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Taxation as a Tool for Economic Development of Nigeria

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ABSTRACT

Taxation, besides its revenue generation capacity, can also be used as a fiscal policy tool to shape the economy. Considering that the Nigerian tax laws have witnessed significant changes over the period, it becomes imperative to assess the performance of such policies through its effect on the economy. In this review, we examine how tax revenue affects investment, social and economic development in Nigeria. We also examine the various tax incentives currently available in the different tax laws, evaluates how taxation and tax policies have affected the economy of Nigeria and the effectiveness of taxation as a government strategy tool for the Nigerian economic development, using time series data of taxation and economic development. From correlation, time series and multivariable regression analyses of relationships among variables, the research found out that taxation and tax policies make positive contributions to economic development. The Nigerian government is advised to improve the provision of social infrastructures because availability and maintenance of public goods are popular ways tax payers conventionally assess the justification of tax collection by the government.

Keywords: Economic Development, Taxation, Tax rate, Unemployment, Growth Rate.

INTRODUCTION

Taxation is the means by which the government of nations generates revenue to finance their expenditure through the imposition of compulsory charges on citizens and artificial persons (corporate entities). In Nigeria, all persons in employment, individuals in business, non-residents who derive income from Nigeria as well as companies that operate in Nigeria are liable to pay tax. The government of a nation will typically have other sources of income besides tax such as oil revenue, revenue from government parastatals, grants, rendering of services to the public, revenue from granting of licenses, sales proceeds from disposal of government assets, etc. as it is in the case of Nigeria, tax is however a principal source of income. Besides its revenue generation capacity, tax can also be used as a fiscal policy tool to shape the economy through the tax policies formulated, revisited reviewed and reformulated from time to time, since the policy determines the tax structure, tax elasticity and tax incidence.

Tax policies are used by Governments to regulate the economy by encouraging or discouraging certain economic decisions. For example, reduction in taxable personal income by the amount paid as interest on home mortgage loans results in greater construction activity, and generates more jobs. The Nigerian tax laws have witnessed significant changes over the period. There has been various tax incentives introduced, occasioned by tax reforms which have implications for the economy. The united Nation in 2000 submitted that tax revenue contributes substantially to development [1].Taxation is utilized by government to finance her expenditure to redistribute wealth which translates to financing development of the country [2]; [3]; [4]; [5]. Whether the taxes collected are enough to finance the development of the country will depend on the needs of the country [6]. Nigeria as a nation has the vision of becoming one among the world's largest economies; this obviously is the brain behind the priority attention the government is directing at infrastructural development which is essential for economic growth. A developed economy is one with the ingredient to stimulate investment and create wealth, this by implication offers an atmosphere that is business friendly and has the potentials for the actualization of the vision.

Despite her strong fundamentals, oil rich Nigeria has been hobbled by inadequate power supply, poor education, lack of infrastructure delay in the passage of legislative reforms, an inefficient property regulation system, poor electoral processes, restrictive trade policies, militancy, insecurity, an inconsistent regulatory environment, a slow and ineffective judicial system, pervasive corruption, the poor becoming poorer as the economic diversification and strong growth have not translated into a significant decline in poverty levels of the country [7]. The constant reliance on the oil revenue for political, economic, and social development for the provision of infrastructure in the country has become worrisome as the price of crude oil continues to decline below the budget benchmark. This concern prompted this study to investigate the impact of taxation another source of revenue for the economic development of Nigeria.

Taxation Principles

Business Dictionary.com defined as basic concepts by which a government is meant to be guided to designing and implementing an equitable taxation regime. These include:

Board Basing: Taxes should be spread over as wide as a possible section of the population, or sectors of the economy, to minimize the individual tax burden.

Compatibility: Taxes should be coordinated to ensure tax neutrality and overall good governance.

Convenience: Taxes should be enforced in a manner that facilitates voluntary compliance to the maximum extent possible. [8] noted that the time of payment, the manner of payment, the quality to be paid ought to all be clear and plain to the tax payer and every other person.

Earmarking: Tax revenue from a specific source should be dedicated to a specific purpose only when there is a direct cost and benefit link between the tax source and the expenditure, such as the use of motor fuel tax for road maintenance and also education tax for buying educational materials. However, what we are experiencing today in Nigeria is fiscal indiscipline, corruption and misappropriation of funds.

Efficiency: Tax collection efforts should not cost an inordinately high percentage of tax revenue. This principle seems to be lacking in Nigerian tax system. World Bank Report says that for every N100 that business has to pay in taxes, they pay about N30 in compliance costs.

Equity: Taxes should equally burden all individuals or entities in similar economic circumstance. Equity Principle states that tax payer should pay the tax in proportion to his income [9]

Neutrality: Taxes should not favour any one group or sector over another, and should not be designed to interfere with or influence individual decisions making.

Predictability: Collection of taxes should reinforce their inevitability and regularity.

Restricted Exemptions: Tax exemptions must only be for purposes (such as to encourage investment) and for a limited period.

Simplicity: Tax assessment and determination should be easy to understand by an average tax payer. On both equity and simplicity principles, [10] "states that it is only when a tax is based on the tax payer's ability to pay can it be considered equitable or just". He argued that tax law should be transparent. [11]; [12] [13] pointed out that every tax should be economical for the state to collect and the taxpayer to pay. In Nigeria, paying tax and doing business is not cost-effective.

Theories of Taxation

Apart from the obvious purpose of providing revenue, taxation aims at achieving other objectives. These are resources allocation, income redistribution, price stabilization, full employment and economic growth. Within the scope of these social objectives, two principles have been put forward as a basis for modern taxation namely, the benefit principle or benefit received theory and the ability-to-pay approach [14]. Although neither of these two principles goes without fault still an understanding of them is useful in formulating a workable tax system.

Benefit Principle or received theory: This benefit principle theory, also called vertical equity stipulates that an individual ought to be taxed according to the benefits he receives from government provision of goods and services. This in other words, is a benefit cost approach in which tax is a cost and government amenities are the benefits [15]; [16]. This theory assumes a state of equality between the marginal tax rate (MTR) and marginal benefit received (MBR) to determine the amount of taxes to be paid. However, the benefit principle does not work well for the efficient provision of public (near public) goods. For example military defence. Thus the conditions of equality between taxes paid and benefits received which sound so egalitarian in principle, do not hold in practice.

The ability-to-pay approach: is concerned with the equitable distribution of taxes according to assumed taxable capacity or ability to pay of an individual or group. This approach, sometimes called horizontal equity, enables the distribution and stabilization of objectives of taxation to be achieved more equitably. We know that taxes are a means of transferring the purchasing power of income to governments; the ability to pay is based on income. It then means that those who have more income can afford to pay more taxes. Although this theory has the above-stated advantages, it is not free from flaws. Its disadvantage is that the criterion on which "ability" is judged is not clear. [17]; [18]; [19]; [20].

Cost of Service Theory: According to [21] [22] this theory is very similar to the benefits-received. It is centred on the relationship that exists between the state and the citizens to a greater extent. The theory aimed at a balanced budget policy.

Socio-Political Theory: This theory of taxation to an extent anchored on Thomas Hobbes social contract which saw in the beginning man lived in the state of nature. They had no government, and there was no law to regulate them. There were hardship and oppression on the sections of the society. To overcome from this hardship, they entered into two agreements which are (1) "Pectum Unions" (2) Pactum Subjections" therefore, the socio-political theory states that social and political objectives should be major factors in selecting taxes. It implies that government getting revenue through taxing the citizens should use it to cure the ills of society as a whole. [23]; [24].

Expediency Theory: As [25], [26] explained that expediency theory asserts that every tax proposal must pass the test of practicality. That it must be a factor that should be considered in choosing a tax proposal. Ibn Khaldun's theory of taxation has been considered one of his most important contributions to economic thought, he debates the theory of taxation with the government expenditure and argues for low tax rate, so that incentive to work is not killed and taxes paid happily [27].

Taxation and Economic Development

The major challenge of national governments worldwide is to perpetually increase the welfare of the citizenry through the implementation of appropriate economic policies and programs by direct participation in domestic and global economic activities. Governments attempt to achieve this national objective by providing public goods, such: as roads, bridges, dams, ports and public services such as education, security, health, sanitation etc that form economic and social infrastructure. The adequacy of such infrastructure is a turn foundation for a country's economic growth and development. Ideally, all public expenditures should: contribute to the creation and fostering of an enabling domestic economic environment for local and foreign investments; boost both internal and external trade; attract tourists and other foreign visitors; increase agricultural productivity; and encourage craftsmanship and small scale industrial production. All these economic activities generate gainful employment and accelerate economic growth and development in the short, medium and long terms. The relationship between taxation and economic development has been studied with different findings [28]; [29]; [30].

Economic development requires collective action and large-scale, long-horizon investment. Economic development addresses the fundamental conditions necessary for the micro economic functioning of the economy. It is within the purview of government. Though it is certainly possible to have growth without development in the short or even medium-term, economic development creates the conditions that enable long-run economic growth. Jobs are a main concern of policy: for growth what matters is the number of jobs while for economic development the focus is wages, career advancement opportunities, and working conditions [31].

[32] used Autoregressive Distributed Lag (ARDL)/Bounds Test General to Specific Approach to Cointegration to assess the long run equilibrium relationship between tax revenue and economic growth in Nigeria (1986-2012) and found that total tax revenue has significant effect on economic growth. With about 73.4% of the total variations in the real gross domestic product (economic growth) explained by aggregate changes in all the tax revenue components in the model, the study however, identified no significant causal link between.

The rate of growth in Nigeria economy cannot be fully analyzed without a closer look at the contribution of capital formation to Nigeria's economic development. This is in the understanding that capital formation has been recognized as an important factor that determines the growth of Nigerian economy. According to [12], capital formation refers to the proportion of present income saved and invested in order to augment future output and income. It usually results from acquisition of new factory along with machinery, equipment and all productive capital goods.

CONCLUSION

Taxation and tax policies have been used as strategy by government to develop the Nigerian economy. This notwithstanding, there are certain challenges currently bedevilling the Nigerian tax systems such as double taxation, diseconomy of tax administration and collection, ignorance and tax-illiteracy of the citizenry, tax evasion and avoidance practices, flaws in some of the tax laws, which all have to be addressed to make taxation more effective in Nigeria. The role of taxation in developing a nation's economy has been described as irreplaceable. Some economic analyst suggested that taxation remains a strong socio-political and economic tool for economic growth and national prosperity. Taxation is one of the most reliable sources of income which contribute to economic development, therefore tax revenues have significant impact on Nigerian economy growth.

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