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THE IMPACT OF TAXATION NON ECONOMIC GROWTH IN NIGERIA

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ABSTRACT
The paper examined the impact of taxation on employment, using the Ordinary Least Square (OLS) method for the analysis of data gotten from CBN statistical bulletin for the period of 1990 to 2013. The variables used in the analysis are RCDP, forms the dependent variable, tax revenue, employment, interest rate and real exchange rate, forms the independent variables. From the analysis, it was discovered that the unit root test which was applied to check the stationarity of the data, conform that the data was stationery after the analysis. It was also discovered that tax revenue and employment has a significant impact on economic growth in Nigeria. Statistically the t-.statistics of the variables under consideration indicates that the variables under consideration were significant and the overall estimates of the regression were statistically adequate. The Durbin-Watson statistic indicates that the entire regression is statistically significance, it was recommended and concluded that our tax policy should be properly monitored in other to encourage full employment in (the economy thereby promote economic growth in the country.

Keywords: Nigerian economy, Taxation, employment and Interest rate and Real exchange Rate.

Introduction

A Tax is a fee charged or levied by a government on a product, income, or activity. If it is levied directly on personal or corporate income, it is called a direct tax. If it is levied on the price of a good or service, then it is called an indirect tax. The main reason for taxation is to finance government expenditure and to redistribute wealth which translates to financing development of the country (Ola, 2001, Jhingan, 2004, Musgrave and Musgrave, 2004, Bhartia, 2009). Whether the taxes collected are enough to finance the development of the country will depend on the needs of the country and, countries can seek alternative sources of revenue to finance sustainable development (Unegbu and Irefin, 2011). Tax revenue is the receipt from tax structures. Revenues accruing to an economy, such as Nigeria, can be divided into two main categories, which are; Oil Revenue (includes revenue from royalties, Petroleum Profit Tax (PPT), gas tax) and Non-Oil revenue (includes trade, loans, direct and indirect taxes paid by other sectors of the economy, Aids, agriculture etc).

Overall, employment rates in the OECD area have remained stable at around 65 per cent for the working age population over the 10 years before the financial crisis, though average hours worked per worker have been falling over the same period. However, employment rates are particularly low for three groups: older workers, second earners (who are often women), and low-skilled (generally low-income) workers. The low employment rates of older workers and women are driven predominantly by substantially lower than average labour force participation, while both higher (involuntary) unemployment and lower participation contribute to the low employment rates of low-skilled workers.

Tax burdens on labour income vary significantly depending on income and family characteristics, with substantial variation also across countries. For a single individual earning the average wage in their country, income tax and social security contributions can result in tax wedges ranging from as low as seven per cent to as high as 55 per cent, and marginal tax wedges ranging from seven to 66 per cent. Looking across all OECD countries, the (unweighted) average tax wedge for a single individual earning the average wage is 35 per cent, and the marginal wedge is 44 per cent.

In general, taxpayers with children face lower tax wedges than taxpayers without children, while second earners often face higher average and marginal tax wedges than primary earners. Consumption taxes can add as much as 12 percentage points more to these burdens.

Furthermore, the interaction of benefit and pension systems with the tax system can lead to even greater effective tax burdens. For example, in a small number of countries the income-based withdrawal of benefit payments can create effective tax rates on entering employment, or on increasing the number of hours worked once in employment, of more than 100 per cent. These tax burdens can influence the level of employment in an economy through their effect on both labour supply and the level of (involuntary) unemployment. Labour taxes may also result in some individuals working in the informal sector rather than taking formal employment.

The effect of taxation on labour supply decisions will reflect the heterogeneous nature of the potential labour force. That is, different individuals will respond differently to a change in the real consumption wage depending on their individual preferences and family characteristics. In modelling the responsiveness of different demographic groups, labour supply is often assumed in simple models to be homogenous and described in terms of two characteristics - participation, and number of hours worked. However, labour taxes will also affect a number of other labour supply decision margins. In particular, tax will affect the amount of effort an individual is willing to put into his or her work. Longer term labour supply decisions, such as choice of occupation, and whether to undertake further education, may also be tax influenced.

Empirical evidence suggests that low-income workers, single parents, second earners and older workers are relatively responsive to changes in labour income taxation, particularly at the participation margin. In addition, taxable income elasticities suggest that higher-income individuals are more responsive to taxes than middle- and lower income workers. The variation in empirical estimates highlights the need for tax policy makers to be aware of the groups likely to be affected by a tax change, and their likely response to the change, in order to understand the overall impact of the reform on employment, tax revenue and the income distribution.

Tax will also affect a number of margins that may not generally be considered as affecting employment, per se, but that still carry with them significant efficiency consequences - the decision to engage in tax avoidance or evasion (including working in the informal sector) is clearly tax motivated. Tax may also influence the form in which compensation is taken (biasing towards tax-favoured forms such as pensions, or fringe benefits, including less obvious forms such as improved working conditions)., and create a bias towards tax-favoured forms of consumption (for example, charitable giving and housing). While labour taxes will, in general, reduce the level of employment in (the formal sector of) an economy, whether they affect (involuntary) unemployment is slightly less clear. Nevertheless, the weight of both theoretical and empirical evidence tends to suggest that labour taxes may interact with other labour market institutions - such as union bargaining and minimum wage laws - to push wages above market clearing levels, thereby increasing long-run "equilibrium" unemployment. In particular, strong but decentralized (i.e. sectorial) unions may push for higher wages to compensate for a tax increase without fully accounting for any unemployment that may result. Meanwhile, generous minimum wage laws in combination with substantial payroll taxes and/or employer social security contributions may price some low-skilled workers out of employment. As institutional settings vary significantly across OECD countries, the effect of taxation on long-run unemployment is likely to be highly country specific. While taxes on labour income have the clearest and most direct impact on employment, almost all taxes can have some effect on employment, indirectly, by distorting economic decisions, and thus leading to an inefficient allocation of resources and reduced labour demand. Perhaps the most significant indirect effect on employment is likely to come from the corporate income tax, which may be borne by capital, labour, consumers, or (more likely) some combination of the three. While empirical evidence on the incidence of the CIT is limited, it does suggest that at least some of the burden is borne by labour (through, for example, lower investment leading to lower capital/ labour ratios, and hence lower wages).

The tax base in Nigeria since had been on the increase in order to mobilize the resources needed to execute infrastructural projects. According to Kaldor(1963), those who believe that insufficient growth and investment is mainly a consequence of a lack of resources are chiefly concerned with increasing the resources available for investment through additional taxation. The availability and mobilization of revenue is the fundamental factor on which an economic development is sustained and managed. As noted by TJN (2012), tax is the most important, the most beneficial, and the most sustainable source of finance for development. Tax revenue in Africa, for example, is worth ten times the value of foreign aid. The long-term goal of poor countries must be to replace foreign aid dependency with tax self-reliance.

THE PROBLEM

Achieving a high level of employment is generally considered desirable for a number of economic and social reasons. However, tax systems will generally act to deter employment by reducing the returns to working received by employees, and/or increasing the labour costs faced by employers.

However, in Nigeria the contribution of tax revenue has not been encouraging, thus expectations of government are being cut short. Corruption, evasion, avoidance and tax haven indicators are strongly associated with low revenue (Attila, Chambas, and Combes, 2008) and indeed, corruption functions like a tax itself. According to Adegbie and Fakile, 2011), the more citizens lack knowledge or education about taxation in the country, the greater the desire and the opportunities for tax evasion, avoidance and non-compliance with relevant tax laws. In this respect, the country will be more adversely affected because of absence of tax conscience on the part of individuals and the companies and the failure of tax administration to recognize the importance of communication and dialogue between the government and the citizens in matters relating to taxation.

In the face of resource deficiency in financing long term development, Nigeria has heavily resorted to foreign capital, such loans and aid as the primary means to achieve rapid economic growth. Thereby accumulate huge external debt in relation to gross domestic product and serious debt servicing problems in terms of foreign exchange flow and, as such majority of the populace live in abject poverty. Government has expressed concern over these and has vowed to expand the tax revenue in order to meeting, its mandate. Kiabel and Nwokah (2009) argue that the increasing cost of running government coupled with the dwindling revenue has left all tiers of government in Nigeria with formulating strategies to improve the revenue base. Also, Ndekwu (1991) noted that, more than ever before, there is now a great demand for the optimization of revenue from various tax sources in Nigeria. This probably influenced the decision of the Federal Government of Nigeria (FGN), which in 1991 set up a Study Group on the Review of the Nigerian Tax System and Administration. Also, that an accurate estimation of the optimal level of expenditure requires knowledge of the productivity of the tax system and that it will assist in identifying a sustainable revenue profile for the country. As noted by IMF (cited in TJN, 2012) " Developing countries must be able to raise the revenues required to finance the services demanded by their citizens and the infrastructure (physical and social) that will enable them to move out of poverty. Taxation will play the key role in this revenue Mobilization" As a means of meeting their expenditure requirements, many developing countries undertook tax reforms in the 1980s. However, most of these reforms focused on tax structure rather than on tax administration geared towards generating more revenue from existing tax sources (Osoro, 1991) and improvement on employment rate in the country.

Given this background, the objective of this study is to examine the impact of tax revenue and employment on the economic development in Nigeria.

Overview of Taxation System in Nigeria

Nigeria was colonized by the British just like some other African countries. By an act of the British Parliament. Nigeria became an independent country within the commonwealth on October 1. i960. In 1963 Nigeria became a republic within the Commonwealth. In Nigeria, the taxation system dales back to 1904 when the personal income tax was introduced in northern Nigeria I before the unification of the country by the colonial masters, ll was later implemented through the Native Revenue Ordinances to the western and eastern regions in 1917 and 1928, respectively. Among other amendments in the 1930s. il was later incorporated into Direct taxation Ordinance No. 4 of 1940 (Libran of Congress, 2008). In essence, the Nigerian tax system has been based on 1948 British lax laws and has been undergoing a lot of changes. Since then, deferent governments have continued to improve on Nigeria's taxation system. Avital aspect of the improvement on the nation's tax system is the recent Federal Inland Revenue Service ([Establishment) Act. 2007. Companies Income Tax (Amendment) Act. 2007 and the Draft National Tax Policy pending before the National Assembly.

Sanni (2005) noted that vibrant tax system will have the following "tripod"; Tax Policy, Tax Law and Tax Administration, He mentioned that a tax system is administered through tax policies while the tax laws serve as the legal backing, Soyode and Kajola (2006) noted some of the sources of tax laws in Nigeria to include Legislations. Constitution. Court judgment and Circulars. For example. Personal Income 'lax Act (WV3) amended (in respect of Pa\-As-You-Karn and Direct Taxation: Self Assessment) is a typical legislate source of tax laws in Nigeria. ((Sanni, 2005; 2-5; Soyode and Kajola, 2006: 23; PITA, \993asamencted) C[1]

The tax system in "Nigeria is made up of the tax policy. the lax laws and the tax administration. All of these arc expected to work together in order to achieve the economic goal of the nation. According to the Presidential Committee on National tax policy (2008), the central objective of the Nigerian tax system is to contribute to the well being of all Nigerians directly through improved policy formulation and indirect!) though appropriate utilization of tax revenue generated for the benefit of the people. In generating revenue to achieve this goal, the tax system is expected to minimize distortion in the economic. Other expectations of the Nigerian tax system according to the Presidential Committee on National tax policy (2008) include:

1. Encourage economic growth and development.
2. Generate stable revenue or resources needed b) government to accomplish loadable projects and or investment or the benefit of the people.
3. Provide economic stabilization.
4. To pursue fairness and distributive equity
5. Correction of market .failure and imperfection.

In an attempt to fulfill the above expectation, the national tax policy is expected to be in compliance with the principle of taxation, the lubricant to effective tax system. The Nigerian tax system has been flawed b) what is termed multiplicity of tax and collecting entities at the three tiers of government levels Federal, State and Local government (Ahunwan. 2009).

Tax policy According to the report of the presidential committee on National Tax policy (2008). "The National fax policy provides a set oj rules, modus operand! and guidance to n7?/c7? all stakeholders in the tax system must subscribe". Tax policy formulation in Nigeria is the responsibility of the Federal inland Revenue Services (FIRS), Customs. Nigerian National Petroleum Corporation (NNPC). National Population Commission (NPC). andother agencies but under the guidance of the National Assembly i.e. the law making body in Nigeria (Presidential committee on National tax policy, 2008). Suffice it to say that if there must be any effective implementation of the Nigerian tax system or attainment of its goal, the use of the national tax policy\ document I remain absolutely essential. According to the Presidential Committee on lax policy (2008), "Nigeria needs a tax policy which does not only describe the set of guiding rules and principles, but also provide a stable point of reference for all the stakeholders in the country and upon which they can be held accountable. James and Nobes (2008) decried the inability of tax policy to meet up with efficiency and equity criteria against which it is being judged. It was further noted that tax policy is continually subjected to pressure and changes which most time does not guarantee outcome that are in line with the overall goal (James and Nobes 2008). Unfortunately, most policy changes in Nigeria are without adequate consideration of the taxpayers, administrate e arrangement and cost plus the existing taxes. This has in no small measure hindered the effective implementation and goal congruence of the nation's tax system. Citing (Bird and Oldman 1990). James and Nobes (2008) stated as follows "the best approach to reforming taxes is one that takes into account taxation theory.

Empirical evidence and political and administrative realities and blend them with good dose of local knowledge and a sound appraisal of the current macroeconomics and international situation to produce a feasible set of proposals sufficiently attractive to he implemented and sufficiently robust to withstand changing times, with reason and still produce beneficial results ". Tax **laws** This refers to the embodiment of rules and regulations relating to tax revenue and the various kind of tax in Nigeria. The) are made by the legislative arms of the government. These laws are constantly subjected to amendment, there is no doubt that the frequency of amendment is a manifestation of inconsistencies and consequently hinders the achievement of the set up goals. However, in an attempt to meet up with the three years policy review as earlier stated and or adjust to the economic dynamism of the country, amendment could equally be made. According to Kiabel and Nwokah (2009). and Ayodele (2006), the following are some of the prevailing tax laws in Nigeria.

- Personal Income Tax Act (PITA) CAP P8 Law of federations of Nigeria (LFN)2004
- Company Income Tax Act (C1TA) CAP.60. I IN 1090
- Petroleum Profit tax Act (PPTA) 2007
- Value Added Tax (VAT) Act No 102 I.I-N 1993
- Capital gain tax Act CAP 42 I 1'N 1990. Stamp Duties Act CA1M11 I.TN 1990
- Education Tax Act No 7 LFN 1993

* Information technology Development Act 2007

Multiple Taxation

i. Education Tax Decree no 7 (1993)

This law regulates the imposition of 2% tax on the accessible profits of companies registered in Nigeria and who are liable to pas tax in accordance with the requirements of Company income lax act (CITA) and Petroleum profit tax act (PPTA) (Nigeria 2009). Education lax was introduced in Nigeria to fund the deteriorating educational system. Though introduced in 1993, it was never enforced until 1995. According to Nigeria (2009). assessment education tax goes together with the company income tax. Defaulters are to pay 5% plus interest at commercial rate for non-compliance. Its administration was purely the responsibility of the Federal Inland Revenue services (FIRS).

Its introduction brought about increase in multiple taxes and discouragement of foreign investors due to the fact that it further robs companies of their merger earned profit (Avodele 2006). As a way of shelving the burden, companies may have to understate their profit.

ii. National Information Technology Development Agency (NITDA) act, 2007. This law is one of the most recent tax laws in Nigeria. Us inception follows the technological innovations that brought about the use of mobile phones, cyber companies and Internet providers, etc. Administered by the federal government through FIRS, the law places a levy of 1% on the profit before tax of: "GSM service providers and all Telecommunication Companies. Cyber Companies and Interne! providers. Pension Managers and pension related companies. Banks and oilier financial Institutions and Insurance companies" Nigeria (2009) This equally amounts to duplications and multiplicity of tax since these companies equally pay tax as required by CITA.

Tax Administration

It is one thing to make policies, rules and regulation in an attempt to attain a desired goal or objective and ii is another thing to implement these policies, rules and regulation. The organs and or agencies in charge of tax policy implementation in Nigeria arc referred to as the administrative organ or agency in this research work. Efficiency and effectiveness should be the watch word in designing a tax administration structure that wwill give the desired result (McPherson 2004). Put different!), tax administration in Nigeria is the responsibility of the various tax authorities as established by the relevant tax laws (Kiabel and Nwokuh 2009). Citing Section 100 of the personal income tax Decree. 1993 and amended by Decree No 18-Hnance (Miscellaneous Taxation Provisions) Decree 1998. Kiabel and Nwokah (2009) noted "tax authority "to mean Federal Hoard of Inland Revenue, the Stale board internal revenue and the local government revenue committee, together with the Joint tax board (JTB) and Joint state revenue committee or 1 Local Revenue Committee. Nigerian tax authority administers taxes in Nigeria, The fiscal autonomy granted the three tier of government had led to multiplicity of tax. fax pavers and corporate bodies had been subjected to multiple levies or charges of tax of same name in different form. This had increased evasion and avoidance as such payment either eat deep into the profit of business or a fleet negative, the distributable income of the individual. Nigeria and Fiscal Federalism Nigeria practices a Federal system of government and by implication its tax policy can simply be referred to as that of a fiscal federalism, The tax revenue generating power is shared between the three tiers of government Federal. State and Local government respectively. The tax jurisdiction of the various tier of government is spelt out in the constitution but sometimes with some overlap. Matters of difference are referred to the Joint Tax Board or the Board of Appeal commissioners. The Federating states normally get periodic allocation from the central government in addition to the revenue internally generated through the State Board of internal revenue for the administration of the state. From the State, the local government equally get periodic allocation in addition to the revenue generated locally from the local people through the revenue department of finance in the Focal council for the administration of the people, the whole process makes for the administrative convenience, quick decisions and implementation, independence and people friendly since they can easily get to the grass root. However, this is not without some setbacks as it brings about uneven economic development of the country. The inequitable distribution of nature in terms of natural resources makes some States and local government very backward in the scheme of things since their only hope is on the insufficient periodic allocation from either the Federal or State government as the case may be. Worst still, most State and Local government authorities seems to have lost their sense of reasoning due to their over dependent of the so call allocation from the upper tiers of government.

According to Syndelle (2009) Kano State representatives complain of insufficiency of Federal government month!) allocation to take care of the peoples need as if the people are beggars. Invariably other areas of revenue generation such as taxation have been relegated to the background. Quoting Sule Ya'u Sule. The Kano state government spokes person, Syndellc (2009) stated "the Federal government only give you a little amount every month. And it is that amount that It expects you In develop the state" ''This Money is not enough to finish the work and distribute it to the need of the people". Development can only come if the "little" resource from the federal government receives a boost through internally generated avenue from the state and eventually invested in education, health, eccentricity, water and other areas that will be of benefit to the life of the people. Other revenue source should be explored as Kano state is endowed with potentials in Agriculture. Relying, completely on allocation from the federal government in this economic jet age will rather impoverish the people and the country at large. State government need to create the enabling environment for the people to be gainfully employed. However. Lagos State is among a few states in Nigeria that have left a landmark in terms of independence and the use of internally generated revenue.

Syndelle (2009} observed that in 2007, the state achieved a CJDP of N3.68 trillion an equivalent of $29,028 billion making it the biggest contributor to the Federal government. This was kudos to fashola. the visionary leader who was then the governor of the state in that era of economic transformation.

Findings

Tax revenue and employment has a significant impact on economic growth in the Nigeria economy. There is a significant impact of tax revenue and employment on the economic. The approximate expectation was not met the result shows that macroeconomic policy variables significantly affect employment and Tax revenue thereby leading to economic growth in Nigeria.

real exchange rate has negative impact, 'tax revenue as a policy variable positively and significantly impact on economic growth. In the same vein. economic growth is affected by the employment rate, Finally, government expenditure induces employment generation in Nigeria. consistent with the theory that opines that government through fiscal and monetary policies lend to affect employment generation in the economy.

Specifically, interest rate constrains employment in Nigeria. This effect is however indirect on employment through its adverse impact on consumption and investment. As demonstrated in the theoretical framework, high interest rate leads to high opportunity cost of holding money and this reduces consumption in favour of increase in savings.

Also, high interest rate raises cost of investment and hence reduces level of investment. The consumption and investment effect of interest rate will lead to decrease in output and by implication, reduces employment. The results also indicate that exchange rate significantly augments aggregate employment. The channel may be through the higher cost it imposes on imported goods which makes imports become scarce and hence less demanded while making export price to be cheaper and hence more demanded by the foreigners. This discourages importation while cheaper price stimulates export. She effects lend to generate more employment provided consuming agents shift consumption in favour of domestic goods. The above analysis shows that it is not in all cases that monetary policy creates inducement for employment particularly when the focus is not the sectoral response to monetary policy shuck. Ii was established that interest rate is not central as money supply in the solution lo employment problem in Nigeria.

CONCLUSION

This study focuses on taxation and employment on economic growth in Nigeria. In the analysis, the small macro econometric model revealed that an direct relationship between tax revenue, employment and economic growth. The results highlighted the channels through which tax revenue and employment influences economic growth in Nigeria. These links involve infrastructural development, foreign direct investment and real gross domestic product. Sustained economic development would be possible by the availability of enhanced and, hitherto, low tax revenues. The will help the economy achieve the basic infrastructure that will stir Lip investment, which in turn will bring about economic growth. However, tax revenues can only materialize its full potential on the economy if government can come up with fiscal laws and legislations and strengthen the existing ones in line with macro economic objectives, which will checkmate tax offenders in order to minimize corruption, evasion and tax avoidance and, improve the tax administrative machinery with personnel's and accountability and transparency of government officials in the management of tax revenue. These will increase the tax revenue base. And this will help the economy to achieve greater self- reliance and avoid large debts.

RECOMMENDAT ION

1. Policy inconsistencies and reversal construed to meet the desires of the political class in power, who also double as importers, exporters and manufacturers should be discouraged.
2. The practice of excluding viable items to suit some sectors of the economy should be discontinued.
3 Privatization and commercialization exercise should be encouraged and properly guided toward success in other to minimize governmental expenditures.

4. The industrial sector should be reorganized and refocused to impact substantially on the local economies and on the lives of the people, such that they are economically empowered to improve on their current consumption levels, which probably is well below their current potentials.
5. Minimization of tax evasion and tax avoidance, appropriate policing of exports and imports and the need to realize the importance of placing the nation's interest first and before that of the individual.
6. The frequent alterations in tax rates, base or the structure of incentives and tax policy objectives should be genuinely done away with.
7. Prudent management and productive use of financial resources should be encouraged and public waste of funds should be drastically reduced or cut-out.
8. Employment generating fund should be established through revenue realised from removal of subsidy on petroleum products or through increases in the prices of petroleum products. This fund can be used to finance employment creation possibly through the activities of small and medium scale enterprises.
9. Structural reforms in labour markets, especial!) Concerning employment protection should be carried out. This is because only a comprehensive reform linking economic policy and labour market institutions is likely to succeed in improving employment generation.
10. Federal. Stale and Local Governments should embark on increased labour-promoting employment generation strategy that would combine increased government spending and tax-cut to create more jobs that will help to reduce the high current open unemployment in Nigeria.

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