

Assessing the Contributions of Nigeria's Tax System on Economic Development in Nigeria

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Abstract:

The main objective of the study is to assess the Contributions of Nigeria's Tax System on Economic Development in Nigeria. The specific objectives is to examine the effect of Petroleum profit tax on Nigeria Gross Domestic Product and evaluate the effect of Company Income tax on Nigeria Gross Domestic Product. Ex-post facto design research for the study. The Ordinary least Square (OLS) linear regression model was adopted to estimate the variables. The data were obtained from Cenral Bank Nigeria Statistical Bulletin and Federal Inland Revenue Service Annual Report from 2010-2023. The data were analyzed using econometric computer software package, EVIEWS version 13.0. The result revealed that Petroleum profit tax has a significant positive effect on Nigeria Gross Domestic Product. Company Income tax has a significant positive effect on Nigeria Gross Domestic Product. The study concluded that tax revenue is not merely a source of government funding but a critical determinant of economic activity in Nigeria. The study recommended that policymakers sustain and improve upon the efficiency of tax collection mechanisms for these sectors. While efforts to diversify the economy is essential, optimizing the administration of PPT and CIT remains crucial for maximizing the revenue potential necessary to fund Nigeria's developmental aspirations.

Keywords: Development, Economic, Nigeria's, System, Tax.

1.1 Introduction

Taxation is universally recognized as the most significant source of government revenue and the primary instrument for fiscal policy. In the history of economic thought, from the classical views of Adam Smith to modern developmental economics, taxation has been viewed not merely as a means of raising funds, but as a potent tool for economic regulation, wealth redistribution, and the

promotion of social welfare (Musgrave, 1959). For developing nations, the tax system serves as the financial backbone necessary to provide public goods such as infrastructure, education, and health care that are prerequisites for sustainable economic development. Assessing the contributions of Nigeria's tax system to economic development requires situating taxation within the broader fiscal and institutional framework of the country. In principle, taxation is not merely a mechanism for revenue generation; it is also a tool for redistribution, macroeconomic stabilization, and the promotion of sustainable growth.

In developing economies like Nigeria, where dependence on volatile oil revenues has historically shaped fiscal behavior, the tax system plays a particularly critical role in diversifying government income and fostering long-term economic resilience. Over the past few decades, Nigeria has undertaken several tax reforms aimed at broadening the tax base, improving compliance, and enhancing administrative efficiency. Yet, questions remain about the extent to which these efforts have translated into measurable economic development outcomes. Nigeria's tax structure is characterized by a mix of direct and indirect taxes, including company income tax, personal income tax, value-added tax (VAT), petroleum profits tax, and customs and excise duties. Despite this variety, tax revenue as a percentage of GDP remains relatively low compared to peer economies, reflecting persistent challenges such as widespread informality, tax evasion, weak enforcement mechanisms, and limited institutional capacity (FIRS, 2021; World Bank, 2022). These constraints have significant implications for the government's ability to fund critical infrastructure, social services, and development programs, thereby affecting overall economic performance and citizens' welfare.

The contribution of the tax system to economic development in Nigeria can be examined through several channels. First, taxation provides the fiscal space necessary for public investment in infrastructure, education, healthcare, and security, all of which are foundational to economic growth. Second, an efficient and equitable tax system can promote income redistribution and reduce inequality, thereby enhancing social cohesion and economic inclusiveness. Third, tax policies can influence investment decisions, consumption patterns, and resource allocation within the economy. However, the effectiveness of these contributions largely depends on the design of tax policies, the efficiency of tax administration, and the level of public trust in government institutions (Ariyo, 1997; OECD, 2020).

Recent reforms, such as the introduction of the Finance Acts (2019–2023), the expansion of the VAT base, and the digitization of tax administration processes,

signal the government's commitment to strengthening the tax system. These measures aim to improve compliance, reduce leakages, and align Nigeria's tax framework with international best practices. Nonetheless, the outcomes of these reforms have been mixed, as structural challenges including corruption, policy inconsistency, and the large informal sector continue to undermine the system's effectiveness (PwC, 2021). This study therefore seeks to critically assess the contributions of Nigeria's tax system to economic development by examining its revenue performance, distributive effects, and impact on key economic indicators. It also explores the institutional and policy constraints that limit the effectiveness of the tax system, with a view to identifying strategies for reform. By providing a comprehensive analysis, the study contributes to ongoing debates on fiscal sustainability and development policy in Nigeria.

1.2 Statement of the Problem

In Nigeria, the assessment of the tax system's contribution to economic development is a subject of paramount importance, particularly given the country's historical reliance on mono-product rent specifically, crude oil exports. For decades, the Nigerian economy has oscillated in tandem with the volatile fortunes of the global oil market, often relegating taxation to the background of fiscal policy. However, the persistent volatility of oil prices, coupled with the recent decline in production and the global shift toward renewable energy, has exposed the fragility of an oil-dependent economy. Consequently, there has been a renewed impetus to diversify the revenue base through a revitalized tax system. This shift makes it imperative to critically assess how the current tax regime contributes to, or in some cases hinders, Nigeria's economic development.

Theoretically, a robust tax system provides the necessary funds for the government to provide merit goods such as education, healthcare, and transportation, which are direct drivers of human capital development and economic productivity. When effectively administered, taxation reduces the budget deficit, curtails excessive borrowing, and minimizes the government's need to print money, thereby controlling inflation. Furthermore, tax incentives and concessions can be strategically employed to stimulate specific sectors, such as agriculture or manufacturing, promoting industrialization and employment.

However, the Nigerian tax landscape is fraught with systemic challenges that complicate this developmental role. The country is characterized by a large informal sector, complex and sometimes contradictory tax laws, bureaucratic bottlenecks in administration, and a pervasive culture of tax evasion and avoidance. These factors have resulted in a tax-to-GDP ratio that remains significantly below the regional average for sub-Saharan Africa. The question

remains whether the existing tax structure is sufficiently progressive and efficient to mobilize the required resources without stifling private sector initiative. Therefore, this introduction sets the stage for a comprehensive evaluation of the relationship between Nigeria's tax system and its economic development. It seeks to move beyond the surface analysis of revenue generation figures to investigate the structural efficacy of tax administration, the compliance behavior of taxpayers, and the ultimate utilization of tax revenues for developmental projects. By understanding these dynamics, stakeholders can better appreciate how fiscal reforms can be leveraged to transform Nigeria's tax system from a mere tool of revenue collection into a potent catalyst for sustainable economic development.

1.3 Objective of the Study

The main objective of the study is to Assess the Contributions of Nigeria's Tax System on Economic Development in Nigeria. The specific objectives were to;

- i. Examine the effect of Petroleum profit tax on Nigeria Gross Domestic Product.
- ii. Evaluate the effect of Company Income tax on Nigeria Gross Domestic Product

1.4 Hypotheses of the study

- i. Petroleum profit tax has no significant effect on Nigeria Gross Domestic Product.
- ii. Company Income tax has no significant effect on Nigeria Gross Domestic Product

2.1 Conceptual Review

2.1.1 Nigeria Tax System on Economic Development

According to Worlu and Emeka (2012), tax is a compulsory payment demanded by governments from incomes, activities, goods, and properties. Also, according to Abata (2014) and Adudu and Ojonye (2015), tax is defined as a mandatory payment that is deliberately imposed by governments on the citizens of a country with the objective of creating additional income for supporting governmental functions across the entire nation. In the current times, taxes have become an important revenue-generating tool for governments. According to Azubike (2009), the funds generated through taxes are employed by governments in generating revenues needed for ensuring delivery of goods and services as well as maintenance of peace and order in societies. Taxes can be applied in regulating activities carried out in certain areas of economies. Generally, taxes are used as tools for collection of revenue for public goods including infrastructure, health,

security, research, roads, pipe born water, education facilities such as schools and colleges, provision of transport means, paying salaries for police forces and other institutions and provision of public amenities such as parks and gardens amongst others.

However, it is important to note that the use of taxations for economic development as regards public policies tends to be a new discovery, although it provides a framework that might eclipse some of its potentials. It appears that the utilization of tax as an instrument for fiscal policy in Nigeria has been hampered by the prevalence of corruption, among others, which has resulted in the poor level of tax revenues collected and lackluster developmental record of successive administrations (Akintoye & Tashie, 2013; Abata, 2014; Adudu & Ojonye, 2015). Based on the above point, according to Kiabel & Nwokah (2009), as a result of the declining level of revenue collection, as well as rising governance costs, governments at all levels are forced to formulate policies and take any other necessary measure to increase their revenue base. But for the improvement of management of tax systems and also increase in the yield of taxes in Nigeria, the government engaged in modifying certain tax laws that led to the modification of tax laws like the Value Added Tax (Amendment) Act 2007.

2.1.2 Petroleum profit tax

Petroleum Profit Tax (PPT) means the type of tax levied on the profit gained from companies that carry out oil and gas exploration and production processes in the upstream industry. This is a method of direct taxation that enables the collection of economic gain from the activities involved in crude oil and gas production. As indicated by Adegbile and Adebayo (2021), PPT is an example of tax revenue raised by the government as fiscal policy in relation to multinational and local companies carrying out petroleum activities as per laws regulating the same. The Petroleum Industry Act forms the basis of PPT through its provision for the calculation of taxable profit by taking into consideration deductions and chargeable income as well as the tax rates for the purpose of reflecting economic activities in the industry (Olabode & Yusuf, 2022). In essence, PPT is a significant aspect of the fiscal process by which the government gets a share in the economic benefits associated with petroleum extraction. As mentioned by Chukwuma (2023), the profit gained from petroleum companies in form of PPT is a critical aspect of the oil taxation system in the country.

Petroleum Profit Tax (PPT) continues to be one of Nigeria's main sources of government revenue since the country's economy is largely dependent on the exploration and production of petroleum products. PPT is an income tax levied against profits derived from the operation of upstream oil production, and it has

continued to contribute substantially towards the country's federally collected revenue for many years now. According to some recent fiscal reports, petroleum taxes are among the key revenue earners for the Nigerian government despite its efforts to boost non-petroleum sources of government revenues (Central Bank of Nigeria [CBN], 2022; Federal Inland Revenue Service [FIRS], 2025). The fact that Nigeria's fiscal policy is largely dependent on PPT can bring about advantages and disadvantages. First, when the price of oil on the international market is high and production is steady, there is substantial money flowing into the coffers of the Nigerian government. On the other hand, petroleum revenue is very volatile because of the unpredictable nature of the price of oil, production and tax collection.

2.1.3 Company Income tax

Company income tax (CIT) is a type of taxation levied on the gains made by companies, public companies and any unincorporated organization, including industrial provident society, clubs, and trade association. CIT was introduced in 1979 through the Companies Income Tax Act (CITA) while the tax has its origin in the Income Tax Management Act 1961. The Company income tax (CIT) is among the many taxes administered by the FIRS. Companies Income Tax (CIT) is a tax payable on all resident and non-resident companies (except those operating petroleum) incorporated in Nigeria. Commonly referred to as the corporate tax, CIT is levied at a 30% rate on profits earned in the year preceding the assessment. CIT applies to the gains earned by resident companies regardless of where the gain is earned. However, in cases involving the non-resident company, CIT is payable only on the gains made from the Nigerian operations. Non-resident companies having a fixed base in Nigeria are taxable on the gain earned from that particular fixed base in Nigeria. Any Withholding Tax (WHT) withheld from the Nigeria source income is eligible for set-off against CIT liabilities.

Taxes are paid by individuals, firms, groups and companies to the constituted authorities by way of raising resources that will be used by the government for the maintenance of peace, security, economic development and other objectives for the benefit of the citizens. According to Appah (2004), taxation can be defined as the compulsion levy which the government makes against its subjects and property to provide for security, social facilities and create conditions for the economic prosperity of the society. Taxation can thus be viewed as a compulsory withdrawal of resource without any quid pro quo from the private sectors of the economy (Nwosu, 2000). The author further states that a tax is a compulsory levy payable by an economic unit to the government without any corresponding entitlement to receive a definite and direct quid pro quo from the government.

Taxes therefore do not represent a price which the tax payers pay the government for any services rendered by it. No tax is levied by the government against any individual for receiving any particular benefit.

2.1.4 Nigeria Gross Domestic Product

The Gross Domestic Product (GDP) is the most popular way of measuring economic performance and is defined as the sum total of the monetary value of all goods and services produced within the territorial boundaries of a country in a certain period of time. The Gross Domestic Product acts as an important economic indicator for evaluating economic growth, production, and economic development. This economic indicator gives vital information about economic development and the standard of living in the economy. Mankiw (2021), the Gross Domestic Product is an important macroeconomic indicator for measuring economic development and comparing the economic performance of different countries. The economic theory proposed by Todaro and Smith (2020) suggests that economic development can only be achieved through GDP growth, which provides avenues for poverty alleviation and social development.

Gross Domestic Product represents the total amount of economic activities produced through different sectors in Nigeria, including agricultural, oil and gas, manufacturing, telecommunication, trading, construction, and financial service sectors. As the most populous nation in Africa and among the largest economies, GDP of Nigeria plays a crucial role in the determination of the country's economic standing within the regional and international economic systems. Historically, Nigeria's economy has been significantly reliant on the production and exportation of crude oil, which has formed an important source of government income and foreign exchange earnings. Nonetheless, variations in international oil price rates have revealed the fragile state of the economy, and consequently, diversification of the economy as well as contributions from other sectors, such as agriculture and manufacturing, become vital to its development (Central Bank of Nigeria [CBN], 2024). Technological advancements and infrastructural developments will increase efficiency in production, and hence enhance economic output. Moreover, stability in macroeconomic and favorable business environments create conducive conditions for investments in order to foster economic growth. In Solow's Growth Theory, capital accumulation, labor force growth, and technological advancement are identified as the sources of long-term economic growth (Solow, 1956).

2.2 Theoretical Framework

The research study I'm talking about focuses on the benefits received theory of taxation (BRTT). According to Cooper in 1994 and Trotman Dickenson in 1996, this theory was started by Knut Wicksell and made famous by Erik Lindahl. Those supporting BRTT say there's an exchange relationship where governments give citizens stuff like services and infrastructure, and in return, people pay taxes based on how much they benefit. So essentially, there's this implied contract where governments promise to supply public goods and services, while taxpayers kick in money to cover those costs, proportional to the perks they get. As stated by Chigbu, Akujuobi, and Appah in 2012, both sides should stick to their roles – governments deliver and folks chip in based on their gains. Plus, this view is backed up by other researchers like Bhartia in 2009 and Ihenyen and Mieseigha in 2014. So yeah, everyone agrees that for tax systems to work fairly, they've got to be linked to what people get out of paying taxes in the first place.

Clearly, the Basic Rational Tax Theory (BRTT) assumes that taxes should match how much citizens use social services or benefit from government actions. Because governments need tax income to build roads, schools, and other essentials for a growing economy, this theory seems perfect for the research at hand. With that in mind, we'll look into how different types of taxes in the country relate to economic growth statistically. In Nigeria, the Benefit Received theory really hits home since tax-generated government revenue is meant to kick-start infrastructure, fund education and health care, and boost other public projects that drive economic growth. These initiatives rev up the economy's productive ability, bumping up output and GDP. For instance, upgrading transport nets cuts production costs, and beefing up education ramps up human skills - all adding fuel to economic growth, according to Musgrave and Musgrave (1989).

2.3 Empirical Review

Adegbie and Fakile (2011) did a study to find the statistical link between Company Income Tax (CIT) and Nigeria's economic growth from 1981 to 2007, spanning 26 years. They used GDP as a stand-in for economic development and looked at how CIT revenue affected it. For their research, both primary and secondary data were used. These were then analyzed through Chi square and multiple regression methods. Their results showed that CIT significantly influences economic development, as measured by GDP.

Worlu and Emeka (2012) looked at how tax revenue affects economic development in Nigeria. They focused on infrastructure growth over 27 years, from 1980 to 2007. For their research, they used secondary data from the CBN Statistical Bulletin, Federal Inland Revenue Service, and other articles. The team used a three-stage least squares method for analysis. Their findings show that

tax revenue boosts economic growth through improved infrastructure. Akwe (2014) looked at how non-oil tax revenue affected economic growth in Nigeria. For this, they used secondary data collected from the Central Bank of Nigeria's Statistical Bulletin, covering 19 years from 1993 to 2012. Using the Ordinary Least Square technique, the results showed a positive impact of non-oil tax revenue on the country's economic growth.

Ifeacho, Omoniyi, and Olufemi (2014) looked at Nigeria's economy, specifically how non-oil exports impact development. They used per capita income to gauge economic development, relying on non-oil export volumes, trade openness, inflation rates, and exchange rates, along with capital formation. Their analysis with the Ordinary Least Square method showed a strong positive link between non-oil exports and per capita income. So, the more non-oil products Nigeria exports, the better its economic development appears when measuring it by income per person. Chude and Chude (2015) was done to determine the effects of taxes on the profitability of firms in Nigeria. Using secondary data and error correction model to test the factors affecting the profitability of firms in Nigeria, the results indicated that company taxes affect the profitability of firms.

Lyndon and Paymaster (2016) looked at the effect of firms' income tax, value added tax, and economic growth (proxied by GDP) in Nigeria. Secondary data obtained from a time series panel was analyzed during the period of 2005 to 2014 in Statistical Bulletin, Central Bank of Nigeria (CBN). In their paper, Lyndon and Paymaster (2016) utilized ordinary least squares (OLS) approach through the use of computer software, Windows SPSS 20 version in analyzing data. They used GDP as the dependent variable while CIT and VAT were used as independent variables. It was found that CIT and VAT have significant impacts on economic growth.

3.0 Model Specification

Ex-post facto design research for the study. The Ordinary least Square (OLS) linear regression model was adopted to estimate the variables. This involves estimation of the model to examine if taxation as a significant tool for economic development in Nigeria. The data were obtained from Center Bank Nigeria Statistical Bulletin and Federal Inland Revenue Service Annual Report from 2010-2023. Different proxies for measuring taxation which include petroleum profit tax and company income tax. we adopted the linear estimation techniques which aim at achieving unique parameter estimates that would enable us to interpret the regression coefficient and consequently give a slightly better fit. Unit root test shall be conducted on the variable using the Augmented Dickey-

Fuller test. Unit root test is a test of stationarity or non-stationarity of time series data used in the model. This is to find out if the relationship between variables is spurious or nonsensical. The estimation was conducted using the econometric computer software package, EViews version 13.0

Taking inference from the empirical findings the model is drawn in line with the hypothesis as

$$\text{GDP} = f(\text{PPT}, \text{CIT}) \dots \dots \dots 1$$

Thus, we can linearize equations 1) and (2) to obtain as below

$$\text{GDP} = \beta_0 + \beta_1(\text{PPT}) + \beta_2(\text{CIT}) + \mu_t \dots \dots \dots 2$$

Where

β_0 = Intercept

β_1 = Slope of the coefficient of the independent variable to be determined

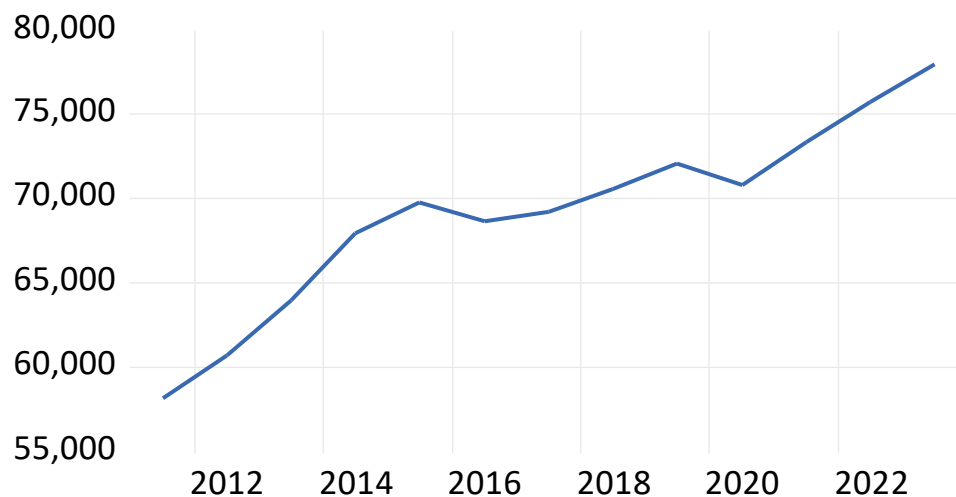
PPT = Petroleum profit tax

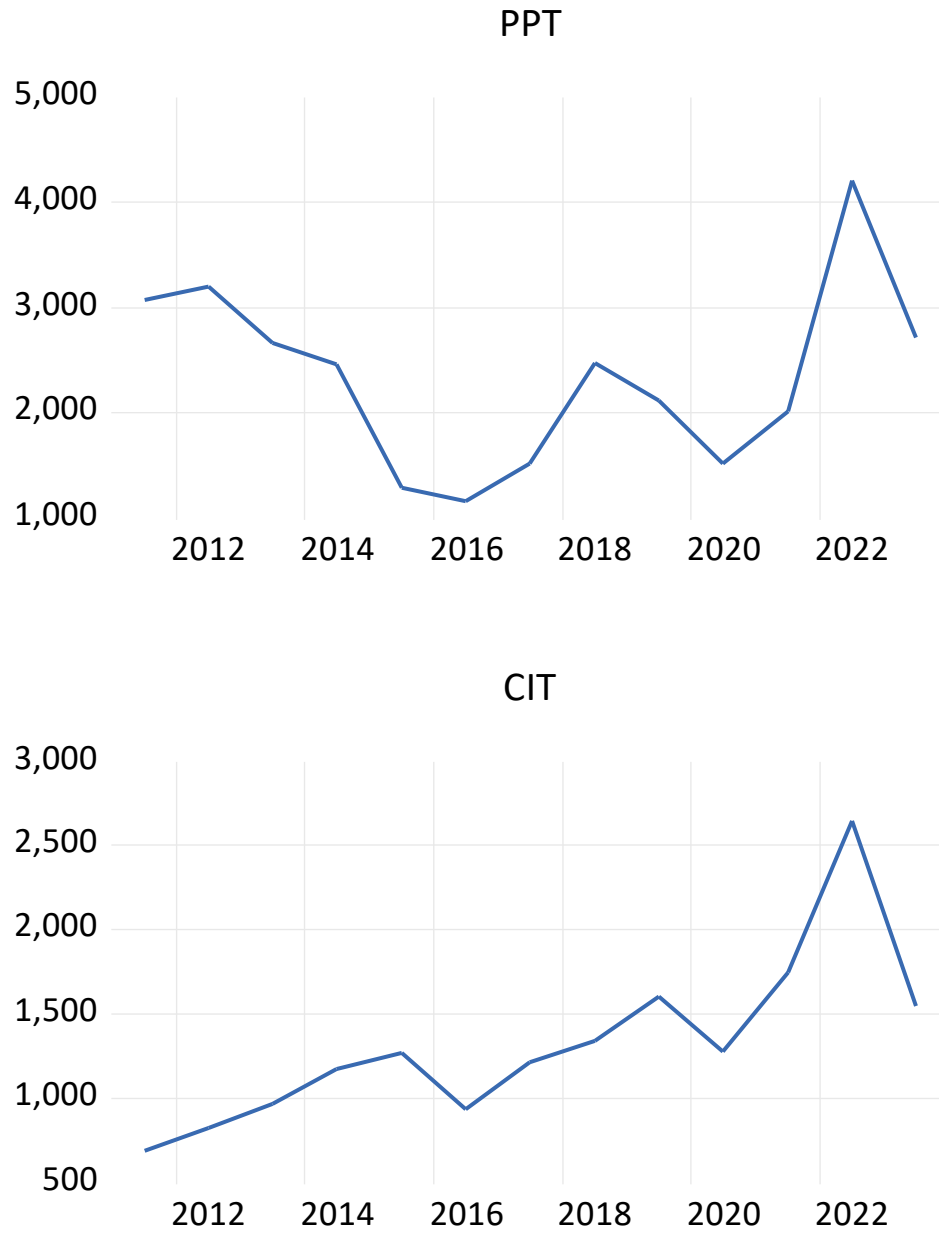
CIT = Company Income tax

μ_t = Error term

3.1 Descriptive and Graphical Presentation of data

GDP



**Table 1: Summary Statistics**

	GDP	PPT	CIT
Mean	69148.33	2337.845	1325.010
Median	69780.69	2453.947	1268.977
Maximum	77936.10	4209.020	2649.977
Minimum	58180.35	1157.808	684.7460
Std. Dev	5579.850	868.6844	504.1045
Skewness	-0.496203	0.495101	1.304930

Kurtosis	2.669809	2.726058	4.738088
Jarque-Bera	0.592526	0.571752	5.325838
Probability	0.743592	0.751356	0.069744

Table 1 is the summary statistics for each of the data variables. It includes measure of central tendency, measure of variability, and measures of shape. Of particular interest here are the standard skewness and standardized kurtosis, which can be used to determine whether the sample comes from a normal distribution. Values of these statistics outside the range of -2 to +2 indicate significant departures from normality, which would tend to invalidate many statistical procedures normally applied to this data. However, in the below table 2 we adopt a more detailed statistical approach to confirm stationarity of the data.

3.2 Unit Root Test

Time series data generally characterized by stochastic trend which can be removed by differencing. Unit root test is therefore a test of stationarity or non-stationarity of series data used in the model. This is to find out if the relationship between economic variables is spurious or nonsensical. This test is conducted by adding the lagged values of the dependent variable so that the error term is serially uncorrelated. Thus, the study used adopted Augmented Dickey-fuller (ADF) technique to test and verify the unit root property of the series and stationarity of the model.

Table 2: ADF Test

Variables	Level Stage		Stationarity		Order	Comments
	t-Statistic	P-value	t-Statistic	P-value		
GDP	-1.436291	0.5294	-3.691314	0.0244	I (2)	Stationary at order 2
PPT	-2.171343	0.2243	-3.307049	0.0407	I (1)	Stationary at order 1
CIT	0.175031	0.9544	-5.325994	0.0024	I (1)	Stationary at order 1

From table 2; the stationarity level of the data was not the same, gross domestic product was found to be stationary at order 2. While Petroleum profit tax and company income tax was stationary at order one.

3.3 Regression

Regression is a statistical method used finance, investing, accounting and other disciplines that attempts to determine the strength and character of the relationship between one dependent variable and a series of other variable known as independent variables. Table 3 is the correlation of the variable while table 4 below summarizes the regression output for gross domestic product, Petroleum profit tax and Company income tax which include Test of goodness of fit model table.

Multiple Regression - GDP

Dependent variable: GDP

Independent variables:

PPT = Petroleum profit tax

CIT = Company Income tax

Table 3: Correlation

	GDP	PPT	CIT
GDP	1		
PPT	0.083434	1	
CIT	0.793666	0.375293	1

Table 4: Regression Result

Dependent Variable: GDP				
Method: Least Squares				
Date: 06/19/24 Time: 12:02				
Sample: 2011 2023				
Included observations: 13				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
PPT	-2.850669	0.982174	-2.902409	0.0158
CIT	10.62854	1.692504	6.279770	0.0001
C	61729.84	2648.370	23.30862	0.0000
R-squared	0.799124	Mean dependent var		69148.33

Adjusted R-squared	0.758949	S.D. dependent var	5579.850
S.E. of regression	2739.534	Akaike info criterion	18.86814
Sum squared resid	75050487	Schwarz criterion	18.99851
Log likelihood	-119.6429	Hannan-Quinn criter.	18.84134
F-statistic	19.89103	Durbin-Watson stat	1.640884
Prob(F-statistic)	0.000327		

R-squared = 79.9124 percent

R-squared (adjusted for d.f.) = 75.8949 percent

F-statistic = 19.89103 (p-value = 0.000327)

Durbin-Watson statistic = 1.640884

The output in table 3 shows the result of fitting a multiple linear regression model to describe the relationship between Gross domestic product and the selected predictors variables. The equation of the fitted model is

$$\text{GDP} = 61729.84 - 2.850669(\text{PPT}) + 10.62854(\text{PPT}) \dots\dots\dots (1)$$

Since the P-value in the ANOVA table is less than 0.05, there is a statistically significant relationship between the variables at 95% confidence level. The R-Squared statistic indicates that the model as fitted explains 79.9124% of the variability in Gross domestic product. The adjusted R-squared statistic, which is more suitable for comparing models with different numbers of independent variables is 75.8949%. The Durban-Watson statistic indicates that there is no autocorrelation in the residual at 95.0% confidence level.

Diagnostic Test

Table 5: Serial Correlation Test

Breusch-Godfrey Serial Correlation LM Test:			
Null hypothesis: No serial correlation at up to 2 lags			
F-statistic	3.021426	Prob. F(2,8)	0.1053
Obs*R-squared	5.594097	Prob. Chi-Square (2)	0.0610

Table 6: Heteroskedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
Null hypothesis: Homoskedasticity			
F-statistic	0.23562 1	Prob. F(2,10)	0.7943
Obs*R-squared	0.58504 5	Prob. Chi-Square (2)	0.7464
Scaled explained SS	1.11210 4	Prob. Chi-Square (2)	0.5735

4.0. Discussion of Findings

This study examined taxation as a significant tool for economic development, the study employed OLS linear regression model for coefficient estimation of the variables. The variables selected as proxies for taxation and as the predictors variables includes stamp, gas income tax, petroleum profit tax and company income while economic growth which is the dependent variable and was measured using the gross domestic product. After conducting a stationary test using Augmented Dicky fully unit root test the result suggest that stationarity of the variables was achieved at a mixed order either at the order I (1) and I (2) accordingly. The variables exhibited a strong relationship between them which is evident from the correlation in table 5.

The result of the OLS indicates that at 5% level of significant petroleum profit tax (PPT) and Company income Tax (CIT) has a statistically significant effect on the economic development. However, the coefficient of -2.850669 indicates that for every unit increase in petroleum profit tax, GDP is estimated to decrease by approximately 2.850669 units. This relationship is supported by a probability value of 0.0158, suggesting that the observed association between PPT and GDP is unlikely to be due to random chance. Therefore, higher petroleum profit taxes are associated with lower GDP levels. Also, for (CIT) the coefficient of 10.6285 indicates that an increase in company income tax is associated with an estimated increase of approximately 10.6285 units in GDP. This relationship is supported by a very low probability value (p-value) of 0.0001, suggesting that the observed association between CIT and GDP is highly unlikely to occur by random chance. Therefore, according to the analysis, higher levels of company income tax tend to correspond with higher levels of GDP. Based on the R-Squared statistic which indicates that the model as fitted explains 79.9124% of the variability in Gross domestic product which was adopted as a proxy for economic development/growth.

Recommendation

Based on the findings that Petroleum Profit Tax (PPT) and Company Income Tax (CIT) both exert a significant positive effect on Nigeria's Gross Domestic Product (GDP) consequently, it is recommended that policymakers sustain and improve upon the efficiency of tax collection mechanisms for these sectors. While efforts to diversify the economy are essential, optimizing the administration of PPT and CIT remains crucial for maximizing the revenue potential necessary to fund Nigeria's developmental aspirations. The following recommendations are proposed to enhance the tax system's contribution to economic development:

- i. Given the significant positive impact of PPT on economic growth, the government must prioritize the stability and efficiency of the oil and gas sector. It is recommended that the regulatory authorities, such as the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) and the Federal Inland Revenue Service (FIRS), collaborate to curb oil theft, pipeline vandalism, and under-declaration of production volumes. By securing the operational environment of the oil sector and ensuring accurate assessment, the government can maximize the revenue generated from PPT. Furthermore, policies should be enacted to ensure that a portion of PPT revenues is specifically allocated to the development of critical infrastructure and the stabilization of foreign exchange reserves to mitigate the volatility associated with global oil prices.
- ii. Since Company Income Tax significantly contributes to GDP, the focus should shift towards expanding the tax base by fostering the growth of the private sector. The government should implement policies that improve the "ease of doing business" in Nigeria. This includes reducing bureaucratic bottlenecks, providing stable electricity, and improving access to finance for Small and Medium Enterprises (SMEs). As businesses become more profitable, the potential for CIT revenue increases. Additionally, the government should maintain a balanced CIT rate structure offering tax incentives to new industries or start-ups to stimulate investment, while ensuring compliance from established, profitable multinational corporations.

5. Conclusion

The study finds that Nigeria's tax system plays a significant role in driving economic development and GDP growth. Petroleum Profit Tax (PPT) has a strong positive impact on GDP, reflecting the continued dominance of the oil and gas sector. Company Income Tax (CIT) also positively affects GDP, showing the growing strength of the non-oil corporate sector. These results suggest that effective tax collection in both oil and non-oil sectors boosts government revenue and economic performance. Overall, tax revenue is confirmed as a key driver of Nigeria's economic growth when properly managed and utilized.

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