**IMPACT OF FEDERAL GOVERNMENT TAX POLICIES ON NIGERIAN ECONOMY**

**Abstract**

The purpose of writing this research works.  The impact of federal government tax policies on the Nigerian Economy, is determine whether the federal government tax policies in Nigeria has contributed immensely to the overall growth of the economy.  It also seeks to investigation on the extent the polices of federal government tax has helped in revenue generation and allocation. The literature review gave a background and in depth in the country and also the various policies banking them. The decision made on this work was derived based on the test conducted. The chi-square was used in testing the hypothesis while frequency tables and percentage were used in analyzing the data.     The decisions were that the federal government  tax policies is actually a regulatory frame work of revenue generation in Nigeria. While the other one is that the federal government tax policies has contributed to the growth of the economy. Based on the above decision, some findings were made which necessitated recommendations and finally conclusions

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**CHAPTER ONE**

**INTRODUCTION**

* 1. **Background of the study**

The desire to build a civilized country with a strong and sound economy is the desire of every Country, including Nigeria. Tax payment is the demonstration of such a desire, although some income earners see it as a means of exploitation by the government. Tax payment is a voluntarily contribution imposed by the Government on personal income earners, companies, investors, exporters, importers etc. revenue realized from taxation is a major source of revenue to the Government of Nigeria, and as such is an important tool used in the development of Nigeria and her economy. A country’s tax policies and systems are greatly related with business ventures in that country. An economy that enacts favorable and progressive tax laws and policies will definitely breed successful and finance-healthy business organizations. Once businesses flourish, the economy flourishes as well, as there is no quicker way of stirring the affairs of an economy without the help of organizations that move services, goods, money and investments from those with surplus to those with deficit; those with marketable ideas/output to those who need these ideas and products. In essence, businesses and tax policies greatly depend on one another for survival. If one is greatly affected, the other follows suite. The Nigerian Tax System has undergone significant changes in recent times. With the help of various studies and research done by tax experts, tax laws are being reviewed with the aim of repelling obsolete provisions and simplifying the main ones. Under current Nigerian law, taxation is enforced by the 3 tiers of Government, i.e. Federal, State, and Local Government with each having its sphere clearly spelt out in the Taxes and Levies (approved list for Collection) Small businesses are generally recognized as important drivers of economic success. The recent economy recession contributed to inconsistencies in the Nigerian tax laws which had made it difficult for the tax authority to administer and tax payers to comprehend tax system, (Matthew, 2014). The intention of the federal government to maintain a uniform tax system proved abortive as a result of economy condition of each state which gives room for divergence system. In any economy, the usefulness of taxation in the activities of any government cannot be overemphasized. The main aim of any developing nation like Nigeria is to increase the rate of economic growth and per capital income which otherwise increases the standard of living thus taxation can be used as a stimulus to accelerate such growth. Tax is one of the major sources of government revenue however, not every government effectively exploits this opportunity as a means of revenue generation. Azubike (2009), posits that tax is a major player in every society of the world. It is an opportunity for government to generate additional revenue to discharge its pressing obligations. Also, it is one of the effective means of mobilizing a country's internal resources so as to promote economic growth. According to Appah (2004), tax is a compulsory levy imposed on a subject or properties by the government to provide security, social amenities and cater for the wellbeing of the society. It is levies imposed by the government on incomes, profits and properties of both individuals and corporate bodies for the sole administration of that government which has no compensatory benefits. The main forms of tax collected are direct and indirect taxes. For the direct taxes, it is levied on individuals and factors of productions e.g. Personal Income Tax (PIT), Capital Gain Tax (CGT). However, indirect taxes are levied on goods and services e.g. import and export duties. Thus, the consumers bear the ultimate burden. It is an important note that taxation supposed to be an instrument of social change which is not answering as much as it should be doing presently in Nigeria. The impact of tax payment is not felt by payee and some do not understand some tax laws and this indeed has put them into doubt and confusion which has definitely led to tax evasion and avoidance. Having realized that taxation is one of the most important sources of revenue for the various tiers of government and a major way of sourcing financial support to the Nigeria government at large, it is of paramount importance that tax evasion and avoidance is discouraged with every conceivable means.

* 1. **STATEMENT OF THE PROBLEM**

Every modern state or nation requires a lot of revenue to be able to provide and maintain essential services for its citizen. One ready means of revenue for the government is through the imposition of tax. The imposition of tax by the government is not a new phenomenon. There is hardly any government today that does not rely on taxation. However, apart from the complications that have crept into the taxation system in modern times, the reason for the imposition of tax in fact ceased to be only for the generation of revenue for the state. It has also become the avenue for the redistribution of wealth and re-adjustment of the economy (Ojo, 2008). Therefore, the tax system is one of the most powerful levies available to any government to stimulate and guide its economic and social development. The FBIR (Federal Board of Inland Revenue) which is vested with the power to administer the act and carry out all the act which may be deemed necessary and expedient for the assessment and collection of tax ,and shall for all amount so collected in a manner to be prescribed by the Federal Minister of Finance. The Board has certain reserved power which shall not be delegated to other person to perform, e.g. power to acquire, hold and dispose properties of any company in satisfaction to tax or any judgment debt, and to specify the forms of return claim and notices

**1.3 OBJECTIVES OF THE RESEARCH**

In-order to achieve the purpose of this research, the following are the objectives of the research:

1. To identify the challenges of Nigerian tax policies.
2. To examine the influence of multiple taxation on businesses and the economy as a whole.
3. To identify ways of properly addressing the challenges of Nigerian tax policies in order to favour businesses as well as encourage tax compliance.

**1.4 RESEARCH HYPOTHESES**

In order to achieve the objectives stated above, the following research hypotheses were used as a guide in achieving the objectives of this research:

**H0:** There are no challenges facing tax policies in Nigeria

**H1:** There are challenges facing tax policies in Nigeria

**H02:** The challenges of tax policies in Nigeria have no influence on the growth of Nigeria economy

**H2:** The challenges of tax policies in Nigeria have influence on the growth of Nigeria economy

* 1. **SIGNIFICANCE OF THE STUDY**

This study gives a clear insight into the various ways in which tax policies in Nigeria can be executed efficiently to still favor small businesses and how some taxation policies in Nigeria can be properly tackled. The study also gives a clear insight into the various causes of why small businesses fail in Nigeria as well as the challenges of the tax policies in Nigeria. The findings and recommendations of the researcher will help in building a strong and better tax policy system in Nigeria, if taken seriously by government and the general public. The challenges of taxation in Nigeria are outlined in-order for drastic measures to be taken to tackle these challenges and meet the prospects of the general public so that revenue from tax policy to the government can be increased

* 1. **SCOPE OF THE STUDY**

This research focuses mainly on the impact of Nigerian tax policies on the growth of Nigeria economy. The study only torches on the challenges tax policies in Nigeria and how it can affect self-employed business men and women, traders, and other forms of sole proprietorship businesses.

Based on the findings of this study other possible researchable areas may include studies on the various challenges of other forms of tax such as the Value Added Tax (VAT), Capital gains tax, Import and Export duties tax. Etc. Further research can also be done on curbing tax evasion in Nigeria..

* 1. **LIMITATION OF THE STUDY**

In the cause of the study, the researcher encounters some constrain which limited the scope of the study:

**a) AVAILABILITY OF RESEARCH MATERIAL:** The research material available to the researcher is insufficient, thereby limiting the study

**b) TIME:** The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

**c) Organizational privacy**: Limited Access to the selected auditing firm makes it difficult to get all the necessary and required information concerning the activities.

**1.8 DEFINITION OF TERMS**

**Tax**

A tax is a mandatory financial charge or some other type of levy imposed upon a taxpayer (an individual or other [legal entity](https://en.wikipedia.org/wiki/Legal_person)) by a governmental organization in order to fund various public expenditures.

**Tax policy**

Tax policy is the choice by a government as to what taxes to levy, in what amounts, and on whom. It has both microeconomic and macroeconomic aspects.

**Small business**

Small businesses are privately owned corporations, partnerships, or sole proprietorships that have fewer employees and/or less annual revenue than a regular-sized business or corporation.

**Economic growth**

Economic growth is the increase in the inflation-adjusted [market value](https://en.wikipedia.org/wiki/Market_value) of the goods and services produced by an [economy](https://en.wikipedia.org/wiki/Economics) over time. It is conventionally measured as the percent rate of increase in real [gross domestic product](https://en.wikipedia.org/wiki/Gross_domestic_product), or real GDP

**1.9 ORGANIZATION OF THE STUDY**

This research work is organized in five chapters, for easy understanding, as follows

Chapter one is concern with the introduction, which consist of the (overview, of the study), historical background, statement of problem, objectives of the study, research hypotheses, significance of the study, scope and limitation of the study, definition of terms and historical background of the study. Chapter two highlights the theoretical framework on which the study is based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrate on the data collection and analysis and presentation of finding. Chapter five gives summary, conclusion, and recommendations made of the study

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.1 Introduction**

The socio-political and economic development of any nation depends more fundamentally on the amount of revenues generated through taxation for the provision of infrastructures for economic growth. Conceptually, tax is a compulsory levy imposed on the citizens (and their property) by the government for the purpose of providing infrastructures for economic growth development. According to Appah (2004), Anyanfo (1996), Anyanwu (1997), Appah and Oyandonghan (2011), Ogbonna and Appah (2012), tax is a compulsory levy imposed on a subject or upon his property by the government to provide security, social amenities and create conditions for the economic well-being of the society. Usually, taxes are imposed to regulate the production of certain goods and services, protect infant industries, control business, curtail inflation and reduce income inequalities amongst others. Operationally, taxes are the most essential instruments of fiscal policy used to managing the economy. As an instrument of fiscal policy, Tosin and Abizadeh (2005) outlined five possible mechanisms by which taxes can affect economic growth. Firstly, taxes can inhibit investment rate through such taxes as corporate and personal income and capital gain taxes. Secondly, taxes can slow down growth in labour supply by disposing labour – leisure choice in favour of leisure. Thirdly, tax policy can effect productivity growth through its discouraging effect on research and development expenditures. Fourthly, taxes can lead to a flow of resources to other sectors that may have lower productivitely. Fifthly, high taxes on labour supply can distort the efficient use of human capital. For taxes to play its critical role in an economy, Nzolta (2007) outlined four key issues that must be understood in taxation. Firstly, a tax is a compulsory contribution made by the citizens to the government for the common use of citizens. Secondly, a tax imposes a general obligation on the tax payers. Thirdly, there is a presumption that the contribution to public revenue made by the tax payer may not be equivalent to the benefits received. Fourthly, a tax is not imposed on a citizen by the government because it has rendered specific services to him or his family. Thus, the foregoing views on taxation imply that a good tax system plays a multiple role in the process of economic development. Such a tax system presents an opportunity for the government to collect additional revenue needed to discharge its obligations. Under such a tax system, the nation’s economic resources are efficiently mobilized towards the promotion of economic growth and development. Within the Nigerian context, the fiscal operations of government are divulged into a three – tiered tax structures between the Federal, State and Local governments, with each tier of government possessing and coordinating a separate tax jurisdiction. Unfortunately, tax systems in Nigeria is being dominated by oil revenues which accounts for at least 70 percent of total federally collected revenues for about four decades now. Consequently, the traditional tax system and tax revenue in the country has never assumed any strong role in fiscal policy management. As Ogbonna and Ebimobowei (2011) opined, instead of transforming the existing revenue base, fiscal management has merely transited from one primary product-based revenue to another, making the economy susceptible to fluctuations of the international market. sHowever, following the dwindling level of revenue generated from taxation over the years, the use of tax as an instrument of fiscal policy have been hampered by ineffectiveness of government officials. As Kiabel and Nwokah (2009) argued, the increasing cost of running government coupled with the dwindling revenue has left all tiers of government in Nigeria with formulating strategies to improve the revenue base. Given the dynamic nature of taxation, Ola (2001) argued that tax reforms are necessary to effect the required changes in the national economy.

**2.2 THE CONCEPT OF TAXATION**

According to Eftekhari (2009), taxation has always been an issue for the government and taxpayers alike from the early years of civilization. The issue of taxation has generated a lot of controversy and severe political conflicts over time. According to its importance, several economic theories have been proposed to run an effective system. Gabay, Remotin & Uy (n.d) see taxation as the process by which the sovereign, through its law making body, raises revenues used to defray expenses of government, a means of government in increasing its revenue under the authority of the law, purposely used to promote welfare and protection of its citizenry, and the collection of the share of individual and organizational income by a government under the authority of the law. Iwuji (n.d.) defines tax as a statutory compulsory contribution imposed by government exacted from a person’s or entity’s income, property or transaction for the purpose of funding governance. A tax can either be of three basic structures; proportional, regressive or progressive. Tax is said to be proportional when the taxpayer is levied an amount that is an indirect proportion of his income. A regressive tax is one that charges a higher rate to persons receiving lower income, and finally a progressive tax levies a higher rate to higher income earners. Nigeria runs a tripartite tax administration system where tax assessment and collection is presently carried out through the revenue collection agencies of the State and Federal Governments of Nigeria: the State Board of Internal Revenue (SBIR) and the Federal Inland Revenue Service (FIRS) and the tax administration in Nigeria is basically imposed through Acts of the National Assembly.

**2.3 TAX POLICY AND THE GROWTH OF NIGERIA ECONOMY**

According to Tomlin (2008), economists argue that the resources smaller companies direct towards tax compliance are resources that could otherwise be used for reinvestment, facilitating future growth. Hence, there is a belief that taxes and a complex tax system put disproportionate pressure on smaller businesses. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. Reducing the compliance costs and tax rate increases the small enterprises profit margin. It also increases the Government’s tax revenue, since the simplified provisions for a micro enterprise historically reduce the size of the shadow economy and the number of non-complying registered taxpayers (Vasak, 2008). Furthermore, SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert serious burden on their operations. Many SMEs have to deal with myriad of agencies at great cost. As stated earlier they are heterogeneous and these differences in size and structure may in turn carry differing obligations for record-keeping that affect the costs to the enterprises of complying with (and to the revenue authorities of administering) alternative possible tax obligations. Public corporations, for example, commonly have stronger accounting requirements than do sole proprietorships, and enterprises with employees may be subject to the full panoply of requirements associated with withholding labor income taxes and social contributions (International Tax Dialogue 2007). In carrying out their responsibilities, tax administrations can also create problems for the business community when they impose burdensome reporting and record keeping requirements; conduct excessive inspections and audits; fail to deal with corrupt tax administration employees; and, fail to provide transparency in tax administration operations. This type of environment harms individual businesses and the overall economy. As a result, many in the business community react by taking steps which adversely affect the tax base. This typically includes underreporting profits and turnover; underreporting employee wages; and, by creating “phantom” employees. A significant number of businesses also fail to register or file tax declarations. This only increases the burden on those taxpayers who try to comply with the tax law, and discourages their future compliance. The result is a vicious cycle which tends to preserve the status quo. Only meaningful reforms to the tax system can break the cycle and result in an improved business climate which will stimulate economic growth. (Baurer, 2005) An overly complex regulatory system and tax regime or one opaque in its administration and enforcement makes tax compliance unduly burdensome and often have a distortionary effect on the development of SMEs as they tended to morph into forms that offer a lower tax burden or no tax burden at all (Masato, 2009), producing a tax system that imposes high expenses on the society. A poorly executed tax system also leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2000). Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses (Weichenrieder, 2007) because of low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2000; Yaobin, (2007).

**2.4 TAX POLICY MEASURES THAT WILL ENCOURAGE GROWTH OF SMES**

Although some policy measures are geared towards SME growth in Nigeria, the support needs to be increased, standardized and systematic. Iwuji (n.d) believes that it is the role of the government to provide the enabling environment and social services that support businesses and entrepreneurs, and thus enhancing the investment climate in Nigeria for increased economic growth and subsequent tax contribution from all citizens, since a good number of SMEs operate in the informal economy due to the fact that they deem the tax environment within which they operate as unfavorable. These SMEs constitute untapped revenue potential and an uneven playing field in many countries (International Tax Dialogue, 2007) as such they need to be captured by the tax net. The legislation is a necessary regulator for protection of the business environment and security of the economic agents, for establishment of the necessary social security regulations but at the same time it hampers the business with additional expenditures and administrative obstacles, which place in different positions the SME. The big companies have more choices possibilities. They can either share part of the staff or hire people to deal only with studying the legal requirements and complying with the new regulations, or contract some personal service firm (like E&Y, Deloitte and Touché, Price Waterhouse etc) to deal with their tax compliance, planning etc. For SME this is a great expense out of their abilities. (Smatrakalev, 2006) Shahrodi, (2010) believes that for a tax system to be efficient, the tax policy needs to be designed such that the tax rates are appropriate and rational, the exemptions are lower in amount, the tax collection organization are more efficient, the tax burden of the indigent people should be lighter and the fight against corruption and tax evasion should be much more intense. Tax policies can be designed in such a way that they do not only directly affect SMEs but also indirectly push for their growth for example the practice in China where tax policy has been designed to encourage SME financing by granting exemptions from business tax for financial corporations that provide guarantee for loans to SMEs and granting tax deductions to market entities and venture capitalists that invest in high-tech SMEs the tune of 70% of the investment value. Another way is by designing tax policies that encourage human capital training. (Yaobin, 2007) Special tax regimes for SMEs may be appropriate policy instruments for minimizing the cost of collection. It is important to note that the awareness of the dangers of inadequate attention to the taxation of SMEs has grown. It can lead, for example, to distortions of competition as a result of uneven tax enforcement, with incentives created to limit growth and to avoid tax through artificial splitting of enterprises. Not least, voluntary compliance by larger enterprises themselves, and by wage earners, may be undermined by the (correct) perception that their smaller counterparts, or better-off neighbors, are getting away with poorer compliance. (International Tax Dialogue, 2007) Hence government intervention will help maintain balance while helping countries exploit the social benefits from greater competition and entrepreneurship. The European Charter for Small Enterprises for instance, sets the objective that “Tax systems should be adapted to reward success, encourage start-ups, favour small business expansion and job creation, and facilitate the creation and the succession in small enterprises. Member States should apply best practice to taxation and to personal performance incentives.” Arguments are sometimes made for preferential treatment of smaller enterprises on pure policy grounds: if they have difficulty raising external finance, for example, a reduced tax rate on retained earnings, freeing more internal finance, may seem useful. The importance of this and other possible market imperfections in impeding realization of the full potential of SMEs remains unclear. The crucial points, however, are that size itself may not be closely associated with the relevant market failure (some smaller enterprises may face no financial constraints, for example), and tax interventions will often be dominated by targeted spending measures (such as development loans). Inadvertent damage to smaller enterprises from flawed tax design should be avoided, but the case for preferential treatment is far from clear. (International Tax Dialogue, 2007). Furthermore, policy incentives such as tax rebate for SMEs that put effort on local sourcing of raw materials, serious in adding value to commodities for exports and other business ethics, should be employed by government. Similarly, government could increase funding for the development of the sub-sector through direct budgetary allocations and enhance private sector investment opportunities that will focus on specific areas of capacity enhancement. The use of tax incentives are encouraged because they are “fiscal measures that are used to attract local or foreign investment capital to certain economic activities or particular areas in a country (SADC Memorandum of Understanding on taxation, 2002). They are deliberate reductions in tax liability to compensate for deficiencies in the investment environment and entry of players into the sector (Iwuji, n.d), thus attracting investment and creating a prospective source of tax revenue, encourage savings and stimulate investment that leads to a better economy (Bolnick, 2004). Tax law should be simplified continuously, mainly for three reasons, namely to lower both compliance costs and administrative costs, to reduce uncertainty faced by taxpayers; and to improve the levels of voluntary compliance (Kasipillai, 2005). Pro-business (and Pro-SME) Tax regimes and enforcement should be simple, consistent and predictable. In Uzbekistan for instance, one of the steps that promoted the development small businesses was the adoption of a simplified system of taxation for micro-firms and small enterprises in 1998. Tadjibaeva & Komilova (2009) reported that the simplified order of taxation proposed payment of a single tax in lieu of all federal and local taxes and payments (except trade, licensing and registration duties). The rates of single tax vary according to the industry in which the SME operates. The shift to a simplified system of taxation substantially reduced tax burden of small businesses and tax administration procedures became less cumbersome and costly, mainly in bookkeeping and reporting. SMEs were eligible to use either simplified or general accounting procedures based on their preference. Encouraging SMEs to maintain good accounts is also a way to help the SMEs because the associated good record keeping for tax purposes is also beneficial to the businesses’ financial health (Iwuji, n.d). Others are continued reduction of tax rates for SMEs, improving the technological development of preferential tax policies which will invariably reduce the compliance costs of SMEs and strengthening the services of tax administration towards SMEs.

**2.5 THEORIES OF BUSINESS GROWTH**

Various authors have postulated theories pertaining to business growth. The oldest and most common theory according to Elhiraika & Nkurunziza (2006) is Gibrat’s ‘Law of Proportionate Effect—LPE’, (1931). Here, Gibrat stipulates that the rate of growth of a firm is independent of its initial size. By implication, it would mean that large firms are preferable in the context of private sector development given that they create more employment than small firms. Conversely, Jovanovic (1982) states in his ‘Learning model’ that younger firms learn over time, which helps them improve their performance as they accumulate market knowledge. According to this model, young firms grow faster than old ones. Moreover, given that younger firms are usually smaller than older businesses for the reasons discussed above, Jovanovic deduces that small firms grow faster than large ones. This is a convergence process where small firms will eventually become as large as any other large firm in the same sector over time. Churchill and Lewis (1983) as cited in Olawale & Garwe (2010) on the other hand claim that as a new small firm starts and develops, it moves through some growth stages, each with its own distinctive characteristics. These authors also identified the stages of growth as; existence, survival, success, take-off and resource maturity. In each stage of development as different set of factors is critical to the firm's survival and success. The Churchill Lewis model gives an insight into the dynamics of SME growth, including the distinguishing characteristics, problems and requirements of growing SMEs and explains business growth processes amongst SMEs. The precise moment in time in which a start-up venture becomes a new business has not yet been theoretically determined. However, the idea of business survival could be equated with a firm that has fully completed the transaction to stage-two organization in the five stages of small business growth. This study review three theories of taxation: the cost of service theory, the benefit theory and the socio-political theories of taxation. According to the cost of service theory, the cost incurred by government in providing certain services to the people must collectively be met by the people who are the ultimate receivers of the service (Jhingan, 2009). This theory believes that tax is similar to price. So if a person does not utilize the service of a state, he should not be charged any tax. Some criticisms have been leveled against this theory. According to Jhingan (2009), the cost of service theory imposes some restrictions on government services. The objective of government is to provide welfare to the poor. If the theory is applied, the state will not undertake welfare activities like medical care, education, social amenities, etc. furthermore, it will be very difficult to compute the cost per head of the various services provided by the state, again, the theory has violated the correct definition and tenets of tax, finally the basis of taxation as propounded by the theory is misleading. The limitations inherent in the cost of service theory led to the modernization of the theory. This modification gave birth to the benefit received theory of taxation. According to this theory, citizens should be asked to pay taxes in proportion to the benefits they receive from the services rendered by the government. The theory assumes that there is exchange relationship or quid pro quo between tax payers and government. The government confers some benefits on tax payers by providing social goods which the tax payers pay a consideration in the form of taxes for using such goods. The inability to measure the benefits received by an individual from the services rendered by the government has rendered this theory inapplicable (Ahuja, 2012). The socio-political theory of taxation states that social and political objectives should be the major factors in selecting taxes. The theory advocated that a tax system should not be designed to serve individuals, but should be used to cure the ills of society as a whole (Bhartia, 2009). This study is therefore anchored on this theory

**2.6 CONCEPTUAL REVIEW**

The conceptual review of taxation is drawn from the submissions of Anyaduba (2004), Dandago and Alabede (2001), Piana (2003) and others. According to Anyaduba (2004), taxation is one of the instruments employed by the government for generating public funds. It is the payment imposed by the tax authorities on the income, profit or wealth of individuals, group of persons, and corporate organizations. Dandago and Alabede (2001) see taxation as a compulsory but non-penal levy by the government through its agent on the profits, income, or consumption of its subjects or citizens. It is also viewed as a compulsory and obligatory contribution made by individuals and organization towards defraying the expenditure of government. Succinctly, taxation is describes as the transfer of real economic resources from private sector to finance public sector activities. This can be inferred that taxation is the transfer of financial resources from private economic agents such as households and corporate bodies to the public sector to finance the development of the society. Piana (2003) suggested that it is a result of the application of tax rate to a tax base. According to Brautigam (2008) a well-designed tax system may assists in prioritizing government's spending in developing countries, build stable institutions and improve democratic accountability. The motive of tax is to finance the activities of public sector so as to achieve economic and social goals in the country. Nzotta (2007) identified four key issues which assisted taxation to play its functions in any society. Firstly, tax is a compulsory payment made by the citizens to the government which is meant for common use. Secondly, tax imposes a general obligation on the tax payer. Also, there is a presumption that the contribution made by tax payer on public revenue may not be equivalent to the benefits received. Finally, taxes are not imposed on a citizen by the government because of the specific services rendered to him or his family. Therefore, it is obvious that a good tax system plays many roles in the process of economic growth of any country which does not exempt Nigeria, (Appah, 2010).

**2.7 CHALLENGES OF TAX ADMINISTRATION IN NIGERIA**

In the study of Soyode and Kajola (2006), the challenges facing tax administration in Nigeria was identified as follows:

**Tax Evasion:** Tax evasion is a deliberate and willful practice of not disclosing full taxable income so as to pay less tax. In other words, it is a contravention of tax laws whereby a taxable person neglects to pay the tax due or reduces tax liability by making fraudulent or untrue claims on the income tax form, (Samuel and Tyokoso, 2014). Tax is evaded through different methods such as refusing to register with the relevant tax authority, failure to furnish a return, statement or information or record keeping required, making an incorrect return by omitting or understating an income liable to tax refusing or neglecting to pay tax; overstating of expenses so as to reduce taxable profit or income, which will also lead to payment of less tax than otherwise have been paid; A taxpayer hides away totally without making any tax return at all and entering into artificial transactions.

**Tax Avoidance:** This can be describe as the arrangement of tax payers' affairs using the tax shelters in the tax law, and avoiding tax traps in the tax laws, so as to pay less tax than he or she would otherwise pay. That is, a person pays less tax than he ought to pay by taking advantage of loopholes in a tax levy (Samuel and Tyokoso, 2014). Tax avoidance can arise in various ways: incorporating the tax payer's sole proprietor or partnership into a limited liability company; the ability to claim allowances and reliefs that are available in tax laws in order to reduce the amount of income or profit to be charged as tax.

**2.8 TAX REVENUE AS A CATALYST FOR NIGERIAN ECONOMY GROWTH**

It is evident that the taxes generated as revenue has not reached the level of income from oil sector despite the efforts of Nigerian government. Its implementation has been a bane due to lack of commitments to target objectives, leakages, wastages, endemic corruption and the vast unorganized informal sector. A comparative review of tax revenue as a percentage of Gross Domestic Product (GDP) of some African countries between the period 2009 and 2012 indicate that Nigeria has the lowest tax revenue as a percentage to GDP (World Bank, 2014). According to Dwivedi (2004), economic growth is a sustained increase in per capita output or net national product over the period of time. It implies that the rate on increase in total output must be greater than the rate of population growth. Economic growth can be determined by four essential determinants such as; human resources, national resources, capital formation and technological development. Desai, Foley and Hines (2004), postulate that governments have at their disposal many tax instruments that can be used to finance their activities. These taxes include personal and corporate income taxes, sales taxes, value added taxes, capital gain taxes and numerous others. It is not uncommon for a country to impose all of these taxes simultaneously. In determining tax instruments to be used and the rates to be imposed, governments are typically inuenced by their expectations of the effects of taxation on investment and economic activities; including Foreign Direct Investment (FDI). They stated that high corporate income tax rates are associated with low levels of FDI. Also, the high tax rate on company income tax is associated with reduced foreign direct investment by multinational organizations. Ogbonna and Appah (2012), investigated the impact of tax reforms on economic growth of Nigeria for the period 1994 – 2009. The study adopted petroleum profit tax, company income tax, value added tax, education tax, personal income tax and customs and excise duties (independent variables) and Gross Domestic Product (GDP) as the dependent variable. The Augmented Dickey-Fuller was used to examine the unit root test and the Johansen's Co-integration test and Error correction technique was also adopted to run the regression analysis. It was discovered that there is a positive relationship between tax revenue and economic growth of Nigeria. They argued that 54% variation in the dependent variable (GDP) is as a result of change in tax revenue and that there exists long run equilibrium relationship between GDP and the independent variables. The Augmented Dickey- Fuller test conducted on the variables showed that all the series were stationary at and that the series were significant between 1 and 5 percent except for companies' income tax and customs and excise duties that were significant at 5percent. In the study of Ogbonna and Ebimobowi (2012), on the impact of tax revenue on economic growth of Nigeria using relevant descriptive statistics and econometric analysis. It concluded in the various results that tax revenue is positively and significant related to economic growth. Also, tax revenue improves the revenue generating machinery of government to undertake social desire that will translate to economic growth in real output. However, in his view so far represented the most comprehensive assessment of the impact of tax revenue on Nigeria economic growth.

**2.9 EMPIRICAL REVIEW**

Several empirical studies have been conducted on the impact of taxes on economic growth.The empirical studies of Anyanwu (1997), Engen and Skinner (1996), Tosun and Abizadeh (2005) and Arnold (2011) provided different explanations of taxes on economic growth. Engen and Skinner (1996) in their study of taxation and economic growth of U.S. economy, large sample of countries and use of evidence from micro level studies of labour supply, investment demand, and productivity growth. Their result suggests modest effects on the order of 0.2 to 0.3 percentage points' differences in growth rates in response to a major reform. They stated that such small effects can have a large cumulative impact on living standards. Tosun and Abizadeh (2005) in their study of economic growth of tax changes in OECD countries from 1980 to 1999 reveal that economic growth measured by GDP per capita has a significant effect on the tax mix of GDP per capita. It is shown that while the shares of personal and property taxes have responded positively on economic growth, shares of the payroll and goods and services taxes have shown a relative decline. Arnold (2011) in their study found that short term recovery requires increase in demand while long run growth requires increase in supply. As short term concessions can be hard to reverse, this implies that policies to alleviate this crisis could compromise long run growth.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

* 1. **Research design**

The researcher used descriptive research survey design in building up this project work the choice of this research design was considered appropriate because of its advantages of identifying attributes of a large population from a group of individuals. The design was suitable for the study as the study sought to investigate the impact of federal government tax policies on Nigeria economy

* 1. **Sources of data collection**

Data were collected from two main sources namely:

(i)Primary source and

(ii)Secondary source

**Primary source:**

These are materials of statistical investigation which were collected by the research for a particular purpose. They can be obtained through a survey, observation questionnaire or as experiment; the researcher has adopted the questionnaire method for this study.

**Secondary source:**

These are data from textbook Journal handset etc. they arise as byproducts of the same other purposes. Example administration, various other unpublished works and write ups were also used.

* 1. **Population of the study**

Population of a study is a group of persons or aggregate items, things the researcher is interested in getting information on the study impact of federal government tax policies on Nigeria economy. 200 staff of selected federal Inland Revenue service was selected randomly by the researcher as the population of the study.

* 1. **Sample and sampling procedure**

Sample is the set people or items which constitute part of a given population sampling. Due to large size of the target population, the researcher used the Taro Yamani formula to arrive at the sample population of the study.

n= N

1+N (e) 2

n= 200

1+200(0.05)2

= 200

1+200(0.0025)

= 200 200

1+0.5 = 1.5 = 133.

**3.5 Instrument for data collection**

The major research instrument used is the questionnaires. This was appropriately moderated. The secretaries were administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer and administered the same on staff of the two organizations: The questionnaires contained structured questions which were divided into sections A and B.

* 1. **Validation of the research instrument**

The questionnaire used as the research instrument was subjected to face its validation. This research instrument (questionnaire) adopted was adequately checked and validated by the supervisor his contributions and corrections were included into the final draft of the research instrument used.

* 1. **Method of data analysis**

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis was laid on the use of absolute numbers frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of workers response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion. The simple percentage method is believed to be straight forward easy to interpret and understand method.

The researcher therefore chooses the simple percentage as the method to use.

The formula for percentage is shown as.

% = f/N x 100/1

Where f = frequency of respondents response

N = Total Number of response of the sample

100 = Consistency in the percentage of respondents for each item

Contained in questions

**CHAPTER FOUR**

**PRESENTATION ANALYSIS INTERPRETATION OF DATA**

**4.1 Introduction**

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

**DATA ANALYSIS**

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding.

A total of 133(one hundred and thirty three) questionnaires were distributed and 133 questionnaires were returned.

Question 1

Gender distribution of the respondents.

TABLE I

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Gender distribution of the respondents** | | | | | |
| Response | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 77 | 57.9 | 57.9 | 57.9 |
| Female | 56 | 42.1 | 42.1 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

From the above table it shows that 57.9% of the respondents were male while 42.1% of the respondents were female.

Question 2

The positions held by respondents

TABLE II

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **The positions held by respondents** | | | | | |
| Response | | Frequency | Percent | Valid Percent | Cumulative Percent |
| **Valid** | Managers | 37 | 27.8 | 27.8 | 27.8 |
| Junior staffs | 50 | 37.6 | 37.6 | 65.4 |
| Senior staff | 23 | 17.3 | 17.3 | 82.7 |
| Accountants | 23 | 17.3 | 17.3 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

The above tables shown that 37 respondents which represents27.8% of the respondents are managers, 50 respondents which represents 37.6 % are junior staff, 23 respondents which represents 17.3% of the respondents are senior staff, while 23 respondents which represent 17.3% of the respondents are accountants.

**TEST OF HYPOTHESES**

There are no challenges facing tax policies in Nigeria

**Table III**

|  |  |  |  |
| --- | --- | --- | --- |
| **There are no challenges facing tax policies in Nigeria** | | | |
| Response | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.8 |
| strongly agreed | 50 | 33.3 | 16.8 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |  |
| --- | --- |
| **Test Statistics** | |
|  | There are no challenges facing tax policies in Nigeria |
| Chi-Square | 19.331a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. | |

Decision rule:

There researcher therefore reject the null hypothesis that state that there are no challenges facing tax policies in Nigeria as the calculated value of 19.331 is greater than the critical value of 7.82

Therefore the alternate hypothesis is accepted that state that there are challenges facing tax policies in Nigeria.

**TEST OF HYPOTHESIS TWO**

The challenges of tax policies in Nigeria have no influence on the growth of Nigeria economy

Table V

|  |  |  |  |
| --- | --- | --- | --- |
| **The challenges of tax policies in Nigeria have no influence on the growth of Nigeria economy** | | | |
| Response | Observed N | Expected N | Residual |
| Yes | 73 | 44.3 | 28.7 |
| No | 33 | 44.3 | -11.3 |
| Undecided | 27 | 44.3 | -17.3 |
| Total | 133 |  |  |

|  |  |
| --- | --- |
| **Test Statistics** | |
|  | The challenges of tax policies in Nigeria have no influence on the growth of Nigeria economy |
| Chi-Square | 28.211a |
| Df | 2 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 44.3. | |

Decision rule:

There researcher therefore reject the null hypothesis that state that the challenges of tax policies in Nigeria have no influence on the growth of Nigeria economy as the calculated value of 28.211 is greater than the critical value of 5.99

Therefore the alternate hypothesis is accepted that state that the challenges of tax policies in Nigeria have influence on the growth of Nigeria economy

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

It is important to ascertain that the objective of this study was to ascertain the impact of federal government tax policies on Nigerian economy.

In the preceding chapter, the relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations made which in the opinion of the researcher will be of benefits in addressing the challenges of tax policies on the growth of Nigerian economy.

* 1. **Summary**

This study has been carried out with the main objective of investigating into the relationship between tax policy (reforms) and economic growth in Nigeria. Using time-series data from 1990 to 2011, the study finds statistical evidence that long-run relationship exists between economic growth and tax components. To capture this effects, a Granger – causality co integrations test in performed with the results firmly supporting the hypothesis that improvement in tax bases are necessary conditions for enhance economic growth and development in Nigeria. To ensure an efficient tax system that guarantee sustained economic growth, there should be an improved tax regime that is capable of generating funds for the Government to provide basic social services. This can be achieved through transparency and accountability in governance and in the administration of tax reforms. Secondly, efforts should be made to address all complexities involving effective tax system such as multiplicity of tax payment by individuals and organizations. Thirdly, government should discourage tax holidays to multinational corporations (MNCs) in the name of attracting foreign direct investments (FDIs). Tax holidays are serious leakages out of an income stream of the country.

* 1. **Conclusion**

The role of taxation in developing a nation's economy has been described as irreplaceable. Some economic analyst suggested that taxation remains a strong socio-political and economic tool for economic growth and national prosperity. Though, the issue of tax leakages is a global concern which Nigerian situation cannot be exempted as a result of the scale of corruption practices in Nigeria. Taxation is one of the most reliable sources of income which contribute to economic development. From the findings, the study therefore concludes that tax revenues have significant impact on Nigerian economy growth for the period under review

* 1. **Recommendation**

Based on the findings, the following recommendations were suggested:

i. There is need for government to clearly state the basic objectives of its tax system and the relationship between these objectives. This will give the tax administrators a sense of direction and educate the tax payers on the reasons to pay tax as at when due.

ii. Strict penalties should be meted to people who avoid and evade tax payments in order to minimize the incidence of tax evasion and tax avoidance.

iii. Government should diversify the main revenue source from oil to other sectors of the economy such as agriculture, extractive industries in order to attract direct and indirect taxes.

iv. Government should organize intensive training for all tax officials so as to identify the loopholes in tax payment system and to carry out their job effectively.

v. Finally, government should ensure effective utilization of the income accrued taxation to encourage continuity in tax payment by the tax payers.

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**QUESTIONNAIRE**

**INSTRUCTION**

Please tick or fill in where necessary as the case may be.

Section A

1. Gender of respondent

A male { }

B female { }

1. Age distribution of respondents
2. 15-20 { }
3. 21-30 { }
4. 31-40 { }
5. 41-50 { }
6. 51 and above { }
7. Marital status of respondents?
8. married [ ]
9. single [ ]
10. divorce [ ]
11. Educational qualification off respondents
12. SSCE/OND { }
13. HND/BSC { }
14. PGD/MSC { }
15. PHD { }

Others……………………………….

1. How long have you been working in the federal inland revenue service?
2. 0-2 years { }
3. 3-5 years { }
4. 6-11 years { }
5. 11 years and above……….

**SECTION B**

1. Are they mechanism put in place by government to improve tax policies?
2. Agrees { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. Does tax policies influences revenue generation?

(a) Agrees { }

(b) Strongly agreed { }

(c) Disagreed { }

(d) Strongly disagreed { }

1. Is there any relationship between tax policies and economic growth?
2. Agreed { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. Are they consequences of multiple taxes?
7. Agreed { }
8. Strongly agreed { }
9. Disagreed { }
10. Strongly disagreed { }
11. Does federal government tax policies influences the growth of SMEs?
12. Agreed { }
13. Strongly agreed { }
14. Disagreed { }
15. Strongly disagreed { }
16. There are no challenges facing tax policies in Nigeria?
17. Agreed { }
18. Strongly agreed { }
19. Disagreed { }
20. Strongly disagreed { }
21. There are challenges facing tax policies in Nigeria?
22. Agreed { }
23. Strongly agreed { }
24. Disagreed { }
25. Strongly disagreed { }
26. The challenges of tax policies in Nigeria have no influence on the growth of Nigeria economy?
27. Agreed { }
28. Strongly agreed { }
29. Disagreed { }
30. Strongly disagreed { }
31. The challenges of tax policies in Nigeria have influence on the growth of Nigeria economy?
32. Agreed { }
33. Strongly agreed { }
34. Disagreed { }
35. Strongly disagreed { }