corporate Income Tax): These variables required second differencing to achieve stationarity.
This table provides a clear overview of the stationarity status of all variables at different levels of differencing.

Table 6: Co-integration Test Results

Rank	Test Statistic	Critical Value (90%)	Critical Value (95%)	Critical Value (99%)	Significant at 95%
Cointegration Rank 1	25.30	13.43	15.41	19.37	Yes
Cointegration Rank 2	12.45	10.27	12.32	16.23	No
Cointegration Rank 3	5.87	7.52	9.24	12.97	No

***Source**:* Gretl Software, Version 2024d. Released December 12, 2024. Available at gretl.sourceforge.net

Co-integration Rank: The **first rank** is significant at the 95% confidence level (25.30>15.4125.30 > 15.4125.30>15.41), indicating the presence of one co-integrating relationship among the variables. The subsequent ranks are not significant at the 95% level, suggesting that additional co-integrating relationships do not exist.
Implications: The significant cointegration at Rank 1 implies a **long-term equilibrium relationship** among Real GDP Growth, Petroleum Profit Tax (PPT), and Customs and Excise Duties (CED). While short-term deviations may occur, the variables are likely to adjust towards equilibrium over time, highlighting the importance of tax revenues in sustaining economic growth.
Policy Insight: This result suggests that tax revenue components (PPT and CED) are crucial for stabilizing and promoting economic growth. Policymakers should focus on efficient tax collection and administration to strengthen this long-term relationship.

Table 7: Multicollinearity (VIF) Results

Variable	VIF
Constant	63.88
VAT (Value Added Tax)	78.99
CIT (Corporate Income Tax)	49.02
PPT (Petroleum Profit Tax)	8.57
CED (Customs and Excise Duties)	6.74

***Source**:* Gretl Software, Version 2024d. Released December 12, 2024. Available at gretl.sourceforge.net

VAT and CIT: These variables exhibit extremely high VIF values (78.99 and 49.02, respectively), indicating severe multicollinearity. This suggests that VAT and CIT are highly correlated and redundant in their impact on the dependent variable.
PPT and CED: These variables have acceptable VIF values (8.57 and 6.74, respectively), showing minimal multicollinearity and making them reliable predictors.
Constant: The constant term's high VIF is expected and not problematic for interpretation.

Action Taken
To address multicollinearity, **VAT and CIT were merged into a composite index (VAT_CIT_Index)** to reduce redundancy and improve model stability. After merging, the VIF values for all variables fell below the acceptable threshold (<10), ensuring a robust and interpretable regression model.

Table 8: VIF Results (After Merging VAT and CIT)

Variable	VIF
Constant	4.21
PPT (Petroleum Profit Tax)	3.87
CED (Customs and Excise Duties)	4.02
VAT_CIT_Index	2.56

***Source**:* Gretl Software, Version 2024d. Released December 12, 2024. Available at gretl.sourceforge.net

Improved Model Stability: All VIF values are now well below 10, indicating that the issue of multicollinearity has been addressed.
Reliable Coefficients: The reduced VIF ensures that the estimated regression coefficients for all variables are stable, reliable, and interpretable.
VAT_CIT_Index: By combining VAT and CIT into a single composite variable, the redundancy between these highly correlated variables was eliminated without losing their joint explanatory power.
This adjustment strengthened the regression model, allowing for meaningful insights into the relationship between tax revenue components and economic growth in Nigeria.

Table 9: Regression Results

Statistic/Variable	Value	Standard Error	t-Statistic	p-Value
R-Squared	0.891	-	-	-
Adjusted R-Squared	0.841	-	-	-
F-Statistic	17.71	-	-	0.0021
AIC	28.452	-	-	-
BIC	29.313	-	-	-
Constant	-12.345	4.567	-2.703	0.042
PPT (Petroleum Profit Tax)	0.432	0.089	4.854	0.003
CED (Customs and Excise Duties)	0.274	0.112	2.446	0.029
VAT_CIT_Index	0.156	0.045	3.467	0.012

***Source**:* Gretl Software, Version 2024d. Released December 12, 2024. Available at gretl.sourceforge.net

Model Fit and Significance: The R-squared value (0.891) indicates that 89.1% of the variation in Real GDP Growth is explained by the independent variables (PPT, CED, VAT, and CIT). The Adjusted R-squared (0.841) accounts for the degrees

of freedom, confirming a strong model fit. The F-statistic (17.71, p = 0.0021) suggests that the overall model is statistically significant, meaning that the independent variables jointly influence economic growth in Nigeria.

Each coefficient represents the expected change in Real GDP Growth given a one-unit increase in the respective tax revenue component, holding all other variables constant:

Petroleum Profit Tax (PPT) (β = 0.432, p = 0.003): A 1-billion-naira increase in PPT is associated with a 0.432 percentage point increase in GDP growth, holding other factors constant. This suggests that revenue from petroleum-related taxation plays a significant role in driving economic expansion.

Customs and Excise Duties (CED) (β = 0.274, p = 0.018): A 1-billion-naira increase in CED is linked to a 0.274 percentage point rise in GDP growth, indicating that import and excise duties contribute positively to economic activity.

Value Added Tax (VAT) (β = 0.356, p = 0.009): A 1-billion-naira rise in VAT leads to a 0.356 percentage point increase in GDP growth, highlighting the importance of consumption-based taxation in stimulating economic performance.

Corporate Income Tax (CIT) (β = -0.219, p = 0.051): CIT has a negative but marginally significant effect on GDP growth. A 1-billion-naira increase in CIT results in a 0.219 percentage point decline in GDP growth, suggesting that excessive corporate taxation might discourage business expansion and investment.

Implications for Economic Growth

The findings emphasize the growth-enhancing role of petroleum, consumption, and trade-related taxes while highlighting the potential drawbacks of high corporate taxation. The Nigerian government could consider policies that:

1. Optimize petroleum tax revenue by ensuring transparency and stability in the oil and gas sector.
2. Expand VAT collection while minimizing distortions to low-income consumers.
3. Enhance customs and excise tax administration to boost trade revenue without hindering import-dependent industries.
4. Reassess corporate tax policies to balance revenue generation with private sector growth incentives.

This study focuses on economic growth, defined by GDP expansion, rather than economic development, which encompasses broader social indicators. While tax revenue indirectly supports development through public spending, the discussion remains centered on how taxation affects GDP growth as an economic performance metric.

Discussion of Findings

The results of this study align with existing literature on the role of tax revenue in driving economic growth in Nigeria. Below, the key findings are discussed in light of similar studies and their implications.

Petroleum Profit Tax (PPT) and Economic Growth: The study found that Petroleum Profit Tax (PPT) has a positive and significant impact on economic growth, with a coefficient of 0.432 (p=0.003). This aligns with the findings of Adegbite and Olayemi (2021), who observed that PPT significantly contributes to Nigeria's GDP due to the country's reliance on oil revenue. Similarly, Uche and Edeh (2021) emphasized the role of petroleum taxes in stabilizing government revenue, particularly during periods of economic volatility. However, the dependence on petroleum taxes underscores the vulnerability of Nigeria's economy to global oil price fluctuations, as noted by Adewuyi (2022). This calls for further diversification of revenue sources to reduce reliance on oil.

Customs and Excise Duties (CED) and Economic Growth: Customs and Excise Duties (CED) also positively influence economic growth, with a coefficient of 0.274 (p=0.029). This finding is consistent with Ahmed and Yusuf (2020), who found that trade taxes contribute significantly to GDP by promoting trade and import-related activities. The study by Eze and Obi (2021) also highlighted that excise duties are critical for funding public services and stabilizing the economy. However, challenges such as trade bottlenecks and administrative inefficiencies must be addressed to maximize the potential of CED in fostering economic growth.

Value Added Tax (VAT) and Corporate Income Tax (CIT) Composite Index: The composite index of VAT and CIT has a positive and significant impact on economic growth, with a coefficient of 0.156 (p=0.012). This result supports the findings of Adegbite and Olayemi (2021), who reported that VAT and CIT significantly contribute to Nigeria's GDP. Similarly, Keen and Slemrod (2021) observed that VAT is a reliable revenue source in Sub-Saharan Africa, where efficient collection mechanisms can yield substantial fiscal benefits. Okoye and Eze (2020) also highlighted that VAT enhances government revenue for public spending, while Bello (2021) noted the potential of CIT to boost economic growth through increased private sector contributions.

Overall Model Significance: The model's R-squared value of 0.891 indicates that 89.1% of the variation in economic growth is explained by the independent variables, confirming the robustness of the model. This aligns with Olawale and Onyekachi (2022), who emphasized the importance of tax diversification in enhancing fiscal performance and economic stability. The statistically significant F-statistic (p=0.0021) further validates the overall significance of the model.

Policy Implications: The findings corroborate the assertions of Adedeji and Kolawole (2022) that efficient tax collection systems are pivotal for sustainable economic growth. The significant impact of VAT, CIT, PPT, and CED suggests that Nigeria's government should prioritize tax reforms and digital tax systems, as recommended by Fayemi and Adebanjo (2021). Moreover, Omotayo (2020) emphasized the importance of fostering tax compliance culture to enhance revenue mobilization.

This study's findings contribute to the growing body of literature on the role of tax revenue in economic development. While Petroleum Profit Tax remains a cornerstone of Nigeria's fiscal framework, increasing the efficiency of VAT, CIT, and CED collections can further bolster economic growth. Policymakers should adopt strategies to diversify revenue sources, improve tax compliance, and address inefficiencies in tax administration to maximize the growth potential of Nigeria's economy.

Summary, Conclusion and Recommendations

Summary

This study examined the impact of tax revenue on economic growth in Nigeria from 2015 to 2023. Using key tax revenue components such as Petroleum Profit Tax (PPT), Customs and Excise Duties (CED), and a composite index of Value Added Tax (VAT) and Corporate Income Tax (CIT), the study employed econometric techniques to analyze their relationship with Real GDP Growth. The findings revealed that:

PPT has a significant positive impact on economic growth, emphasizing the critical role of petroleum-related taxes in Nigeria's economy.

CED also contributes positively to GDP Growth, highlighting the importance of trade and import-related revenues.

The VAT_CIT Index significantly impacts GDP Growth, underscoring the combined relevance of consumption and corporate taxes.

The model's overall significance (R-squared = 0.891, F-statistic p=0.0021p = 0.0021p=0.0021) indicates that the independent variables collectively explain a substantial portion of economic growth variability.

The results align with previous studies, demonstrating the importance of tax revenue in fostering economic stability and development in Nigeria.

Conclusion and Implications

Tax revenue is a vital driver of economic growth in Nigeria, with Petroleum Profit Tax, Customs and Excise Duties, and the composite index of VAT and CIT playing significant roles. The study's findings highlight that efficient tax collection mechanisms and diversification of revenue sources are essential for enhancing fiscal performance and achieving sustainable economic growth. While petroleum taxes remain critical, the volatility associated with oil prices underscores the need to strengthen non-oil revenue sources such as VAT, CIT, and trade taxes.

The findings of this study have important implications for fiscal policy and economic planning in Nigeria. The positive and significant impact of Petroleum Profit Tax (PPT), Customs and Excise Duties (CED), and the VAT_CIT composite index on economic growth underscores the critical role of efficient tax collection systems in fostering sustainable economic development. Policymakers should prioritize strengthening non-oil revenue sources such as VAT and CIT to reduce vulnerability to oil price fluctuations. Moreover, the evidence supports the implementation of digital tax reforms, improved trade facilitation, and corporate tax restructuring to promote investment and economic expansion. Strengthening tax compliance culture and modernizing tax administration systems will enhance revenue mobilization and enable the government to achieve broader economic development objectives beyond mere GDP growth.

Recommendations

Based on the findings, the following recommendations are proposed:

Diversify Revenue Sources: The Nigerian government should reduce overreliance on petroleum-related taxes by enhancing non-oil revenue streams, particularly VAT and CIT. Policies aimed at expanding the tax base and improving compliance will strengthen fiscal resilience.

Strengthen Tax Administration: Investment in modern tax collection systems, such as digital platforms, can minimize leakages, enhance efficiency, and boost revenue performance. The Federal Inland Revenue Service (FIRS) should prioritize automation and capacity building for tax administrators.

Improve Customs and Trade Policies: Streamlining customs processes and addressing trade bottlenecks can increase customs and excise duty revenues. Partnerships with the private sector to facilitate trade logistics will further enhance revenue collection.

Foster Tax Compliance: Public awareness campaigns on the importance of tax compliance should be intensified. Policies that incentivize compliance, such as reduced penalties for early payments, can encourage voluntary compliance.

Monitor and Stabilize Oil Revenues: Given the volatility of oil prices, the government should establish stabilization funds to buffer against revenue shocks. Transparent management of petroleum revenues can ensure their effective utilization for economic development.

Regular Policy Reviews: Periodic evaluations of tax policies and rates should be conducted to align them with current economic realities and optimize their impact on growth.

These recommendations, if implemented, will enable Nigeria to harness the full potential of its tax revenue system, drive economic growth, and ensure long-term fiscal sustainability.

Limitations and Suggestions for Future Studies

Limitations

This study is subject to several limitations. First, it relies exclusively on secondary data, which may not fully capture informal sector activities and instances of tax evasion, both of which are significant features of Nigeria's economy. Second, the study focuses on a limited set of tax revenue components (PPT, VAT, CIT, and CED) and does not incorporate other forms of taxes such as Personal Income Tax or Property Tax, which may also influence economic performance. Third, the analysis centers primarily on economic growth as measured by real GDP, without considering broader indicators of economic development, such as employment, poverty reduction, or inequality.

Suggestions for Future Studies

Future research could address these limitations by incorporating primary data collection methods to capture informal sector dynamics and taxpayer behavior. Expanding the scope of analysis to include a wider range of tax instruments, such as Personal Income Tax, Stamp Duties, and emerging digital taxes, would provide a more comprehensive understanding of Nigeria's fiscal system. Additionally, future studies could adopt a multi-dimensional approach by exploring the impact of tax revenues on broader development outcomes such as poverty alleviation, income distribution, and social welfare. Comparative studies across Sub-Saharan African countries could also offer deeper insights into best practices for optimizing tax systems for sustainable economic growth.

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