THE GROWTH AND STRUCTURE OF THE NIGERIAN FEDERAL TAX REVENUE:1970-1995

BY

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DEPARTMENT OF ECONOMICS
FACULTY OF SOCIAL SCIENCES
AHMADU BELLO UNIVERSITY
ZARIA, NIGERIA.

OCTOBER, 1998

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DECLARATION

I do hereby declare that this thesis has been based on a study conducted by me and has never been presented in any other institution for the award of a higher degree. References have been adequately acknowledged.

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CERTIFICATION

This thesis, THE GROWTH AND STRUCTURE OF THE NIGERIAN FEDERAL TAX REVENUE: 1970 - 1995 by ENIMOLA SAM SUNDAY, meets the regulation for the award of degree of MASTER OF SCIENCE OF AHMADU BELLO UNIVERSITY, ZARIA and approved for its contribution to scientific knowledge and literary presentation.

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DEDICATION

This work is dedicated to God - The Maker, Sustainer and Finisher of all Earthly and Heavenly Bodies. My Grandmother Madam Dorcas Ajoke, with whom I am well pleased and my beloved sister who was snatched away by the hand of dead at the tail end of the study, Miss Jumoke Enimola.

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SAM S. ENIMOLA

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ABSTRACT

The study attempts to analyse the role taxation played in economic development. The kernel of this role is built upon the use of tax revenue as a form of capital accumulation via Government Spending.

In line with the classical economic synthesis, the study attached importance to the role of capital accumulation in stimulating economic growth. The index of growth in economic development as stimulated by tax revenue is the degree of responsiveness of change in GDP resulting from changes in tax revenue base, which is refered to as tax revenue elasticity/buoyancy/flexibility.

The elasticity coefficient (b) measured using a non-linear equation model, is used as a proxy to depict the degree of this responsive relationship between tax revenue and GDP.

The study, reveals a very considerable growth rate in the various tax base over the period of study except for the Personal Income Tax (PIT), which continue to decline. Appreciable increase is recorded mostly by the Petroleum Profit Tax (PPT) component; this tax base continue to have a considerable share in total tax

revenue.

The increase in PPT and Company Income Tax (CIT) have a meaningful effects on the Direct Tax Components which comprises PPT, PIT and CIT. Direct Tax component increases more than the indirect tax component made up of Export, Import and Excise Duties.

The total Tax Revenue maintained a continous growth in its share to total Government Revenue over the period, and also in its relative contribution to GDP.

The buoyancy/elasticity coefficient (b) is said to be GDP elastic if it is greater than unity and inelastic if it is less than unity. The negative or positive sign of ' b' shows the direction of linear relationship between the dependent variable (Tax Revenue) and the independent variable (GDP). The scope is divided into three phases (i) 1970-1982) ii (1983-1995) and (iii) 1970-1995.

The regression results between the period of 1970-1982, showed an elastic/buoyant responsivesness of tax to changes in GDP for almost all the tax bases except for the indirect tax components. The indirect tax component though GDP in elastic, showed a positive linear relationship except for export duties which showed a negative linear relationship throughout the different

period studied.

The regression results between the period of 1983-1995 depicts an inelastic/inflexibility responsiveness of tax to GDP changes for all base except for import duties which showed a considerable elasticity coefficient.

Contrary to a priori expectation, and the marginal contribution of PPT to tax revenue, and the relative importance of the petroleum sector to the economy, the PPT was GDP inelastic between 1983-1995 and for the aggregate period of between 1970-1995; though it showed a positive linear relationship. This revealed that an improvement in the marginal contribution of tax revenue to GDP might not automatically determine its flexibility/stabilization effect in the process of economic development.

CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Nigeria as a country is richly blessed with natural and human resources to encourage accelerated development. The rapid growth in post independence Nigeria in the 1960s, was due to the dynamic role of the agricultural sector - employing larger proportion of the total labour force, and contributing significantly to the monetary Gross Domestic Product (GDP) (Helleiner, 1966). This situation changed dramatically during the civil war (1967-1970), when the features of the economy were distorted significantly, and most of the macroeconomic variables plummeted. After the civil war, there was need for reconstruction. The major constraint then was inadequate resources. This might have remained the same, if the price of oil had not risen sharply in the world market due to the Middle East crisis in 1973/74. This development eased the constraints imposed on government. Consequently, growth indicators (GDP, investments, money supply, balance of trade and payments revenue etc) improved considerably and thus, the revenue from oil improved the performance of the economy in the 1970s.

The oil boom engineered continous increase in government expenditures, designed to expand

infrastructure and non-oil productive capacity. This increase in government spending, witnessed an expansion in public investment, which has little or no multiplier effect on the economy; and with no sufficient attention either to their economic viability or to the capacity of government agencies and public enterpreneurs to implement them.

Consequently, the economy was plunged into depression and nearly reaching the edge of the cliff in the 1980s, because of the precipitous fall in global oil prices, together with the apparent large scale corruption of public officials. The persistence of both internal and external disequilibra led to the adoption of the Structural Adjustment Programme (SAP) induced by the IMF/World bank - a demand management policies of short - run Keynesian solutions.

During this period of cyclical fluctuation, importance was attached to the use of taxation to regulate the economy; mainly as an instrument for capital formation. The growth of the Gross Domestic Product during this period had a significant effect on the growth and structure of Federal Tax Revenue and vice versa.

Taxation has been the most potent (of the basic) instrument of fiscal policy for economic growth and stabilization. This is the use of the police power of the state (Government) to confiscate a generalised commodity - money. It is not a volume of exchange; it does not involve a quid pro quo by which tax payers receipt of particular commodities and services are dependent upon their payment of taxes (Poque and Squontiz, 1978)[2]. Hence, services may be financed through taxation when it is either impossible or undersirable to make availability of the services contigent upon payment of specified fees, charges or prices. Taxation is the primary instrument for the transfer of funds to the government to facilitate transfer of resources. Many forms of tax are levied, but all taxes have the common effect of reducing private money flow of income or spending[3]

However, it must be emphasised that the real determinant of the taxable potentials of any economy depends on;

i. income per capita

ii. degree of inequality in the distribution of income

iii. The relative importance of different economic activities and their social and institutional setting, among others.

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Importance of taxation in the economic system as an instrument of fiscal policy is clearly analysed by Adam Smith thus:

> The subject[4] of every state ought to contribute towards the support of government as nearly as possible in proportion to their respective abilities i.e in proportion to the revenue which they respectively enjoy under the protection of the state (Wealth of Nations, 1776)[5].

In less developed countries[6] (LDCs), taxation is increasingly assigned a far more positive role in the process of capital formation, accummulation and technological change (Walter W, 1955). This is necessiated by the low level of imcome and savings mobilization, which serves as sources of capital formation. This also been given more prominence in Nigeria (Adebayo, 1969; Helleiner, 1966).

The general concern, is the continous increase in capital formation, and the increase in the relative share of domestic sources in it, which can be made feasible by the continous growth in revenue through taxation. Therefore each government aspire to continously appraise and re-appraise their tax policy to fulfil this goal without necessarily inspring resistance from the populace. The general concern is however, shifted from

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effects of this continous growth in taxation, which will affects the structure of the economy.

1.2 RESEARCH PROBLEM

Generally, the principal role attached to the tax system as an instrument of fiscal policy are (i) To generate income through government saving for accelerated growth and (ii) To check structural imbalances in the economic system via its flexibility[7] mechanism. While focus is placed more on the first role, little or no emphasis is placed on the second as it relates to the growth of the tax system in relation to the unsavoury fluctuation in the economy.

Thus, for the tax system to spur of government income, and at the same time sustaining it, there is the need to examine the pattern of tax-income elasticity and buoyancy in Nigeria. There must be a considerable transmission mechanism (responsiveness) of the changes in the monetary GDP and the tax system. This is desirable to enhance the stabilization mechanism of the tax system.

From the above argument, the study will consider the following as they relate to the stated scenario.

i. Has the structural shift and growth in the tax system responsive to the growth and changes in GDP.

ii. What impact has tax system played in influencing the structure of, and its reflection on the Nigerian economy over the period of study.

iii. Has there been any consistent link between tax policies and development strategies.

iv. What are the desired mechanism for tax administration necessary to move along the development expectations.

v. Has development in the economy has any significant influence on the relationship between taxation and GDP; given the a priori expectation that there should be a positive link between the two variables.

1.3 RESEARCH PURPOSE AND OBJECTIVE

To determine the causal link between the tax system and GDP, a quantitative analytical technique relating the two variables is employed. The method will relate the theory of revenue (tax) - income (GDP) elasticity of two basic fiscal policy criteria. The first, is the ability of the tax system to generate proportionately higher revenues through discretionary action (tax rate and base changes), legislative enactment, improvement in collection techniques, among others and through revenue growth that is automatically generated through economic activities - this measure is traditionally identified as

buoyancy criterion. The second, relates to the responsiveness of tax revenue yield to movement in economic activities alone - this refers to as the revenue - income elasticity measure.

The above, thus provide that needs for government to design its tax system (policy) in a way, that the yield would be very responsive to the growth of National Income inorder to have builtin flexibility in the budgetary structure which is a desirable stabilization mechanism in the economic system.

In pursuance of the above, the main characteristics of the tax system including its responsiveness to changes in GDP will be consider via.

i. The examination of how the growth of the tax system conform with the principles of tax with exceptional socio-economic conditions.
ii. To ascertain any pragmatic relationship between tax revenue and economic growth and the extent of the relationship.
iii. To examine tax policy and its relationship with the dynamics of tax revenue and economic progress, and
iv. To input, that the link between taxation and economic development is that followed between a

universally desired end and a form of government action which is widely believed to be means to that end.

1.4 RATIONALE FOR THE STUDY

The study introduces an approach distinct from the popular importance attached to the continous increase in tax revenue as an end in itself and the most desirable; but how this monetary increase in tax revenue is justified by its real contribution to the dynamics of the economy through a built in flexibility/elasticity to check the imbalances inherent in the economy.

This study attempts to illustrate, that investment through government saving (tax revenue) should be responsive to changes in GDP in the process of economic growth overtime, so as to provide an in bulit mechanism for effective regulation.

1.5 EXPECTED RESULT

At the end of the study, the research work would have answered questions stated in the problems and profer logical solutions. It is generally expected that the study will provide more insight into the degree of relationship that exists between tax growth changes and changes in monetry GDP, and the evaluation of these changes as it affects the structure of the economy.

1.6 METHODOLOGY

The study will use both descriptive and analytical methods to examine the tax structure. Analytical tools, to be used includes; simple percentages, tables and charts. The Ordinary Least Square regression analysis of the non-linear function is adopted. The regression equations will come in three sets for the period 1970-1995. The first equation will be between 1970-1982, the second between 1983-1995 and the third will be between 1970-1995. This structural shifts is to discover (i) partly the record period estimates and (ii) partly to observe intertemporal changes, if any in the behaviour of flexibility coefficient. The various regression equations are specified in chapter 2-2.3.

1.7 SOURCES OF DATA

Secondary data are extensively used. Data were collated from publications from various bodies including those from the Federal Office of Statistics (FOS) - the Annual Abstract of Statistics, Social and Economic Statistics, and Digest of Statistics, all published annually. The Economic and Statistical Review, an annual publication by the Federal Ministry of Economic Development. Economic and Financial Review, Annual Statement of Accounts and Statistical Bulletin; all published quarterly, annually and bi-annually by the

Central Bank of Nigeria (CBN). Data were also collated from the Federal Board for Inland Revenue - the tax administration body of Nigeria.

A major limitation of the data from FOS publication is that they are rounded up to the nearest whole number. In this respect, one can agree that they are only approximation to the actual data. However, we asssume that the degree of variability is not so significant as to cause loss of confidence on the generalisation of the information the data portray. Differences in the data produced by the CBN are reconciled with other sources to minimise their variability. However, the above limitation does not in any way impose any constraints on the objectivity of the study.

1.8 HYPOTHESIS

The guiding hypotheses for this study are:

i. The ratio of government various tax revenue to GDP increase as economic development progress and thus GDP elastic.

ii. That Petroleum Profit Tax (PPT) rises faster than any other components of tax revenue hence more income (GDP) elastic.

iii. That direct tax increases significantly than indirect tax thus more income (GDP) elastic.

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The t-test carries out on the reliability of the elasticity coefficient is based on the specification below.

$H_0 = b \leq 0$ - null hypothesis

$H_a = b > 0$ - alternative hypothesis

at $\alpha = 0.05$(95% confidence level)

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The test decision rule is

if $t_c \leq t_T(1-\alpha/2;\ n-2)$ conclude H_0

if $t_c > t_T\ (1-\alpha/2;\ n-2)$ conclude H_a

However, to test for the reliability of the elasticity coefficient as a parameter to measure the relationship between tax yield and GDP given an "a priori" expectation that there is a strong and positive relationship between the two variables the hypothesis takes the form below.

$H_0 = b \leq 1$ - Null hypothesis

$H_a = b > 1$ - alternative hypothesis

$b \neq 0$

The F - test on whether the change in the parameters are statistically significant is built upon the specification below.

$H_0 = b = 0$

$H_a = b \neq 0$

at 0.01 (99% level of significant)

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If the $F_c > F_t$ conclude that the changes in economic relationship being studied are statistically significant and if $F_c < F_t$, we conclude that the changes in economic relationship being study are statistically insignificant.

1.9 SCOPE AND LIMITATION

The study covered the period between 1970-95. The choice of this period is informed by the need to examine the relationship between tax revenue structure and growth, and yields and growth in the GDP from the period of real fiscal centralisation by the government. Moreso, there has been an acute cyclical fluctuation in the economy since 1970, thus the period will give insight to the influence these structural changes have had on the pattern of Nigeria tax system.

The tax components treated are limited to;

a) Direct tax comprising (i) Personal Income Tax (PIT), (ii) Company Income Tax (CIT), and (ii) Petroleum Profit Tax (PPT).

b) Indirect Tax viz; (i) Import Duty (IMPD), (ii) Export Duty, (EXPD) and (iii) Excise Duty (EXCD).

There has been large number of tax changes both in policy and administration during the period of study. The

ambiguity of some of the tax components especially PIT, has imposed a very significant problem to the study. The administration cost of the tax system is not taking into consideration.

1.10 PLAN OF WORK (ORGANIZATION)

The study comprises five (5) chapters. Chapter one is the introduction. The second chapter contains the review of literature comprising (i) Theoretical framework for the study (ii) Model specification for the study and (iii) The emperical analysis of related studies. Chapter three give a general survey of Nigeria Federal Tax system made up of (i) Evolution of Nigeria Tax System (ii) Structural composition of the tax system; (iii) Functional compositions and contribution (marginal) of the tax system (iv) Chapter four present data for the study and analyse the regression equations. Chapter five gives the General conclusion - Summary and Recommendations.

NOTES

1. The growth refers to here is the nominal or monetry increase in GDP.

2. This clearly explains that there is no compelling commodity that government should give in exchange of tax collected from tax payers. This shed more light on taxation and the distribution of National resources (it is not part of the present study per-se).

3. This was described by Keynes in his classic analysis of taxation (T) as a leakage in the N.I. identity of
$C + I + G+X = C + S + T + M$ but transfer to government G which later become an injection to the economy.

4. "Subject" refers to the citizenry.

5. In most literature, this argument is used to justify A. Smith explanation on the first cannon of taxation - the ability to pay, but it also justify the basis for the imposition of taxes on the citizen by the state.

6. For the purpose of this study, LDCs is used interchangebly with TWCs, Developing countries, Emerging Nation or Underdeveloped nations.

7. Flexibility/Elasticity refers to the same things in this study, and are used interchangebly.

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CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 THEORETICAL FRAMEWORK

In development economics literature, the most important hypothesis upon which most economists agree, is that emerging nations must increasingly mobilse their own internal resources to promote economic growth and perhaps the most important instrument by which resources may be marshalled is the implementation of an effective tax policy (Musgrave 1969). This submission is in conformity with Richardo D. preference of taxation to borrowing as a methods of finanacing government expenditure. The classic importance attached to taxation in national development is best described by M. Kaldor.

> Irrespective of the prevailing ideology, or political colour of particular governments, the economic and cultural development of a country requires the efficient and steadily expanding provision of a whole host on non-revenue yielding services - education, health, communication systems and so on, commonly known as infrastructure which requires to be financed out of government revenue. (Kaldor W. (1970) Pg. 159).

The essential role of fiscal measures in so far as it relates to LDCs lies in its usefulness as a tool for attacking the vicious circle of low level of income, low level of saving, low level of investment and low level of

output (Dina 1971). This is as a result of the comparative role which government has been playing and has to play in the development process, given the higher proportion of government activities in relations to total national activities.

Fiscal policy role in capital formation is best espoused by Heller:

> Many factors which give the tax and fiscal problem of LDCs its distinctive character come to light in the consideration of the central problem of capital formation - the main key to economic development. - (Heller, 1975)

Similar views were held by M. Abramontiz (1952), Bucham and Ellis (1995) and Chelliah (1960) that the primary task of fiscal policy in LDCs is to raise the ratio of saving to national income. Lewis W.A (1962), affirmed that the central problem in the theory of economic growth is to understand the process by which a country is converted from being a 5% to a 12% saver.

All the above propositions were derived from the classical economists who have always emphasized that capital formation is the process whereby resources are marshalled away from current consumption as the sole source of progress.

There are strong reactions following studies by few notable economists such as Solow, Fabricant and Kendrick, that though capital is important, there are other crucial factors such as changes in production functions and technical innovation. J.H. Adler and K.S. Krishnaswany and Professor Caincross (1962) argued that it is by no means obvious that additional capital whether borrowed from abroad or accumulated through the exertions of surplus labour in the countryside would by itself suffice to start off a cycle of industrialization.

While other non-capital factors are important, the position of this study is that capital formation still plays a vital role in the process of economic growth and development. Hence the study follows the classical economist, and examines how expansion in the economy improves its taxable potentials for rapid economic development.

The prevailing analysis, which has had a profound influence on policy makers in the economy supports the proposition that the key to economic development is investment. Specific mention is made of the influence of the Harrod-Domar framework of the theory of growth which gained support from many (Peacork,1967). Hence a useful theoretical begining might be made from the model by

injecting some public sector transactions. This attempt to show how government taxes (revenue) acts as government saving and injected back to the economy through government investment. GDP is used here as a proxy for economic development. This framework stated below.

$$(Y_n - Y_{n-1}) = 1/p \times I_{n-1} \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad 2.1.1$$

where Y = real national product

n, $n-_1$ = time subscripts

I = real investment (Gross)

P = Incremental capital output ratio (ICOR)

Simply put, real output depends on the average productivity of capital (APC). The increment in capital (I) produces a proportional change in the level of real output. For example our equations 2.1.1 can be re-written in the form below by multiplying $1/Y_{n-1}$ to both sides.

$$\frac{Y_n - Y_{n-1}}{Y_{n-1}} = \frac{I_{n-1}}{Y_{n-1}} \times \frac{1}{P} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 2.1.2$$

If it is assumed that full real output level can be automatically achieved then the proportion of annual output invested will always equal to the proportion of income saved. With government intervention especially in the introduction of tax, saving can be carried out by the government and the level of private saving will itself influence government transactions with the rest of the

economy. This can be demostrated by equating I with government saving (excess taxes (less transfer) over current expenditures on goods and services) and private saving (the excess of personal income (less taxes) over personal expenditure on current goods and services)

then

$$I_{n-1} = b\ Y_{n-1}(1-t) + (t-g)\ Y_{n-1} \ldots\ldots\ldots \quad 2.1.3$$

where

b=proportion of personal income saved

t=tax rate

g=proportion of national output devoted to government expenditure on current goods and services.

Substituting in eq. 1

$$(Y_n - Y_{n-1}) = 1/P[b(1-t)+(t-g)]Y_{n-1} \ldots\ldots\ldots\ldots \quad 2.1.4$$

or in generated form

$$Y_n = 1 + 1/P[b(1-t) + (t-g)]Y_0 \ldots\ldots\ldots\ldots \quad 2.1.5$$

which may be written as

$$\frac{dY1}{Y_0} = 1/P[b(1-t) + (t-g)] \ldots\ldots\ldots\ldots\ldots \quad 2.1.6$$

where d=change in

$$t = \frac{1}{1-b}\ (P^{dY}/y) - bc+g) \ldots\ldots\ldots\ldots\ldots \quad 2.1.7$$

The above attempts to explain the transmission mechanism between saving and investment through government budget in two ways (i) by raising the tax

component t or (ii) by lowering the expenditure component g which will raise the growth rate in equation 2.1.5. The theoretical expectation therefore is that increase in GDP will increase the tax yield. However, the framework does not give insight into the built-in-capacity of the tax system i.e the flexibility mechanism of how the linkages between GDP and tax yield will be reinforced.

To correct this inadequacy, the model below is adopted to capture the scenairo.

2.2. MODEL SPECIFICATION AND ANALYSIS

2.2.1 ANALYTICAL TOOLS

The analytical tools adopted for this study are built upon the use of indices, regression and correlation analysis.

2.2.2 INDICES

Relative value index is adopted. Relevant variable will be converted to a base year using the method.

$$X_i = \frac{q_i}{q_0} \times 100 \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad 2.2.1$$

where X_i = index of variable

q_i = variation to be consider in period i

q0 = value of variable in base year.

1974 is chosen as the base year for all variables in the study. The choice of the year is premised upon the consolidated structural changes in the composition and contribution of each tax base to federal tax revenue during the period.

2.2.3 THE MODEL

The choice of method estimating the growth of tax revenue and economic growth (measured by GDP) shown by the coefficient of elasticity will take similar form for all series of tax base as described in chapter 1 section 6, and as analysed in the different equations in chapter 3 section 3. To quantify the index of elasticity of the tax system, defined for the study as the change in gross tax yield associated with the change in GDP.

$$\frac{dR}{d_Y} \times \frac{Y}{R} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad 2.2.2$$

for any given tax K by

$$\frac{dR_k}{d_Y} \times \frac{Y}{R_k} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad 2.2.3$$

where

R = Tax revenue, that is the discreationary changes in tax base.

Y = GDP at current market price.

Equation 2.2.3 is decomposable into tax to base elasticity

$$\frac{dR_k}{dB_k} \times \frac{B_k}{R_k} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad 2.2.4$$

(elasticity of tax collected to the base), and base to

income elasticity i.e. eq 2.2.5.

$$\frac{dB_k}{d_Y} \times \frac{Y}{B_k} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad 2.2.5$$

The elasticity is expressed in the identity

$$\frac{dR_k}{dY} \times \frac{Y}{R_k} = \frac{R_k}{B_k} \times \frac{B_k}{R_k} \times \frac{B_k}{Y} \times \frac{Y}{B_k} \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad 2.2.6$$

Equation 2.2.6 gives a year to year estimate of tax elasticity. But given the need to have an estimate over a period of years, a regression analysis of the Ordinary Least Square (OLS) linking tax receipts to changes in monetary GDP is adopted. This is shown as:

$$R = AY^{B}_{e} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad 2.2.7$$

where

R=gross tax yield - dependent variable

Y=GDP at current price - explanatory variable

A=Constant - intercept

B=Measure of elasticity coefficient

e= Error term residual.

Taking the log linear function equation 2.2.7 becomes

$$\log R = \log A + B \log Y + \log e \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad 2.2.8$$

$E(e) = 0$; $\log e = 0$

The calculated equation will take the form;

$$\log R = a + b \log Y \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad 2.2.9$$

since $B = \frac{d\log R}{d\log Y}$

equation 2.2.7 yields a convinient way to determine B

The model adopted is similar to that expressed by Omoruyi (1983) Sykes et al (1978). However, there is a sharp contrast between the methodolgy adopted. While Sykes et al estimated total government revenue (non-tax inclusive), and a joint and comparative studies among countries, this study is concerned mainly with tax revenue and as it affects the Nigeria economy.

2.2.4 ANALYSIS OF MODEL EQUATIONS

Series of equations will be subjected to regression analysis. They are stated below.

logPIT = a+blogY 2.2.10

logCIT = a+blogY 2.2.11

logPPT = a+blogY 2.2.12

logTDT = a+blogY 2.2.13

logIMPD = a+blogY 2.2.14

logEXPD = a+blogY 2.2.15

logEXCD = a+blogY 2.2.16

logCUT = a+blogY 2.2.17

logTDT = a+blogY 2.2.18

logTOT = a+blogY 2.2.19

where

PIT = Personal Income Tax

CIT = Comapany Income Tax

PPT = Petroleum Profit Tax

TDT = Total Direct Tax

IMPD = Import Duties

EXPD = Export Duties

EXCD = Excise Duties

CUT = Custom Duties

TIDT = Total Indirect Taxes

TOT = Total tax Revenue.

Generally, as the GDP improves, the taxable potentials of the economy improves, thus the degree of responsiveness of the changes in the GDP and changes in the tax system should improve significantly. Thus, the b coefficient for all the equations described above is expected to be greater than zero (b>0) i.e there is a positive linear relationship between the tax system and GDP.

The F_c ratio will be compared to F - tabular to arrive at a decission as to whether the change in parameters are statiscally sgnificant. The decision rule is if $F_c > F_t$, we conclude that the changes in economic relationship being study are statistically significant and if $F_c < F_t$, we conclude otherwise.

The R^2 and Dubin-Watson (D.W) statistic will be used to interprete the degreee of relationship that existed between the dependent and independent variables, given

an a priori expectation of standard errors.

To arrive at a decision, if the parameter are statistically significant as a result of policy changes in relation to tax administration and economic dynamics, the F statistics will be computed at 0.01 level of significance.

Summarily, a tax is considered elastic if its yields increases or decreases more than proportionate in response to an increases or decreases in monetry GDP, with the tax parameter assumed unchanged. Where b>1 the tax receipts is GDP elastic, if b<1 it is GDP inelastic, which suggests discretionary alteration of the tax base if reliance must be placed on revenue productivity of the tax system.

2.3 EMPERICAL SURVEY

Emperical studies on tax revenue and economic growth had been carried out by scholars within and outside Nigerian economic framework.

Khan and Grooves (1952) in their study of the stability of state and local tax yield attempted a critical analysis of the impact of tax yield on

(i) Changes in income due to output and to price level variation and

(ii) The degree of progression of state income taxes.

In the study, taxes were classified according to their degree of revenue stability into three significant groups.

i. Taxes whose yield is very stable i.e its income elasticity is substantially less than unity.

ii. Taxes whose yield varies roughly in proportion to fluctuations in income payment e.g. in general sales tax where income elasticity of tax is close to unity.

iii. Taxes that have high sensitivity to changes in income i.e where yield varies considerably more than in proportion to changes in income. A case where (a) the tax base varies more than in proportion to income and, or (b) the average rate of tax rises as income rises due to a graduated rate schedule, generally above 1.5.

Khan and Grooves analysis faces the problem of inconsistent aggregation, income elasticity of various state and local taxes of divergent time framework were examined. This will greatly affect the computation and final results.

The study was accompanied by percentage change in tax yield which would result from a 25% change income the

first group of taxes presented comprises taxes that fluctuate little in response to changes in income e.g primarily unit sales and the general special property taxes. These sets of goods selected had income inelasticity which led to their taxation.

The second group of tax, which comprises the general sales tax fairly gave a proportionate revenue yields to income payment. The third group comprises taxes whose taxes whose income elasticity exceeds 1.2 i.e gross income tax and its elasticity coefficient is of 1.4. The R^2 for all cases of taxes by income payment was found to be 0.80. Their findings reveal that there are no stability problem, and if the co-efficients are again interpreted on the basis of 25% changes in income payments, the variations of the most stable system would be about 10% and that the least stable about 13% over the period of study.

It must be noted that Khan and Grooves works are highly appreciated, but we must be quick to note that the functional composition of the tax covered differed entirely from that employed in this study, and because of the relative different tax policy and administration between Nigeria and U.S. Most of the object of taxation studied in Khan and Grooves are absolutely salient and

when pronounced were imcorporated to some tax object e.g. taxes on wealth, property and even sales tax, until of recent (VAT) are significant, and when subject to taxation, it is done at state and local level. Moreso, the study was carried out among various states and local councils with different and inconsistent objects of taxation.

Raja J. (1975) adopting the Khan and Grooves analytical tool carried out an emperical study of 27 nations, selected from developing countries between 1953-1954 and 1967-1968 (the study was carried out at different period). The analytical specification of his study was built on tax ratio, which he defined as the ratio of taxes to GDP at market price, the same specification adopted by Omoruyi (1983). Raja analysis of tax ratio clearly differed from the coefficient of built-in elasticity which was computed with respect to the automatic increase in a tax revenue in response to economic growth or increase in income. His interest was more on the total relative increase in tax structure on rates. This however showed a sharp contracts with his definition of tax ratio as used in his study and as presented by Khan (1952), Omoruyi (1983).

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For the whole group in the study, his tax ratio result seems to register a moderate increase of an average of 11.3% to 13.8% between the two periods. This result is closer to what Khan and Grooves (1952) arrived at in their study where their average was given between 10 - 13 percent. The R^2 changed but slightly, indicating similar relative dispersion in tax-GDP ratio. The average elasticity coefficient of total tax as a whole for the group is 1.4; while 5 countries had income elasticity coefficients equal to or greater than 2 i.e. India, Korea, Morocco, Houduras and Paraguay. These countries strived hard to raise their taxation ratio but are still below the group median of 11.5% in 1953-1955 while others with elasticity below unity had tax ratio equals or above the medium in 1953-1955 with high but negative rank correlation $r_s = -0.6$ and significant at the 0.05 levels.

Cautions must be taken in an attempt to compare the result in Raja study with previous and subsequent studies. The time framework is so small as to permit any reasonable objective analysis and moreso, the objects of taxation lives many in doubt about drawing appropriate inferences from the study in question.

Skykes and Wilford (1978) estimated the revenue buoyancy and elasticity of five (5) Central America

Market Commission (CAMC) nations of Costa Rica, El-Savador, Guatemela, Houduras and Nicaragua between 1955-1974. The study adopted a log linear relationship between revenue (R) and income (Y) such that R is a dependent variable of Y.

The reported elasticities for the countries were 1.83, 0.49, 1.01,1.32 and 1.75 respectively. It must be noted that the 1.32 coefficient for Houduras differed considerably from the average coefficient arrived at by Raja (1975) for the same country (Houduras) between 1953-54 and 1967-68. The average coefficient for these five countries was 1.28 which is closer to Raja (1975) average coefficient of 1.4 in his study.

The analysis of the revenue buoyancy points to a revenue - GDP elasticity of approximately unity over the 1955-74 period with some minor improvement in 1961. The revenue structure was relatively stable i.e the elasticities with adjustment for exogenous influences were, in most cases, less than unity. This supported Khan and Grooves (1952) first classification of taxes to their degree of revenue stability.

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It should be noted, that the study included non-tax revenue in the model, this might give way for the divergent figures for Houduras. At the same time, the object of taxation were not properly defined and might differ in the various study, but one need to appreciate the time frame studied.

Omoruyi (1983), adopting Khan (1952), Raja (1975) and Sykes (1978), analytical model but differing in his methodology, estimated the growth of tax revenue in Nigeria between 1960-1979. Using a tax to base analysis, the study concluded a positive response of the tax system to income growth. The elasticity coefficient (B) = 1.04 in the 1960s decade for total tax revenue and rose slightly to B = 1.24 in the 1970s which was largely derived from the marked elasticity in both the CIT and PPT. This is rightly closer to that of Raja (1975) average coefficient of 1.4 in his study, and Sykes (1978) in another study computed to be 1.28.

The mixed elasticity over the several sub-periods (of ten years each) by various taxes considered is attributable to the changing pattern of the economy via changing government discreationary actions. There was a sharp elasticity in import duties which conformed with Diejeomah (1976) estimates of import duties taxation between 1954-1964. The non-indexation of the various

variables used in the study underscored the result.

Egwaikhide (1988), analysing the structural shift of government revenue, relates direct government revenue[11] to the level of economic development using GDP as a proxy for economic development. He ran two sets of regression (i) 1961-1971 and (ii) 1972-1982. The first period showed that 81% of the variations in indirect government revenue was expalained; though the coefficient of elasticity was low, it showed a positive relationship between the two variables. In the second period the coefficient increased from 0.083 to 0.15 and the percentage of variation also increased from 81% to 83%. It is of interest to note that the study carried out by Omoruyi (1983) for about the same period differed significantly. The coefficient of elasticity obtained by Omoruyi between 1960-69 was 1.07084 approximately 1.07; this significantly differed from the 0.08 recorded by Egwaikhide. And it must be noted that there was no significant change in the marginal value of direct tax between 1960-71. The elasticity coefficient for Omoruyi between 1970-79 stood at 1.64 and Egwaikhide arrived at 0.15 for 1972-1982 period.

Inferences cannot be actually drawn from Egwaikhide submission because of the absence of other statistical

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parameters for objective inferences like the F and D.W. statistics. The t - ratio also differed considerably between the two period of research. Omoruyi had 2.20 and 10.80 for the two period respectively, and Egwaikhide has 6.82 and 7.0 respectively. It is therefore challenging to reconcile the two results based on the findings of this study.

The emperical studies generally adopted similar analytical tools, but their methodology differed considerably. While more reliance can not be laid for easy comparison, the results of the various studies stand as a guide post for this study. However the analytical and methodological tools differed considerably.

CHAPTER THREE

3.0 GENERAL SURVEY OF NIGERIAN FEDERAL TAX SYSTEM

3.1 EVOLUTION OF TAX SYSTEM IN NIGERIA

Before the advent of British government in Nigeria, there had been some system of tribute taxes paid to the Kings and Emirs. Thus, the introduction of direct taxation in Northern and Western Nigeria was to consolidate the demands made upon the people into a single payment, and to mould what was a series of arbitrary, irregular and uncertain tributes into regular definite and fair system of direct taxation (Orewa, 1962, P_1).

The first bold step towards the introduction of direct taxation by the colonial government in Nigeria was taken in 1906 by Lord F. Lugard in Northern Nigeria - an income tax assessed on each community[1]. Since one form of direct taxation has already been in the region, the Lugard action of 1906 was gladly accepted because its yield was stable and certain.

However, the urgent need for more central government revenue, the direct tax system was introduced in the South-West[2] in 1918. Direct tax system was also in existence in the South-East.

In 1940, the Direct Tax Ordinance No.4 was legislated. This was a landmark in the Nigeria Public Finance history, as the whole country came under a single Tax Ordinance, which consolidated the provisions of all tax Ordinances from 1906 - 1940[3]. This clearly showed that before the 1940 feat, individual region[4] maintained "absolute" jurisdiction over its tax policy and administration. However, the said Ordinance did not significantly alter the structure and administration of the regional tax system.

The defunct Eastern Region is noticeable as the first to introduce a comprehensive regional finance law[5] that served as a model for the other regions (Okigbo, 1965 PP. 99-106). The most remarkable of this innovation was the introduction of the PAY AS YOU EARN (PAYE) system of tax collection, whereby the tax was deductable at the source by the employer in accordance with a prescribed schedule[6]. The defunct Western Region followed suite in 1995 through the enactment of income tax Law of No.16, but was not followed immediately by the defunct Northern Region, as the Federal Government continued to collect the income tax on their behalf until 1962 when Personal Tax Law no.6 was enacted in the region.

There were various changes in the development of Nigeria fiscal system with regards to tax policy and administration. The period 1948 - 52 exerted more power on the central government over taxes and stipulated that the excess of government revenue over expenditure would be allocated to the Regions on the basis of the principle of derivation.

The period 1954 - 59 encompassed the Sir Louis Chicks report which paid more emphasis on the principle of derivation and that much regard should be given to the needs of the Region by giving them adequate measure of fiscal autonomy within their own sphere of government.

It is pertinent to note the recommendations of Sir Louis Chick in his fiscal review after the 1953 constitutional conference:

a) 100% of the import duty on motor spirit to be returned to the Regions in proportion to the estimated distribution for consumption in the Regions.
b) 50% of the import duty on tobacco to be returned to the Regions in proportion to the estimated distribution for consumption in the Region.
c) 50% of excise duties to be returned to the Regions in proportion to the estimated distribution for

consumption of the taxed commodities in the Regions.

d) 50% of all export duties to be returned to the Regions in proportion to the amount of duty deemed attributable to produce from each Region.

e) Of the income tax levied and collected by the Federal Government (i.e, on all non-Africans, on all companies and on Africans in Lagos) all PIT to be returned to the Region in which tax payer is resident.

However, the creation of 12 States in 1967 and the subsequent promulgation of decree No.15 of 1967 altered the various tax policy as it affected the Regional Governments.

With the advent of oil, revenue from it, because totally accruable to the Federal Government, so also with all taxes imposed on company (Company Income Tax (CIT))

There was slight alteration in the tax policy in 1978. Though the Federal Government still retained all CIT and PPT, 65% of import duty excluding those accruing on account of tobacco, alcohol, motor spirit and diesel oil went to the central Government. Fifty percent of excise duties also went to the central government while the outstanding 35% from import duty and 50% from excise

duty were paid to the Distributable Pool Account (DPA). Revenue from PIT except those accruing from non-Africans and Diplomat, and Residents of Abuja were paid to the State Governments in which the tax payer was resident. This still followed the pattern of Louis Chicks fiscal commission except that Lagos has since been substituted for Abuja.

Government tax Revenue in Nigeria have evolved in virtually the classical (Dina, 1971) pattern of tax structural change during economic development. The dominance of direct taxes on persons and wealths have been enclipsed by the rapid growth of foreign trade and oil taxes. The continous fragmentation of the Federal Government to State and Local Units has given way for various form of taxes and made tax policy and administration very ambigous and herculean in Nigeria.

3.2 STRUCTURE OF THE FEDERAL GOVERNMENT TAX REVENUE

The structure of government tax revenue is considered by examining the direct and indirect tax revenues and the functional composition of the two, in relation to their growth and contributions to the national economy over time.

One of the universally known of the analysis of the working of taxes through the economic system is the categorization of taxes into two principal facets viz; direct and indirect. It is not easy to trace the origin of the terms direct and indirect taxes as a technical classification. Adam Smith uses the term direct tax but in a context which makes it difficult to be employing it in a technical sense[7].

J. S. Mill[8] distinguished between direct and indirect taxes by asking whether a tax was actually paid over by the people on whom the burden fell or not. To him direct tax could be levied on expenditure as much as on-income. A tax on house services could be direct if paid by the tennants and indirect if paid by the owners.

However, distinction between direct and indirect taxes is more commonly drawn by reference to the basis of assessment rather than the point of assessment. Those taxes which are based on the receipt of income are termed direct e.g income tax on persons and company (CIT), profit taxes e.g petroleum profit tax (PPT) etc whereas, those levied on expenditure are indirect taxes e.g excise, import and export duties etc.

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It is on the basis of the above distinction that the tax structure of Nigeria has evolved. The basic direct taxes examined for this study are CIT, PIT and PPT, and for indirect taxes include export duty, import duty and excise duty.

Tax system passes through several stages in the process of economic development both in LDCs and Developed Countries (DCs). This has been thoroughly argued in development literature, that tax base has a crucial impact on the economic development of a country's economy (Musgrave, 1969).

In the early stages of development, there is only a very little scope for the use of direct taxes. This is because of the primitive and subsistence mode of production which saw people residing in rural areas where economy activities are poorly monetised. This made their income very difficult to tax (Aboyade, 1976; Helleiner, 1966). At this stage of development, there is a high degree of tax evasion and avoidance. Moreover taxes are difficult to collect because of the inadequate or even absence of skills and facilities for tax administration. More to the above, is the lack of industries at this early period, as such excise tax yields little or no revenue.

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The large percentage of self employed to total employment makes ineffective the administration of PIT (Musgrave 1969; 127 - 128). Effective taxation therefore is limited to wage income of civil servants and large firms employees. Tax revenue accruing from foreign trade in form of import and export duties are not reliable because of the continous fluctuation of primary products in the world market.

As the economic progress, there manifests a significant dominance of direct taxes to total revenue, then taxes may be imposed on firms income or individual income (Musgrave, 1969), and to actually shift from indirect to direct taxes.

Since political independence, the share of tax revenue to total revenue increased considerably, its structure also changed dramatically between the covered period by this study. Table 3.1 illustrate the structure of this change in the economy. While the mean annual growth rate of indirect tax was 10 percent over the period 1961 to 65, it rose to 24 percent between 1976 to 1980. For the same period direct taxes recorded average annual growth rates of 9.9 percent and 28 percent respectively. Direct tax recorded the highest rate between 1971 to 1975 and to date. Direct tax rose from

₦17.5 million in 1961 constituting only about 6 percent ₦9,447.5 million in 1980 contributing about 60 percent to the total tax revenue. Indirect tax revenue, on the other hand was ₦153.6 million in 1961 representing about 70 percent of total tax revenue and this increased to ₦1812.5 million in 1980. Although in absolute terms indirect revenue incrased, its percentage share to total revenue declined sharply less than 12 percent in 1980. The expansion of government revenue since 1970s is due to the enmergence of oil; and these changes have since 1970, significantly affect government fiscal operations in the aggregate economy.

3.3 FUNCTIONAL CONTRIBUTION OF AND THE GROWTH OF DIRECT AND INDIRECT TAXES

3.3.1 DIRECT TAX

Before 1970, revenue generated through direct tax was the least. This is shown in tables 3.1, 3.2 and 3.3.

Table 3.1

VALUE OF DIRECT, INDIRECT AND TOTAL TAX REVENUE (=N= 'm) AND GDP AT MARKET PRICE 1970 - '95

Year	Direct Tax	Indirect Tax	Total Tax Revenue	G.D.P
1970	144.30	369.40	513.70	5584.00
1971	450.80	491.20	942.00	6851.00
1972	620.90	481.10	1102.00	7137.30
1973	851.20	516.20	1367.00	11388.00
1974	3030.00	498.20	3528.20	18771.00
1975	2985.30	760.70	3746.00	21558.80
1976	3850.60	882.70	4733.30	27297.50
1977	4611.00	1145.60	5756.60	32747.30
1978	3946.60	1698.20	5644.00	36083.60
1979	5742.10	1144.20	6886.10	43150.80
1980	9147.50	1813.50	10961.00	50848.60
1981	6812.70	2535.50	9348.20	50749.10
1982	5592.90	2842.70	8435.60	51950.00
1983	4312.40	1985.20	6297.60	57142.10
1984	5593.70	1616.00	7209.70	63608.10
1985	7739.00	2183.50	9922.50	72333.40
1986	5880.00	2340.90	8391.40	73061.90
1987	13739.20	3540.80	17292.90	108885.10
1988	14068.90	4264.10	12650.90	145230.00
1989	26139.10	5950.20	32089.30	224700.00
1990	16154.22	8724.60	24878.82	269820.00
1991	18899.73	13531.29	27431.02	324800.00
1992	23232.30	18527.44	41759.74	549808.00
1993	68781.20	18905.60	87686.80	701472.88
1994	67701.40	21599.00	89300.40	914938.66
1995	-	37364.00	-	1977739.40

SOURCE:

(i) CBN, Economic and Financial Review - Various issues.
(ii) CBN, Statement of Accounts - Various issues.
(iii) CBN, Statistical Bulletin - Various issues.
(iv) FOS, Abstract of Statistics, Various issues.
(v) FOS, digest of Statistics - Various issues.

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Table 3.2.

THE VALUE OF DIRECCT TAX COMPONENTS 1970-1995 (=N='m)

Year	Personal Income Tax (PIT)	Company Income Tax (CIT)	Petroleum Profit Tax (PPT)
1970	0.80	45.80	97.70
1971	0.20	67.50	383.10
1972	0.00	80.40	540.50
1973	1.20	80.80	769.20
1974	11.10	148.80	2870.10
1975	15.90	261.90	2707.50
1976	3.50	222.20	3624.90
1977	3.30	276.90	4330.80
1978	3.30	527.40	3415.70
1979	2.90	575.10	5164.10
1980	4.00	579.20	8564.30
1981	3.90	483.00	6325.80
1982	12.50	734.00	4846.40
1983	4.50	561.50	3746.90
1984	13.30	787.20	4810.30
1985	15.10	1004.30	6719.60
1986	13.10	1102.50	4811.00
1987	12.90	1235.20	12504.00
1988	21.60	1550.80	6818.40
1989	24.20	1914.30	10598.10
1990	20.32	2997.30	13136.60
1991	18.23	3827.90	10053.60
1992	22.10	5417.20	17793.00
1993	19.50	9554.10	59207.60
1994	-	12274.80	55426.60
1995	-	21870.30	-

SOURCE: (i) CBN, Economic and Financial Review - Various issues.
(ii) CBN, Statement of Accounts - Various issues.
(iii) CBN, Statistical Bulletin - Various issues.
(iv) FOS, Abstract of Statistics, Various issues.
(v) FOS, digest of Statistics - Various issues.

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Table 3.3.
SHARE (%) OF DIRECT TAX COMPONENTS TO DIRECT TAX, TOTAL TAX REVENUE AND GDP (1970–95).

Year	Personal Income Tax			Company Income Tax			Petroleum Profit Tax		
	% Direct Tax	% Total Tax	% GDP	% Direct Tax	% Total Tax	% GDP	% Direct	% Total Tax	% GDP
1970	0.55	0.15	0.01	31.74	8.92	0.82	67.85	19.02	1.75
1971	0.04	0.02	0.00*	14.97	7.17	1.00	85.00	40.67	5.60
1972	0.00*	0.00*	0.00*	12.95	7.30	0.13	87.05	49.05	7.57
1973	0.14	0.09	0.01	9.49	5.91	0.71	90.37	56.25	6.75
1974	0.37	0.32	0.06	4.90	4.22	0.79	94.72	81.35	15.29
1975	0.53	0.42	0.07	8.77	7.00	1.21	90.70	72.28	12.56
1976	0.09	0.07	0.01	5.77	4.70	0.81	94.14	76.58	13.28
1977	0.07	0.06	0.01	6.00	4.80	0.85	94.00	75.23	13.22
1978	0.08	0.06	0.00*	13.36	9.34	1.46	86.00	60.51	9.47
1979	0.05	0.04	0.00*	10.02	8.35	1.33	89.93	75.00	12.00
1980	0.04	0.04	0.00*	7.11	5.28	1.14	93.62	78.13	16.34
1981	0.06	0.04	0.00*	7.09	5.17	1.00	92.85	67.67	12.46
1982	0.22	0.15	0.02	4.18	2.77	0.45	86.65	57.45	9.32
1983	0.10	0.07	0.00*	13.02	8.92	1.00	86.89	59.49	6.52
1984	0.24	0.18	0.02	14.07	10.90	1.20	86.00	66.72	7.56
1985	0.20	0.15	0.02	13.00	10.12	1.39	86.83	67.72	9.29
1986	0.23	0.16	0.02	18.75	13.14	1.51	81.81	57.33	6.58
1987	0.09	0.07	0.01	9.00	7.14	1.13	91.01	72.31	11.48
1988	0.15	0.17	0.01	11.02	12.26	1.07	88.65	53.86	4.50
1989	0.09	0.08	0.01	7.32	5.97	0.85	92.59	33.03	4.72
1990	0.13	0.08	0.00*	18.55	12.05	1.11	81.32	52.80	4.87
1991	0.13	0.07	0.00*	27.54	13.95	1.18	72.33	30.65	3.10
1992	0.10	0.05	0.00*	23.32	12.97	9.87	76.58	42.61	3.24
1993	0.10	0.02	0.00*	13.90	8.38	1.36	76.00	67.52	8.40
1994	–	–	–	18.13	13.75	1.34	81.87	62.07	6.06
1995	–	–	–	–	–	1.11	–	–	–

* – Figure less than 0.01%
SOURCE: Computed from table 3.1 and 3.3

The highest percentage contribution of direct tax revenue to total revenue between 1961 - 1969 was about 15.1 percent. In absolute term, it increases from ₦17.5m in 1961 to ₦3030m in 1970. The low percentage contribution of direct tax was due to the level of economic development. PIT for instance, did not increase significantly because of the ineffective tax assessment machinery for a significant proportion of the population; tax holidays were granted many industries because of the poor industrial base of the economy (Philips, 1967, P.68).

By 1974, revenue from direct taxes started to dominate other sources of tax revenue.

Within the former category, PPT dominates with a share of 87.05 percent of total direct tax and 49.05 percent of total tax for 1972. This rose phenominally to 94.37 percent in 1974 in its share of total direct tax, 81 percent to total tax and its shares to GDP rose from 7 percent in 1972 to 15.29 percent in 1974. CIT also rose considerably from ₦67.5 million in 1971 contributing about 15 percent to total direct revenue and 7.17 percent to total tax receipts. Though CIT recorded a maginal increase in 1974 compared to 1971, with a total value of ₦149 million, its relative contribution to total tax

receipt and direct tax yields fell drastically to 4.2 percent and 4.9 percent respectively. The industrial expansion of the early 1970s might have enhanced the marginal increase in the value of CIT, especially the indigenization policy embarked upon which might have reduced the rate of profit repatriation. The relative contribution of PIT over this period remained insignificant, almost becoming zero in 1972 but picked up in 1974, rising to about ₦11.1m, but its shares in total tax and direct tax receipt remained insignificant.

In 1975, there was a marginal decrease in the rate of direct tax, of about ₦44.7 million representing about 1.5 percent However, direct tax still maintained its leads in its contribution to total tax revenue accounting for 80 percent. The sharp decline was due to the fall in PPT for about ₦162.4 million contributing about 5.7 percent. Despite the considerable increase in CIT and PIT during this period, they could not really off-set the loss in PPT. Inspite of the sharp reduction however, PPT still contributed about 90.7 percent and 72.3 percent to total direct and total tax revenue respectively in 1975. The decline in PPT was largely attributable to the reduction in petroleum output and posted price of crude oil.

The continous dominance of PPT in the tax structure continued throughout the covered period. The picking up in the marginal rate of PPT from 1987 was basically due to the depreciation of the naira value, the fairly stable world price of crude oil and the continous increase of Nigeria crude oil quota for exportation. CIT has also picked up between 1986 to 1995 - this was attributable to the restructuring of the economy and the continous expansion of industrial output.

Generally, the increase in PIT from 1973 was best attributable to the enactment of income tax (Armed Forces and other Persons special provisions) Decree No.51 of 1972 which compelled all Armed Forces Personnel and Public Personnel employed in the Nigerian Foreign Services to pay tax.

The increase in PPT over the period especially during the 1973/74 period was due to the World oil shock engineered by the Yom Kipper War in the Middle East. This led to the adjustment in oil prices by OPEC of which Nigeria is a member. In 1975, PPT increases from 50 percent level of the 1960s to 65 73 percent, and in 1976 to 85 percent (Iwayemi, 1981). The introduction of Structural Adjustment Programme (SAP), and the consequent devaluation of the naira has also increase the monetary

value of oil revenue through PPT.

From the above analysis, direct tax has contributed considerably to total tax receipt between 1970 - 75 and the principal contributing variable is the PPT. The contribution of CIT was acknowledgeble but there was no absolute significant contribution from PIT through out the period under review due to poor administrative machinery.

3.3.2: INDIRECT TAX

Available data (see Tables 3.1,3.4 and 3.5) show that indirect tax was the largest source of tax revenue to the Government between 1961 to 1971. The bulks of indirect taxes in the 1960s was derived from export duties. The revenue so derived from export duties prior 1972 depended largely on the performance of the agricultural sector and even more on the World prices of exported goods, and the prices offered to the farmers by the marketing boards (Fajana, 1979).

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Table 3.4

VALUE OF INDIRECCT TAX COMPONENTS 1970-1995 (=N='m)

Year	Export Duty (1)	Import Duty (2)	Excise Duty (3)	Custom Duty (1+2) (4)
1970	41.20	215.60	112.60	256.80
1971	37.80	284.80	168.60	322.60
1972	26.90	274.40	179.80	301.30
1973	12.30	307.90	196.00	320.20
1974	5.50	328.30	164.40	333.80
1975	5.80	629.40	125.50	635.20
1976	6.10	724.30	152.30	730.40
1977	4.20	964.30	177.20	968.40
1978	2.80	1436.20	259.20	1439.00
1979	0.20	870.70	273.10	870.90
1980	0.10	1470.20	406.20	1407.30
1981	0.00	1880.90	654.60	1880.90
1982	0.30	1801.70	480.70	1802.00
1983	1.10	1114.30	869.30	1115.90
1984	1.00	924.20	690.80	925.20
1985	5.60	1199.00	878.10	1204.60
1986	6.80	1298.70	1041.40	1305.50
1987	3.50	2722.90	814.40	2726.40
1988	12.80	3360.10	891.20	3372.90
1989	13.45	4320.20	1616.55	4333.65
1990	15.23	4867.52	3841.85	4882.75
1991	17.88	7168.18	6345.23	7186.06
1992	16.45	10276.23	8234.76	10292.68
1993	18.35	9780.40	9108.85	9797.86
1994	17.46	11125.54	10456.00	11143.95
1995	20.45	14988.02	22355.53	15008.47

SOURCE: (i) CBN, Economic and Financial Review - Various issues.
(ii) CBN, Statement of Accounts - Various issues.
(iii) CBN, Statistical Bulletin - Various issues.
(iv) FOS, Abstract of Statistics, Various issues.
(v) FOS, digest of Statistics - Various issues.

Table 3.5

SHARE (%) OF DIRECT TAX COMPONENTS TO DIRECT TAX, TOTAL TAX REVENUE AND GDP (1970-95).

Year	Export Duty			Import Duty			Excise Duty		
	% Indirect Tax	% Total Tax	% GDP	% Indirect Tax	% Total Tax	% GDP	% Indirect Tax	% Total Tax	% GDP
1970	11.15	8.02	0.74	58.36	42.00	3.86	30.48	22.00	2.02
1971	7.70	4.01	0.55	58.00	30.23	4.16	34.32	17.90	2.46
1972	5.60	2.44	0.38	57.84	25.00	3.84	37.37	16.32	2.52
1973	2.38	0.90	0.11	59.65	22.52	2.70	38.00	14.33	1.72
1974	1.10	0.15	0.03	65.90	9.31	1.75	33.00	14.66	0.88
1975	0.76	0.15	0.03	82.74	16.80	2.92	16.50	3.35	0.58
1976	0.69	0.13	0.02	82.06	15.30	2.65	17.25	3.22	0.66
1977	0.37	0.07	0.01	84.17	16.75	2.94	15.47	3.08	0.54
1978	0.16	0.05	0.00*	84.57	25.44	4.00	15.26	4.60	0.72
1979	0.02	0.00*	0.00*	76.12	12.64	2.02	23.87	4.00	0.63
1980	0.00*	0.00*	0.00*	81.10	13.41	2.90	22.40	3.70	0.80
1981	0.00*	0.00	0.00*	74.18	20.12	3.71	25.82	7.70	1.29
1982	0.01	0.00*	0.00*	63.38	21.36	3.47	17.00	5.70	0.93
1983	0.06	0.02	0.00*	56.16	17.70	2.00	43.79	13.80	1.52
1984	0.06	0.01	0.00*	57.20	12.82	1.45	43.12	9.66	1.10
1985	0.26	0.06	0.00*	54.91	12.08	1.66	44.80	9.86	1.35
1986	0.27	0.08	0.00*	55.34	15.48	1.78	44.36	15.48	1.42
1987	0.10	0.02	0.00*	76.90	15.75	2.50	23.00	15.75	0.75
1988	0.30	0.10	0.00*	78.80	26.56	2.37	20.90	26.56	2.31
1989	0.22	0.04	0.00*	72.61	13.46	1.90	27.16	13.46	1.92
1990	0.17	0.06	0.00*	55.79	19.56	1.80	44.03	19.56	1.80
1991	0.13	0.07	0.00*	52.97	26.13	2.33	46.89	26.13	2.21
1992	0.09	0.04	0.00*	55.46	24.61	1.87	44.45	24.61	1.87
1993	0.08	0.02	0.00*	51.73	11.15	1.39	48.18	11.15	1.39
1994	0.08	0.02	0.00*	51.51	12.46	1.22	48.41	12.46	1.20
1995	0.05	-	0.00*	40.11	-	0.75	59.83	-	0.76

* - Figure less than 0.01%

SOURCE: Computed from table 3.2 and 3.3

The emphasis on economic development in the early 1960s led the direction of fiscal policy toward making funds readily available for economic development and this was done by increasing the rates of existing taxes especially indirect taxes, and particularly import duties. Simultaneously, policy makers laid emphasis on Import Substitution Industrialization (ISI) as a strategy of economic development. This led to the imposition of high protection tariffs (Ekuerhare, 1980), consequently, import duties provided the Federal Government with increased revenue during the early 1960s.

In 1965, fiscal measures were in the form of high custom tariffs to discourage imports and curtail consumer demand. Higher excise duties were also imposed on selected domestic manufactured products, and to broaden the base of excise tax, the duty was extended to other goods (Egwaikhide, 1984). All these measures increased the contribution of indirect tax which in 1965 stood at 73% of total tax revenue. Although, receipts from indirect tax were high, the contribution of excise duty was very minimal during this period. This indicated the poor state of the country domestic manufacturing base. During this period, considerable proportion of government revenue was derived from the foreign sector (import and export duties).

The sizeable expansion of government revenue in the 1970s, and the subsequent emergence of oil, and the distortion in agricultural production altered drastically the structure of government tax revenue. This dramatic change relegated indirect tax as a major source of government revenue to the background. This trend led to significant decline in the revenue earnings from export duties. The situation was further aggravated by continous fluctuation in the World market prices for our exports.

Thus, revenue from export duties which in 1971 was ₦37.8 million paled into insignificance by 1980, when it slided to ₦0.1m. While export duties continue to decline, there was a noticeable increase in import duties, which rose from ₦284.8m in 1971 to about ₦1407m in 1980. The reason adduce to this phenomena increase basically reflects the volume of the country's imports. The implication is that the ISI strategy pursued since the 1960s, has no much impact on the economy because of its high dependence on imports.

There was a marginal increase in import duties, however, much revenue were lost via this source as a result of trade liberatization policy between 1973 - 1977 (Falegan, 1979; P.3; P.11). There was a remarkable improvement in the revenue from excise duties in the

1970s and it persisted to the 1980s and 1990s. This conformed with the argument that as an economy develops, and import substitution advances, there tended to be a shift from duties on import duties to excise duties imposed on domestically produced goods (Prest, 1972). It must be noted however, that progress made in excise duty component was not significant enough to justify the above, especially as it might relate to the success of ISI.

More precisely therefore, one can argue from available data, that the shift in the general tax components conformed with Musgrave (1969), that as development proceeds, there is the tendency for the economy to shift from relying on revenue from indirect to direct taxes; because of the pecuniary nature of the economy; succintly put, that tax revenue should be generated internally rather than dependent on the vagaries of international trade.

Generally, indirect tax accounted for considerable share in its contribution to total tax revenue and GDP between 1960 - 70. The drastic reduction of indirect tax in the 1970s to date is largely attributable to the decline in export duties and the decline in the marginal rate of import duties, which are the basic components of

indirect tax; reasons advanced for this includes;

i. Continous decline in the world prices for most Nigeria exports.

ii. Liberalization and promotion of foreign investment in the form of restrictive tariff policy and

iii. The various austerity measures embarked upon by various government in the form of removing outrightly duty paid on some imported food items.

To sum up, the structural shift from indirect to direct taxes was much attributable to the oil boom. This has forced one to conclude, that without oil, indirect tax would have retained its dominant importance as it was in the 1960s. In terms of revenue contribution, CIT and PIT in the 1960s have never been so important sources of Federal tax revenue. Obviously, this was a sharp reflection on the stages of development in Nigeria, in that the effects of development upon the tax structure are more a function of institutional changes and loss in the nature of inherently economic matter.

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NOTES

1. Native Revenue Proclamation No.2 of 1906

2. The parts refer to here are the Yoruba Province and Benin Province (excluding Asaba Division). See Orewa, Taxation in Western Nigeria, OUP 1962. PP. 5 - 9.

3. It must be noted that revenue so collected through this source were shared between the government and Native Authority.

4. There are 3 Regions - Western, Northern and Eastern Region.

5. It is the same region, that demonstrated against tax payment which resulted to the popular Aba Women Riot of 1929.

6. Eastern Region Finance Law No.1 of 1956 Sec. 28. The above law repealed the Direct Taxation Ordinance of 1948.

7. Wealth of Nation Vol. No.II Chap. 2 "There are two different circumstances which render the interest of money a much less proper subject of direct taxation than the rent of land.

8. J.S. Mill - Principle of Political Economy.

CHAPTER FOUR

4.0 PRESENTATION AND ANALYSIS OF DATA

The regression result is computed using the OLS approach through equation 2.2-10-2.2.19 described in chapter two for all the equations studied. The regression is carried out to see how percentage change in GDP measured at current market price leads to percentage change in the tax base revenue ((tax elasticities).

The elasticity of tax shows the progressivity of the tax system i.e the proportion of tax revenue increase as income increased and as the share of modern sector increases in GDP.

A tax is considered flexible/buoyant[1] if its yield increases or decreases more than proportionately in response to an increase or decrease in GDP with the tax parameter assumed unchanged. Where $b > 1$, the tax receipt[2] is GDP elastic or flexible. If $b < 1$, it is GDP inelastic or inflexible - which suggest discretionary alteration of the tax rate/base, if reliance must be placed on revenue productivity of the tax.

The a priori proposition, is that if the percentage change in tax is greater than percentage change in GDP i.e $b>1$, the tax structure is counter cyclical and acts

as an automatic stabilizer, because it dampens inflationary pressure by discouraging consumption expenditures. This encourages inherent tedency to boost greater and optimal growth in the government sector, because this is accompanished without any overt discretionary action. But if b<1 the whole scenairo above changed to the opposite direction.

The model adopted is justified because of the direct relationship between taxation and GDP.

The regression results for various tax base are presented below. R^2 is the coefficient of determination used to measure the goodness of fit of the regression line. F-statistic is employed to test whether the linear relationship between the two variables is statistically significant. D.W. (Dubin Watson) is a statistic used to test whether the value of variable is correlated with its own preceeding value or values (auto correlation).

4.1 PERSONAL INCOME TAX (PIT)

4.1.1 PERIOD I 1970 - 1983

PIT = - 3.33 + 1.34logY
(2.03) (0.750)

R^2 = 0.55

F = 14

N = 8, D.W. = 1.64

4.1.2 PERIOD II 1982 - 1995

PIT = 9.456 - 0.72logY
(1.34) (1.46)

R^2 = 1.25

F = 17.21, D.W. 0.923

4.1.3 PERIOD III 1970 - 1995

PIT = 2.05 + 0.05logY
(0.282) (0.043)

R^2 = 0.72 D.W. = 1.20 F = 60.86.

The basic composition of PIT in Nigeria are revenue derived from the Resident of the Federal Capital Territory, Foreign Diplomat (including Nigerian Foreign Missions abroad), Police and Armed Forces Personnel, and all other PIT as specified in the PIT acts. All other PIT are accruable to the State Government where the payer resides.

The first period (1970 - 82) shows a considerable positive relationship between PIT and GDP. The R^2 at 0.55 shows that 55 percent of the variation between total tax yields and GDP is explained. The size of the statistics test of F shows that the variable Y (GDP) is a significant explanatory variable for the variation in PIT, and this is significant at 95 percent confidence level. The elasticity coefficient shows that 100 percent change in GDP will lead to more than propationate increase (by 134 percent) in PIT. Thus we accept the

alternative hypothesis Ha and conclude that PIT increases and more elastic as the economic progress i.e we accept hypothesis 1 in 1:8.

However, this result is contrary to general expectation given the marginal rate[3] of PIT during the period. It suffices to conclude however, that the buoyancy in PIT during this period can be attributable to the enactment of Income Tax (Armed Forces and other persons (Special Provisions) Decree 51 of 1972)[4] which imposes tax on the income of Armed Forces Personnel, Public Personnel employed in the Nigeria Foreign Services and in respect of certain persons, and dividents payable overseas.

It can be admitted, that the elasticity coefficient shows the effectiveness of fiscal policy viz PIT as an instrument for income distribution during this period. However, the progressiveness in PIT between 1970 - 82 may be imposed at high nominal rates, for cases abound that PIT as an instrument of fiscal policy is ineffective in practise. This is evidenced by the glaring discrepancy between the amount of income of various types, profits, wages and salaries, etc that can be found/presumed to exist, judging from National Income statistics and the income declared in tax returns or computed on the basis

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of tax receipts.

Though the correlation coefficient is low (0.55) it is against Tanzi (1987) proposition that income tax (PIT) is weakly correlated with GDP as the economy progress. The result here differs considerably from Omoruyi's (1983)[5]. Though both result displayed a progressive relationship between PIT and GDP over almost the same range of period, the elasticity coefficient in Omoruyi study was highly (infinitly) elastic at 2.584 with its R^2 equals o.58.

The second phase 1983 - 1995 exhibits a negative relationship between PIT and GDP. The elasticity coefficients shows that a 100 percent increase in GDP will lead to 72 percent decline in PIT. The result as shown by the size of the t, and F ratio indicates that Y is a significant explanatory variable for the variation in PIT, and thus significant at 95 percent level. Given this, we accept the null hypothesis (Ho) and conclude that PIT does not increase as the economy progress i.e we reject the first hypothesis in 1.8.

Given the a priori expectation, the elasticity coefficient conformed with the marginal contribution of PIT to GDP over this period. The inelasticity of PIT

during this period might best be attributable to various policies put in place by the Government, especially the continous reduction in marginal tax rate chargeable on nominal income between 1977 - 1996 which now stood at 25 percent, and the continous tax exemption of persons income up to the rate of those earning from ₦5,000 and below per annum. The continous increase in personal allowances might also contribute to this. However, it must be noted that the poor monetization of the economy leads, to a significant extent the ineffective administration of PIT.

The reduction in PIT marginal rate payable is best explain by the structural rigidity of the economy, which has led to galloping inflation, and the resultant decline in real income.

The negative relationship between PIT and GDP during this period, shows the inefficacy of fiscal policy as an instrument for income distribution, thus explaining the pervasiveness of income in-equality.

The aggregate result of the study for the chosen period (1970 - 95) indicates a positive relationship between PIT and GDP. The results as shown by the t and F ratios indicated that the variable Y is a significant

explanatory variable for the variation in PIT, with R^2 at 0.72 which explains the degree of this variability. At 95 percent confidence level we accept the null hypothesis (Ho) and accept the hypothesis in 1.8. The elasticity coefficient show that a 100% change in GDP will lead to a 5 percent change in PIT.

The low elasticity co-efficient can be explained because of the confinement of the PIT to a relatively small percentage of the population; a very low rate, and outright tax evasion by the tax payer, poor effective tax assessment etc.

Despite the considerable elastic nature exhibited between 1970 - 82, developments in the national economy which led to infinity inelasticity between 1983 - 95 offset would be buoyancy in the total tax structure between 1970 - 95. This phenomenon really showed how responsive PIT was to tax policies. It also indicated that the forces that engineered the elasticity of PIT between 1970 - 82 might be normal and unable to withstand the shock in the economy between 1982 - 95 e.g the rapid shift in the structural components of the economy due to oil glut from the early 80s, and the introduction of Structural Adjustment Programme (SAP) (which led to devaluation of Naira among others) had paved way for a

continuous decline in the real value of money.

The aggregate inelasticity shows the impotence of fiscal policy in Nigeria as a measure of correcting income inequality. It also indicated the poor monetization of the economy and the poor administration of PIT.

The result reveals, that there has not been any meaningful government policy to improve upon the buoyancy of PIT in Nigeria considering the result of Omoruyi (1983). This is however contrary to Adedeji (1969) expectation that as the economic progresses, there will be considerable improvement in the buoyancy of PIT.

The results on PIT flexibility will give the impression that the economy is still at the early stage of development, where there is only a very little scope for the use of this form of tax (Aboyade 1976, Helleiner, 1966). At this stage of development, there is a high degree of tax evasion and avoidance. Taxes are difficult to collect because of the inadequate or even absence of skills and facilities for tax administration (Hinricks, 1966 chapt 3-7).

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4.2 COMPANY INCOME TAX (CIT)

4.2.1 PERIOD I 1970 - 82

$$CIT = \underset{(-1.050)}{-0.38} + \underset{(2.006)}{1.13}\log Y$$

$R^2 = 0.95$

$F = 20.9$

$DW = 0.964$

4.2.2 PERIOD II 1983 - 95

$$CIT = \underset{(3.46)}{2.81} + \underset{(7.32)}{0.66}\log Y$$

$R^2 = 0.93$

$F = 14.61$

$DW = 1.26.$

4.2.3 PERIOD III 1970 - 95

$$CIT = \underset{(10.06)}{0.05} + \underset{(18.44)}{1.04}\log Y$$

$R^2 = 0.98$

$F = 117.6$

$DW = 1.63.$

The basic composition of CIT is those levied on firms (Foreign and Indigenous) profit as contained in the Company Income TAx Act (CITA), and as subsequently amended.

The period 1970 - 82 revealed a considerable positive relationship between CIT and GDP. The $R^2 = 0.93$ indicates that 93% of the variation in the variables are

explained. Given the F and t ratio the equation is significant at 95 percent confidence level hence the null hypothesis is rejected and we could hypothesis I in 1.8. The coefficient of elasticity of 1.13 shows that the tax base is GDP elastic and that a 100% increase in GDP will leads to more than proportionate increase of about 113 percent in CIT.

The result conforms with the a priori expectation that CIT increases as the economic progresses, and further confirms the importance attached to CIT in economic development (Tantzi, 1987).

The elasticity in CIT reflects the industrial expansion policies of the 1970s, and the indigenization policies which reduces the rate of profit transfer. This shows that the economy responded to the incentives given to the industrial sector i.e the various industrial incentives were beneficial to the economy.

The buoyancy reveals the increase in the turnover of companies, as CIT is levied on profit which in itself is a function of the aggregate turnover of the firms.

The R^2 value nullified the proposition of Tantzi (1987) that as the economic progress the company income tax (CIT) is weakly correlated with the GDP. The

elasticity coefficient shows a close relation with Omoruyi (1983) between 1970 - 79.

The period 1982 - 95 present a positive relationship between CIT and GDP. The R^2 of 0.93 also confirmed that the regression result has a strong goodness of fit. Given the F and t ratio, we conclude that the result is significant at 95 percent confidence level, hence we accept Ho and reject hypothesis 1 in 1.8. The elasticity coefficient of 0.66 shows a relatively inelastic GDP to CIT, thus a 100 percent increase in GDP will lead to a less proportionate increase (66 percent) in PIT.

The inelasticity might be attributable to the continous policy measures aimed at promoting industrial growth, which are assumed to have been fully utilized between 1970 - 82 viz granting of tax holidays and reduction of tax rate. The result indicates the gradual inefficiency of industrial policies put in place between 1970 - 82, especially the indigenization policies and the import substitution industrial strategy which should have among other things geared up local industries and ultimately revenue.

Since the profit of the firm is a function of their turnover, there product is of an inferior type whose income elasticity is less than one, which transmit to reduce the consumer outlay on such goods.

The result further negates the expectation that CIT should continue to be GDP elastic as the economic progress or in the extreme, one may infer, that the economic is not progressing.

The aggregate result of the study between 1970 - 95 indicates a positive relationship between CIT and GDP. Given the R^2 the t and F ratio we conclude the alternative hypothesis and accept the first hypothesis, in 1.8. The coefficient of elasticity show that CIT, is GDP elastic i.e a 100 percent increase in GDP will leads to a more proportionate increase of 104 percent in CIT.

The situations in period II which might have given rise to CIT - GDP inelasticity, is highly contained by the first period degree of elasticity. This indicates that policy put in place for 1970-83 is more effective in making CIT-GDP elastic. The aggregate result however underscores the conclusion in period II that the CIT lagged as the economic progresses.

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The administration of CIT can be said to be effective given the buoyancy coefficient. It can also be inferred, that fiscal policy can be channelled through CIT because of the level of its responsiveness to the growth of GDP.

The result conforms with Omoruyi (1983) result; showing that there has been consistency in the relationship between CIT and GDP over a long period of time. The result also conforms with Raja (1978) with its elasticity equals 1.5.

The progressiveness in CIT during this period may be imposed by a relatively high nominal rates, for cases abound that CIT as instrument of fiscal policy for income distribution is ineffective in practise. This is indicated by the clear differences between the amount of income (profit) that can be found/pressumed to exist concluding from national income statistics and the income declared in the returns or computed on the basis of tax receipts.

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4.3 PETROLEUM PROFIT TAX (PPT)

4.3.1 PERIOD I PPT 1970 - 82 = -3.11 + 1.55 log Y
(2.05) (6.32)

R^2 = 0.91

F = 111.2

DW = 1.096.

PERIOD II 1983 - 1995

PPT = 1.873 + 0.57 log Y
(4.56) (4.97)

R^2 = 0.90

F = 95

DW = 0.846.

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4.3.3: PERIOD III 1970 - 95

PPT = 0.413 + 0.79 log Y
(0.883) (1.46)

R^2 = 0.86

F = 147.43

DW = 1.012.

The principal component of petroleum profit tax is the tax payable on crude oil exploitation in Nigeria by the oil producing firms via NNPC.

The period between 1970 - 82 shows a strong positive relationship between PPT and GDP. The R^2 is very high which shows that the regression explained the variation between the two variables. The F and t ratio are both significant at 95 percent confidence level as such we

accept Ha and hypothesis I in 1.8. We also conclude II in 1.8 because the coefficient of elasticity exhibited during this period is greater than any other in all the tax bases.

Given the elasticity coefficient of 1.55 it shows a rather perfect elasticity of PPT - GDP i.e a 100 percent increase in GDP will lead to 155 percent increase in PPT. This is in line with our a priori expectation and also justify the marginal contribution of PPT to total GDP during this period.

The buoyancy of PPT is best attributable to the upward growth in the price of crude oil in the world market for over a considerable part of the period discussed as a result of the Middle East Crises of the 1970s. It also reflects the structure of the economy during the period, as petroleum emerged as the principal source of government revenue and thus dictating the pattern of development. This is clearly shown in its relatively large contribution to the GDP and its uses as index for economic planning.

The period 1983 - 1995 also indicates a positive relationship between PPT and GDP. The R^2 shows that there is 90% explaination of the variation that exist between

PPT and GDP. Given the F and t ratio, we accept Ho and reject the first hypothesis in 1.8. However we also reject the second hypothesis in 1.8 in that during this period, CIT and IMPD exhibited a higher elasticity coefficient. The decision is base on a 95 percent confidence level.

The elasticity coefficient of 0.57 shows that there is an inflexibility in the PPT structure i.e a 100 percent increase in GDP will leads to a less than proportionate increase (57 percent) in PPT. This is at variance with expectation, given the continous contribution of PPT to GDP; which marginally exceeded all tax base. This trend also has not justified the continous domination of the petroleum sector in the economy. Though there has been a very sharp decline in the price of crude petroleum in the world market during this period, this might not in itself justify the suddeness in the buoyancy of PPT in the economy.

The aggregate result of the study for 1970 - 95 indicates the same pattern with period II. Thus the basic decision rule applicable to period II is also applicable to this period given the level of R^2, t and F ratio.

The result exposed by PPT throws many challenges to the economy. It reveals how responsive the economy is to international oil price fluctuation. It must be mentioned also, that the period 1983 - 95 witnessed a great structural imbalances in the economy occassioned by the world oil glut.

The results send message of danger inherent in the continous dominance of petroleum sector in the shaping of the national economy. It also exhibits the absolute rigidity between the sector and the national economy i.e despite the continous increase of petroleum share in the economy in respect of other sources of revenue, the sector is not responsive to the growth of the national economy. And it is doubtful, if continous dominance of this sector can be relied upon as the basic foundation for rapid economic growth. This has more to do with the mismanagement and official fraud. This justifies the continous strive for diversification.

The inelasticity of PPT, calls for the review of the various aggrement of the Federal Government with various oil industries, as there is the likeliood that returns from the sector is far below expectation - a pure uneven business relation. It might also reveal the high level of corruption prevalent in the management of the sector.

4.4 TOTAL DIRECT TAX (TDT)

4.4.1 PERIOD I 1970 - 82

$$TDT = -5.66 + 1.61 \log Y$$
$$(3.67) \quad (4.01)$$

$R^2 = 0.97$

$F = 355.67$

$DW = 1.46$

4.4.2 PERIOD II 1983 - 95

$$TDT = -11.674 + 0.45 \log Y$$
$$(11.34) \quad (15.06)$$

$R^2 = 0.92$

$DW = 1.93$

$F = 126.5$

4.4.3 PERIOD III 1970 - 95

$$TDT = -9.46 + 0.73 \log Y$$
$$(14.63) \quad (18.44)$$

$R^2 = 0.94$

$DW = 1.67$

$F = 376$

The composition of direct taxation defined for the study are made up of PPT. CIT and PIT.

The first period shows a very strong positive relationship between TDT and GDP. Given the R^2, there is a strong explanation of the variation between the two variables. With F and t ratio significant at 95%

confidence level we accept Ha and conclude the hypothesis in both 1 & 3 in 1.8.

The coefficient of elasticity indicates that TDT is GDP elastic i.e 100 percent increase in GDP will amount to about 160 percent increase in TDT. The result conforms with the consistent relationship between its various component and GDP.

The result justifies the a priori expectation that direct tax increases as economy progresses. And with the elasticity coefficient greater than 1 it can be concluded that it has increased materially (Skyes & Wilford, 1978).

This result confirmed the elasticity nature of all the component of direct tax during this period of study.

The second period witnessed a positive relationship between direct tax and GDP. Given R^2, the F and t ratio the regression is significant. And at 95 percent confidence level, we conclude Ho and reject the hypothesis in both 1 and 3 in 1.8. The coefficient of buoyancy shows that the tax is GDP inelastic which confirms Eqwaikhide (1988) result. The coefficient shows that a 100 percent increase in the GDP leads to about 45 percent corresponding increase in TDT (less than

propationate). This follows the same pattern with the component of the tax base for this period. This is against the a priori expectation, and negate the proposition that direct tax increases as the economic move forward, been a major source of tax revenue.

The trends in the second period nullified the degree of responsiveness in the second phase, as such, the aggregate direct tax became highly inelastic over the entire period between 1970 - 95. Given the R^2, the F and t ratio, the same conclusion about the regression line and hypothesis remain the same as above (period II). The inelasticity of TDT shows that it can be relied upon as an effective instrument to build a significant long term flexibility.

The fact that the CIT and PPT exceeds that of PIT (i.e the elasticity coefficients); reveals that the potentially taxable income of the economy is earned by relatively small number of firms often foreign owned. It also depicts how ineffective is the use of fiscal instrument through direct taxation to redistribute income, and the pervasive social, economic and economic inequality prevailent in the economy.

4.5 IMPORT DUTY (IMPD)

4.5.1 PERIOD I 1970 - 82

$$IMPD = \underset{(0.71)}{0.82} + \underset{(5.32)}{0.95 \log Y}$$

$R^2 = 0.86$

$F = 67.6$

$DW = 1.66$

4.5.2: PERIOD II 1983 - 1995

$$IMPD = \underset{(0.765)}{0.65} + \underset{(3.456)}{1.02 \log Y}$$

$R^2 = 0.74$

$F = 31.31$

$DW = 0.946$

4.5.3: PERIOD III 1970 - 1995

$$IMPD = \underset{(2.46)}{0.76} + \underset{(11.64)}{0.976 \log Y}$$

$R^2 = 0.92$

$DW = 1.43$

$F = 27.60$

The basic composition of import duties are fees imposed on importation of consumer goods - (durable and non-durable) and capital goods - machinery and transport equipments and raw materials.

The period 1970 - 82 exhibits a positive relationship between IMPD and GDP. The R^2 = 0.86 shows that 86 percent of the variation in the two variables are explained by the regression. Given the F and t ratio, the null hypothesis is accepted and we accept the hypothesis 1 in 1.8 at 95 percent level of confidence.

The elasticity coefficient shows a perfectly inelastic relationship between percentage growth in IMPD and percentage growth in GDP i.e a 100 percent increase in GDP will leads to 95 percent increase in IMPD. It must be noted, that the basic industrial agenda in post colonial Nigeria was pursued through import substitution. The elasticity coefficient potrays a negative impact of the strategy on the tax structure, and the aggregate economy.

The second phase between 1983 - 95 shows a positive linear relationship between import duty and GDP. The R^2 = 0.74 shows a relatively high explanation in the variation between the two variables and F and t ratio at 95 percent level of confidence prove a very high goodness of fit. Given these, we accept the alternative hypothesis (Ha) and accept the hypothesis 1 in 1.8. The elasticity coefficient of 1.02 shows that IMPD is GDP elastic i.e a 100 percent increase in GDP leads to 102 percent increase

IMPD. This shows a considerable improvement over the first period. The development in IMPD might be attributable to the increase in IMPD as the marginal rate of some products like motorcycles, bicycles rose between 10 - 70 percent, 50 percent on cigarrets and others by about 50 - 200 percent in 1989. In mid 80s there has been continous increase in the importation of raw materials uptill the early '90s exceeding capital good. The elasticity coefficient also exhibit the level of dependency on imports imposed by import substituting policy.

The aggregate result shows a positive relationship, but there is a weak degree of responsiveness of growth in GDP to growth in IMPD. The result follows the inelasticity pattern of period I. Given the F and t ratio we conclude that the regression is significant and reject the alternative hypothesis and nullified the hypothesis 1 in 1.8.

4.6 EXPORT DUTY (EXPD)

4.6.1 PERIOD I 1970 - 82

$$EXPD = \underset{(9.467)}{-16.61} - \underset{(-7.024)}{2.68 \log Y}$$

$R^2 = 0.93$

$F = 146.1$

$DW = 0.9456$

4.6.2 PERIOD II 1983 - 1995

$$EXPD = \underset{(8.234)}{10.23} - \underset{(6.22)}{-1.731 \log Y}$$

$R^2 = 0.84$

$F = 57.75$

$DW = 1.03$

4.6.3 PERIOD III 1970 - 1995

$$EXPD = \underset{(10.45)}{-8.43} - \underset{(-5.46)}{1.96 \log Y}$$

$R^2 = 0.96$

$F = 576.0$

$DW = 1.77$

The major component of export duties are duties imposed largely on agricultural output and few industrial product exported out of the country. The entire period displayed a very strong negative relative relationship between EXPD and GDP. The R^2 for all the period shows that there is a very strong explanation of variation between the two variables. Given the size of the F and t ratios for the three periods we accept the null hypothesis and conclude that the hypothesis in 1.8 is nullified i.e the result is against a priori expectation that EXPD should increase i.e buoyant as the economy improves.

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The elasticity coefficient of - 2.68, -1.73 and -1.96 for the three periods respectively indicates a highly inelastic degree of responsiveness. This result potrays the level of negligence of the agricultural sector since 1970 to date a sector which served as the major source of export earning prior that period. Before 1970s, there was a positive relationship between EXPD and GDP (Omoruyi, 1983). The poor contribution of EXPD is also attributable to the fluctuation in the prices of goods exported to the world market, in that they are mainly primary product, and are less competitive in the world market, and mostly accompanied by a very high demand inelasticity (often less than zero).

The policy administered to check export, which is more political than economic also hamstrungs revenue from export in terms of taxation. A clear facts is the outright prohibition of the export of cocoa seeds, Palm kernnel seeds, hide and skins[5] among others. The argument for this action is to enable the products to be processed into intermediate products, without taking into consideration the availability of facilities as at that period that can really geared up such processing, and how competitive the product will be internationally, taking into congnizanse the cost content of such activities and how profitable it will be to the national economy. That

will offset the loss in export duties accruable during the trying period.

The negative relationship and the inelasticity confirmed the underdevelopment of the Nigeria export sector. It might be concluded however, that the fluctuation in world market might not potend any serious danger to Nigeria economy given this less reliance on export. But it suffices to say that as an internationally integrated economy, events in international market[7] will really affect the structural balances of the economy.

4.7 CUSTOM DUTIES (CUT)

4.7.1 PERIOD I: 1970 - 82

$$CUT = \underset{(0.77)}{1.3} + \underset{(6.83)}{0.84} \log y$$

$R^2 = 0.84$

$F = 57.75$

$DW = 0.87$

4.7.2 PERIOD II: 1983 - 1995

$$CUT = \underset{(0.862)}{1.42} + \underset{(9.456)}{0.89} \log y$$

$R^2 = 0.89$

$F = 89$

$DW = 1.49$

4.7.2 PERIOD III: 1970 - 1995

$$CUT = \underset{(1.23)}{1.62} + \underset{(14.36)}{0.856} \log y$$

$R^2 = 0.78$

$F = 85.09$

$DW = 1.072$

The major component of CUT are import duty and export duty. It is refered to as the tax imposed on international trade.

The entire period exhibited a positive relationship between CUT and GDP. Given the value of R^2 for the three period, it can be deduced, that there is a very significant explanation in the variation between the two variables. Given the F and t ratios throughout the three periods of study, we conclude that the test is significant, and at a 95 percent confidence level we reject the alternative hypothesis and nullified the hypothesis in 1.8.

The coefficient of elasticity displayed throughout the entire period reveals that CUT is GDP inelastic as all the coefficient and considerably less than unity. The pattern of the result is attributable to the domineering impact of IMPD which greatly offseted the negative

relationship expounded by the EXPD. This development shows that the Nigeria international trade is more import dominated. It however reflects the true structure of Nigeria economy as an import dependent one. Given this scenario, it potends an acute danger for any meaningful development. As development strategy are to be premised on the whims and caprices of foreigners, which might jettission any would be positive trends toward rapid economic take-off.

The elasticity coefficients can be used as a proxy to determin the degree of openess of Nigeria economy. With the coefficients howering around 0.8 on the average for the three periods, the economy can be said to be about 80 percent open to the world market. This also informs the conclusion that Nigeria has been extensively intergrated to the international economy system.

With the coefficients of elasticity in the export sector being highly inelastic, it is of the general opinion that little or nothing is explored domestically, put succintly, the economic look more outwardly in its attempt to develop i.e more reliance is put on international firms and governments as a catalyst for domestic development, thus the openess of the economy is basically built on imports per se.

The elasticity coefficients conform with a priori expectation that as the economic develops, revenues from custom duties also increase because of the considerable openess of the economy during the process of development.

4.8 EXCISE DUTY (EXCD)

4.8.1: PERIOD I: 1970 - 82

$$EXCD = \underset{(3.41)}{2.7} + \underset{(1.74)}{0.46 \log y}$$

$R^2 = 0.51$

$F = 11.45$

$DW = 1.701$

4.8.2: PERIOD II: 1983 - 1995

$$EXCD = \underset{(4.623)}{0.462} + \underset{(5.623)}{0.41 \log y}$$

$R^2 = 0.84$

$F = 57.75$

$DW = 0.567$

4.8.3: PERIOD III: 1970 - 1995

$$EXCD = \underset{(3.02)}{2.31} + \underset{(6.33)}{0.52 \log y}$$

$R^2 = 0.76$

$F = 85.09$

$DW = 0.923$

The basic composition of excise duties are those levied on primary produced goods mostly on beer, alcohol,

cigarrets and tobacco, aerated water, refined crude petroleum, aviation fuel, cotton textiles, foot wear, paints and allied products, roofing, soap and detergent and others.

The entire study periods indicate a positive relationship between EXCD and GDP. Given the R^2 values for the entire period though relatively low in 1970 - 82 period, it can be concluded that there is a considerably explanation in the variation between the explanatory and independent variables. Given the F and t ratios for the periods we conclude that there is goodness of fit of the regression result; as such we reject the hypothesis 1 in 1.8 and accept the null hypothesis Ho at a 95% confidence level.

The elasticity coefficient for the entire period indicates that there is a perfect inelastic relationship between the two variables. i.e a 100 percent increase in GDP will lead to a less than propationate increase in EXCD with period II displaying, the highest degree of inelasticity.

These coefficients show the structure of production in the economy. It could be argued that the products are inferior goods whose income elasticity is less than 1,

and price elasticity also less than 1. Most products on which EXCD are levied are consumed by few people in the society, and are mostly of joint demand, for example a non car owner can not demand for refined petroleum. The coefficient also reflects the poor backward and forward linkages among the sectors of the economy, and justifies the high elasticity of import duty. The content of the domestic production is made up of mostly consumer non-durables good.

Though the post colonial industrial policy is built upon import substitution and indigenization policy aimed at improving local participation in business, and the various liberalization policies pursued by government to aid foreign investment, which were all meant to engineer rapid domestic industrial expansion, the results above have not shown the success of these policies.

4.9: TOTAL INDIRECT TAX REVENUE (TIDT)

4.9.1: PERIOD I: 1970 - 82

$$TIDT = \underset{(1.402)}{1.6} + \underset{(3.67)}{0.77} \log Y$$

$R^2 = 0.85$

$F = 62.33$

$DW = 0.945$

4.9.2: PERIOD II: 1983 - 95

$$TIDT = \underset{(11.23)}{-1.34} + \underset{(9.45)}{0.24} \log Y$$

$R^2 = 0.88$

$F = 80.67$

$DW = 1.067$

4.9.3: PERIOD III: 1970 - 95

$$TIDT = \underset{(10.40)}{1.07} + \underset{(13.63)}{0.16} \log Y$$

$R^2 = 0.96$

$F = 576.0$

$DW = 2.04$

The basic composition of indirect tax comprises export duties, excise duties and import duties. The entire period of study displayed a consistently positive relationship between TIDT and GDP. The R^2 values shows that there is a high degree of explanation in the variation between the independent and explanatory variable. The F and t ratios are all significant at 95 percent level of confidence as such we accept the null hypothesis and reject the hypothesis 1 in 1.8.

The coefficient of elasticity displays a relatively inelastic nature. The period between 1970 - 95 exhibits a very low degree of responsiveness of TIDT to GDP.

The positive relationship indicates the roles played by import and excise duties, as both exhibited a relatively positive relationship throughout the period of study. The inelastic nature of indirect tax posits a greater problem because of its administrative convenience. This has been put more succuity by Lewis.

> the tax payer usually does not know how much tax is included in the prices of the articles he buys, so in so far as the disincentive effect of taxation is pychological it can be avoided by using indirect tax rather than direct .....[8].

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This assertion is rightly applicable to Nigerian situation given the volatile nature of the tax payer to resist the payment of tax in any direct form.

The inelasticity of indirect taxes conveys a better image of the unfortunate consequence of import substitution strategy in Nigeria (Ronald I. Mickinnan, 1975); that is dominance of imported tools in the production line. The problem is not in the indirect taxes perse, but with the way it has been distorted to provide incentives for industrialization of replace imports e.g the insignificant production of substituted goods as to escape proforma taxation, and the fact remains that tariffs were imposed not to protect industry per se, but to gear up revenue base of the government.

4.10: TOTAL TAX REVENUE (TCT)

4.10.1 PERIOD I: 1970 - 1982

$$TOT = \underset{(5.072)}{-1.645} + \underset{(15.634)}{1.36 \log Y}$$

$R^2 = 0.96$

F = 264

DW = 1.45

4.10.2 PERIOD II: 1983 - 1995

$$TOT = \underset{(9.56)}{0.42} + \underset{(17.34)}{0.40 \log Y}$$

$R^2 = 0.87$

F = 73.62

DW = 1.706

4.10.3 PERIOD III: 1970 - 1995

$$TOT = \underset{(11.04)}{0.164} + \underset{(16.03)}{0.23 \log Y}$$

$R^2 = 0.95$

F = 456

DW = 1.34

The basic composition of total tax revenue comprises the composition of both direct and indirect tax as defined in this study.

The period 1970 - 1982 show a positive relationship between TOT and GDP. The R^2 of 0.96 shows that there is 96 percent explanation in the variation between the

independent variable TOT and the explanatory variable GDP. Given the size of the F and t ratios, we reject the null hypothesis and conclude hypothesis 1 in 1.8 at 95 percent confidence level.

The dgree of responsiveness of the system to growth in GDP shows a perfectly elastic coefficient of 1.76 indicating that the tax system is buoyant, and that a 100 percent increase in GDP will leads to 136 percent increase in the tax system. This development might be attributable to the degree of responsiveness displayed by the direct tax component of PPT and CIT for this period which offset the weak responsiveness displayed by other taxes. The result accepts the a priori expectation that total tax increases as the economy progressed (Musgrave, 1969).

However, the second period displayed a sharp departure from the 1970 - 82 results. Though the linear relationship is positive, the coefficient of elasticity became perfectly inelastic. This trend outlined the improvement in the first period thus. The aggregate result follows the pattern of period II. The R^2 for the two period shows that there is a considerable explanation of the variation between the independent variable TOT and the explanatory variable GDP. The F and t statistics

shows that there is goodness of fit and the regression is statistically significant, hence we reject the alternative hypothesis and accept the hypothesis 1 in 1.8 at a confidence level of 95 percent.

The above development potends a greater danger, and caution for the use of fiscal policy through taxation to appraise the economic development process. The implication of our findings is that the use of tax as a weapon for income distribution is somewhat impotent.

The disaggregated result, where direct tax is more buoyant than indirect tax, negates the proposition of Lewis (1955), who argued that much revenue is raised through indirect taxes.

The relatively high buoyancy of CIT and the corresponding inelasticity of export duties justify Tanzi (1987) expectation, that the twc taxes moves in opposite direction as the economy progresses.

Despite the relative shares of tax revenue in the total revenue of the Federal Government, tax revenue remains absolutely inelastic. This manifests the basic use of which tax are meant for i.e purely to generate revenue.

CONCLUSION

The results analysed above clearly show that, the period 1970 - 82 prove a more buoyant tax structure for all the tax basees considered except IMPD which exhibits a relatively high coefficient of elasticity in period II.

Moreso, the aggregate results from 1970 - 95 follows the pattern of development in period 1983 - 1995. These two developments shows clearly that the actual imbalances in the national economy was manifested clearly in the second period and the imbalances are so domineering as they offset all gains supposedly consolidated between 1970 - 82. And to reflect this on the structure of Nigerian economy, given the results the period 1983 - 1995 marks a trying period in all spheres of economic, social and political activities.

Against all expectations, the petroleum sector revealed its inflexibility to the growth of the economy as a major pivot of the national development. This was clearly shown by the elasticity coefficient exhibited between 1970 - 95. It therefore suggests that though a certain sector may dominate the economy, it might not provide the necessary catalyst for rapid socio-economic development.

It was also revealed, that the Nigeria economy is highly open to international economy using the coefficient of CUT as a proxy. Also that, the export sector remains redundant in this openess.

NOTES

1. For the purpose of this study., flexibility, and elasticity refers to the same thing and are thus used interchangebly.

2. b is the coefficient of elasticity used for the study i.e is the calculated coefficient for described in chapter 2.

3. Marginal rate (MRT) is described as the relative share of tax base to GDP i.e T/GDP. This is different from the tax - GDP elasticity GDP defined for the study. A low MRT may not necessarily produce low elasticity coefficient.

4. Federal Government Official Gazette vol. 59 no.65; 30th Dec., 1972.

5. The much differences might be attributable to the method of indices approach adopted for this study.

6. Details of this can be seen in the Ha 1992 budget break down by the then Minister of Finance and Economic Development.

7. This is an evidence of the imbalances inherent in the structure of the Nigeria economy over time.

8. A Lewis (1955) PP. 414.

CHAPTER FIVE

5.0 SUMMARY AND RECOMMENDATIONS

5.1 SUMMARY

Studies in Public Policy economics have advanced rapidly since 1970s for three main reasons;

i. Economist became willing once again to describe society's objectives of alternative policies. This device was resolutely avoided as unscientific in the Post-Robinson age of new welfare economics.

ii. The coherence that this approach provided meant that it was possible to construct simple but powerful models of the economy that could be used to answer many of the standard questions of public finance in a rigorous way, and

iii. Development in econometric, computers, and the growing availability of large sets of survey data on consumer budgets meant that the new theory could be applied.

In LDCs, institutional, political, administrative and cultural constraints may drastically limit the range of tax instruments that are effectively available - tax systems are not static.

Dramatic increase in tax yields might be attributable to;

i. increased monetization of the economy,

ii. increased industrial and commercial development and

iii. existence of large firms, among others.

As discussed in chapter 3.1, there have been a considerable increases in the nominal value of tax revenue in relation to the growth of the economy. Virtually all tax bases studied exhibited marginal growth in absolute value. It must be contended that the petroleum sector exhibited the highest growth rate, though its degree of elasticity fails to justify its real relevance to the national economy as a tool for fiscal policy for accelerating economic development.

There has been remarkable shift in the structure and composition of tax bases in the economy to conform with the pattern of economic progress during the period of study. This development in the tax structure and

composition is characterized by various tax reforms that were put in place.

Indeed, it is the major function of fiscal policy, in the macroeconomic context, to look ahead and forsee what will happen in the absence of changing government action, as well as plan fiscal policies along side monetary actions for the appropriate management of aggregate demand in the economy as a whole. For this purpose, it is considered desirable that fiscal revenue be elastic in character, rising proportionately more than increase in GDP and declining proportionately more when GDP declines. The automatic stabilization that such elastic revenue affords, would reduce the tax more difficult task of discretionary fiscal actions, which must not only be based on a prompt and accurate reading or forecast of the magnitude and direction of economic variations, but also upon winning timely political support for the appropriate fiscal actions.

It is of importance, to (i) measure the elasticity of the tax revenue system and (ii) take steps, where possible to study the nature and behaviour of each major tax in itself.

As the structure of the economy changes in the process of development, so also is the tax base, and the objective of tax policy should vary with stages of economic development. In this connection, taxation is itself an instrument of social change. It does not need to wait passively until restrictive and binding social institutions are changed but can itself help hasten the change. Effective protective taxes can have a significant distribution effects which will influence not only financial relationship and economic development per se, but also the social structure; as such, though in LDCs institutional, political, structural and cultural constraints may drastically limit the range of tax aban instrument that is effectively available.

Against the general "a priori" expectation that tax revenue will continue to be elastic as the economy progresses, this study confirms Adedeji (1969) expectation, that it is unlikely that tax system as a whole will be as income elastic as the economy progresses. Though his expectation of the elastic nature of PPT, CIT and EXCD is nullified, the three components maintained a positive linear relationship with GDP, this suggests that the three components are moving in the same direction with GDP.

5.2 FINDINGS AND POLICY RECOMMENDATIONS

The various tax policies in Nigeria have not taken into significant consideration the economic rigidity in line with basic infrastructures available for their successful implementation. This justified the fundamental argument, that taxation as an instrument of fiscal control is mainly meant to improve upon the revenue generation of the state. Relatively, the various reforms had been more beneficial for political rather than social and economic ends. This explains why the considerable contribution of tax to total government revenue has not been responsive to growth in the GDP. There is the need, to re-appraise these trends by given more prominence to the social and economic desirability of the tax system which must be viewed in relation to available resources that can make it attainable. The following observations and recommendations are thus profered:

1) In pursuance of liberalization policy, the government has put in place various tax incentives to enhance economic development without really evaluating the costs and benefits of such incentives. There had been various forms of income tax reliefs for investors in the forms of tax holiday, reduction in the marginal rate of tax changeable on income; exemptions and or reduction

of import duties, outright prohibition of importation and exportation of some goods.

It is desirable to ask how these incentives have aided the development of capital goods industries, which is the basis for economic development. Most industrial activities in Nigeria are confined wholly in the manufacture of consumer non-durables which have little or no multiplier effects on the economy, and a very weak export potentials. The various tax incentives have not addressed long term development like qualitative education, development of technologically based industries, political and economic stability.

Thus, it is profered, given the above analysis, that when incentives are given, it is imperative that such incentives and revenue objectives be given proper weight in the tax planning, and that they should be viewed as an important goal of the tax system.

2) The inelasticity of PIT made the economic role of tax as a tool for income distribution impotent. The general solution to this is the more fiscal centralization of the PIT and reduction in

allowance and releifs. However, as desirable as these solution may be, it is not politically and socially expedient due to the increasing roles of the State and Local Governments in national development and the relatively poor internal financials base of these tiers of government, and the continous reduction in real wages of people caused by high inflation among others.

3) Tax evasion is a universal phenomenon in most economies especially in LDC, where machinery for tax administration are highly ineffective if available (Helleiner, 1966; Orewa, 1962; Lewis, 1955). The problem of tax evasion in Nigeria is more to do with the believe of the tax payers that the government is not doing anything with the tax paid in the provision of basic amenities. As a result, it is suggested that efforts should be geared towards improving upon the administration of CIT, because of its relative easier collection. And in doing this, there must be continous reappraisal of policy to justify the proportionate gain in revenue accrue and the losses due to incentives. A more selective use of the pioneer industries status should be rigorously defined in line with the development aspiration of the nation.

4) The Import Duty Reform (IDR) introduced for clearing imported goods and the use of tax expert in the collection of custom duties are laudable programmes. However, effective machineries must be put in place to monitor drastic reduction in freight handled at the Nigeria ports that might be initiated by these developments[3].

5) The introduction of Value Added Tax (VAT)[4] in 1994 has really improved upon government tax revenue. The marginal contribution of VAT to Federal Revenue is second to PPT and given its rate of growth, it is most likely that it will compete with PPT in the foreseable future. However, given the regression results, marginal increase in the growth of VAT[5] might not necessarily justify it elasticity in the economy. Efforts to improve upon VAT should be adequately pursued and continous changes should be made in line with the dynamics of the economy.

6) In 1995, a new custom and excise tariff reforms which covered 1995 - 2001 was introduced[6]. The policy came into effect on 1st February, 1995. The policy displayed various tax rates to be levied on all categories of items listed under the custom

and excise components. It also included among others;

i. narrower range of customs duty rates
ii. fewer import prohibition
iii. lower average rate
iv. uniform rates.

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Though the time between the date of inception and this period is so short to really appraise the impact of the policies, it must be observed, that the continous appraisal of the policies is desirable in conformity with the changing dynamics of the economy.

Inspite of all constraints, taxation still remains the popular means of (i) mobilising and allocating resources (ii) stabilising the effects of market forces of production, distribution and consumption, (iii) serving as instrument to provide alternative investment climate, and (iv) maintaining competitiveness and raising domestic saving.

NOTES

1. Most private investments in Nigeria are foreign owned. The indigenous investments are concentrated in production lines which have a very short period of gestation.

2. It was reported in the Guardian national dailies of friday 13th June 1996 that ships diversion to Coutonue has been on the increase. According to the report, this diversion was because of the inavailability of IDR on the products freighted by the ship. It noted that since the inception of IDR, Coutonue (Benin Republic) has become an alternative port for Nigeria consignees. This development will definitely reduce the import duties accruable to government. See also The Week Magazine Editorial of July 7, 1997.

3. VAT is a substitute of Sales tax. It is levied on 23 different goods and 10 services with a uniform rate 5%. The introduction of this has really shifted efforts from income tax.

4. In this study, the high marginal contribution of PPT does not justify its degree of responsiveness to changes in GDP.

5. For more details see "Custom and Excise Tariff 1995-2001 published by the Nigerian Custom and Excise Department.

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