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COMPANY INCOME TAX AND ECONOMIC GROWTH IN NIGERIA

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Abstract

Company income tax is an indispensable tool that can be utilized to boost the development of Nigeria's economy. Hence, the need to explore the relationship between company income tax and economic growth in Nigeria. This study adopted the exploratory and ex-post facto design. The exploratory design is used to gather relevant materials from text books, journal articles and so on while the ex-post facto design is adopted on the basis that it does not provide the study an opportunity to control the variables mainly because they have already occurred and cannot be manipulated. The data for this study were obtained mainly from secondary sources. In order to investigate the relationship between company income tax on economic growth (gross domestic products) in Nigeria, information from National Bureau of Statistics concerning Company Income Tax (CIT) and Gross Domestic Product (GDP) covering the period of years 2000-2022 (23years) were used. The study showed that company income tax has a positive relationship with economic growth and development; thus, the impact is substantial. The study concluded that company income tax significantly affect economic growth in Nigeria. The investigator suggested that Policymakers should strengthen tax administration and compliance mechanisms to maximize revenue generation from company income tax, thereby bolstering economic growth. Government should also prioritize initiatives aimed at promoting investment and fostering a conducive business environment, including simplifying regulatory procedures and enhancing infrastructure development.

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1. INTRODUCTION

Company income tax and its relationship with economic growth are vital components of fiscal policy in any economy, including Nigeria. As a developing nation with a diverse economic landscape, Nigeria relies heavily on tax revenues to fund public expenditures, drive infrastructure development, and foster economic growth. Among various forms of taxation, company income tax stands out as a significant source of revenue for the Nigerian government (Adebisi & Ibrahim, 2020). Understanding the dynamics between company income tax and economic growth is crucial for policymakers, economists, and

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stakeholders to formulate effective strategies for sustainable development. This introduction provides an overview of the current state of research on this topic and highlights the gaps that the present study aims to address.

Nigeria's economy has experienced fluctuations in growth rates over the years, influenced by internal and external factors such as oil prices, political instability, and global economic trends (Ogwuche et al., 2019). Amidst these challenges, taxation policies play a pivotal role in shaping economic outcomes. Jimoh et al. (2020), opined that company income tax, levied on the profits of businesses operating in Nigeria, contributes significantly to government revenue. However, the impact of this tax on economic growth remains a subject of debate among scholars and policymakers. Previous studies have yielded mixed findings, with some suggesting a positive relationship between company income tax revenue and economic growth, while others argue for a negative or insignificant correlation. This background underscores the need for further exploration and analysis to elucidate the relationship between company income tax and economic growth in Nigeria.

A review of existing literature reveals several studies that have investigated the relationship between taxation, particularly company income tax, and economic growth in Nigeria. Osho et al. (2018) found a positive and significant effect of company income tax revenue on gross domestic product (GDP), emphasizing its role in fostering economic activity. Conversely, Olaoye et al. (2019) reported a negative relationship between company income tax and economic development, advocating for alternative tax policies to promote growth. These contrasting findings highlight the complexity of the issue and underscore the need for further research to reconcile these divergent perspectives. While some studies focus solely on company income tax, others examine broader aspects of taxation and its implications for economic development.

Despite the wealth of research on taxation and economic growth in Nigeria, several gaps remain in the literature. Firstly, there is inconsistency in findings regarding the relationship between company income tax and economic growth, necessitating a more comprehensive and nuanced analysis. Secondly, previous studies often overlook the combined impact of various taxes on economic outcomes, focusing primarily on individual tax types. Additionally, variations in methodologies and data sources contribute to the heterogeneity of findings, warranting a rigorous and systematic investigation. The present study aims to address these gaps by adopting an exploratory and ex-post facto design, utilizing secondary data from reputable sources such as the National Bureau of Statistics. By examining the impact of company income tax specifically on GDP over a period of 23 years, this study seeks to provide a comprehensive understanding of the relationship between taxation and economic growth in Nigeria. The findings of this study have significant implications for policymakers, tax authorities, and stakeholders involved in economic planning and development in Nigeria. By elucidating the relationship between company income tax and economic growth, this research contributes to informed decision-making and policy formulation aimed at promoting sustainable development. Moreover, the insights gained from this study can inform tax reforms and revenue mobilization strategies to enhance fiscal sustainability and economic resilience in Nigeria. Overall, this study fills an important gap in the literature and provides valuable insights that can guide efforts to harness the potential of taxation for fostering inclusive and equitable growth in Nigeria.

2. LITERATURE REVIEW

2.1. Conceptual review

2.1.1. Company income tax (CIT)

In Nigeria, businesses are required by law to pay company income tax based on their profits. The fee is 30% of the profit made in the year prior to the assessment (Ordu & Omesi, 2022). Corporations based in Nigeria are subject to CIT on all of their worldwide income, while non-resident companies are only subject to CIT on their income with a Nigerian source (Olaoye & Atilola, 2018). The Companies

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Income Tax Act of 1990, which excludes companies involved in petroleum exploration, is the current enabling law that controls the revenue collection on income earned by businesses operating in Nigeria.

2.1.2. Gross Domestic Product (GDP)

Khadijat and Taophic (2018), defines growth as a rise in the economy's activity. They also defined economic growth as the process by which a nation's actual per capita income rises steadily over time. It can also be viewed more simply as the expansion over time of an economy's capacity to generate the commodities and services required to raise the standard of living of its citizens, both in terms of quantity and variety. It is the gradual process by which the economy's productive capacity is developed through time to result in an increase in the level of national income (Odukwu et al., 2022). Increased productivity, which entails creating more goods and services with the same input of labor, capital, energy, and materials, is the main driver of economic growth. Economists make a contrast between long-term economic growth and short-term economic stabilization, though. The long term is what economic growth is most concerned with. The business cycle refers to the change in economic growth over the short period. Economic growth is the long-term increase in capital necessary to meet the population's demand for increasingly diverse economic commodities.

2.2. Theoretical Review

2.2.1. Ability to Pay Theory

Taxation is also based on the basic premise that everyone in society should bear the burden of taxation in a fair and equitable manner (Ayeni et al., 2017). The theory was advocated by Adam Smith who is referred to as the Father of Economics, it is widely accepted as it is on the basis of the real meaning of "ability" of tax payer due to this many economies in the world believe that income is the best measurement of one's ability to pay (Peter & Adesina, 2015).

2.2.2. Benefit Received Theory

This theory establishes that government and tax payers have an exchange relationship in which the state supplies public goods and services and any other benefit to individuals in the society and these individuals in return pay for all goods and services supplied in proportion to the benefit received (Ayeni et al., 2017, Amadi & Alolote, 2019). According to them, such benefits include: infrastructure, regularized labour, and capital markets, among other things.

2.3. Empirical Review

Osho et al (2018) and Egiyi (2021) conducted studies on the impact of company income tax on Nigeria's gross domestic products. They found that tax revenue positively affects GDP and contributes to government funds for large-scale projects. They recommended supporting companies by providing basic public amenities to boost tax compliance.

Egiyi (2021) found a long-run relationship between company income tax and economic development, with a short-run dynamic model suggesting a negative relationship. Both studies suggest that tax authorities should strengthen compliance to ensure proper redistribution of income within the economy.

Odukwu et al. (2022) conducted a study on the impact of tax reforms on Nigeria's economic growth. They used secondary data from the Central Bank of Nigeria, Federal Inland Revenue Services Bulletins, and the World Bank. The study found that VAT, CIT, and PPT significantly impacted Nigeria's Gross Domestic Product (RGDP). The researchers recommended policymakers prioritize economic growth and improved tax administration systems to boost productivity.

Olaoye et al (2019) conducted a study on Nigeria's taxation and economic development from 2003 to 2017. They found that company income tax negatively impacts economic development, while value-added tax has a positive long-term impact. The study suggests that the government should focus on value-added tax.

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Nwanakwere (2019), investigated the relationship between tax and economic growth using the Auto-Regressive Distributed Lag (ARDL) bound test approach. They decomposed tax into company income tax (CIT), petroleum profit tax (PPT), value-added tax (VAT), and excise and customs duties (ECD) and found that company income tax has a negative relationship with economic growth. They recommended the viable and proficient utilization of tax regulation to moderate the issue of tax avoidance among firms and corporate entities, and improve the contribution of company income tax to economic growth.

Adebisi and Ibrahim (2020), explored taxation mechanisms and economic growth in Nigeria, their result found that company income tax, value-added tax, and Personal Income Tax are significantly and positively affect the economic growth in Nigeria. The Nigerian government embraced different tax law reforms to improve tax administration and to increase the tax yield. So also the Company income tax (amendment) act 2007; the federal inland revenue services (establishment) act, 2007 and the personal income tax (amendment) act, 2011, were all aimed at empowering tax compliance and expanding tax yield.

Okwara and Amori (2017), examined the impact of tax revenue on the economic growth in Nigeria for the period of 1994-2015. Secondary data were used and sourced from journals, textbooks and Central Bank of Nigeria (CBN) statistical bulletin. To avoid spurious results, Ordinary Least Square (OLS) with the aids of Statistical Package for Social Sciences (SPSS) was used to test the significant impact of value added tax and non-oil income on Gross Domestic Product (GDP). The results revealed that non-oil income has significant impact on gross domestic product while value added tax has negative relationship and statistically insignificant for the period under review. The study concludes that tax revenue have significant impact on Nigerian economy growth. The paper therefore recommends that government should diversify the main revenue source from crude oil to other sectors of the economy such as agriculture, extractive industries in order to attract direct and indirect taxes.

Eze and Onyedikachi (2020) studied the relationship between tax revenue and economic growth in Nigeria from 2008 to 2019. The data was sourced from the Central Bank of Nigeria Bulletin and the Federal Inland Revenue Service Website. The results showed a significant positive relationship between tax revenues and economic growth, except for Value Added Tax. The study recommends the government increase the tax base, provide infrastructure for businesses, and ensure accountability and transparency to prevent revenue diversification to corrupt officials.

2.4. Gap in Literature

The present study contributes to the existing literature by addressing several gaps in previous research. While prior studies have examined the relationship between company income tax and economic growth in Nigeria, there is inconsistency in their findings, with some studies indicating a positive relationship, while others suggest a negative or insignificant relationship. Additionally, previous research has mainly focused on specific aspects of taxation, such as company income tax or value-added tax, without considering their combined impact comprehensively. Furthermore, the methodologies employed in previous studies vary, with some using regression analysis and others employing time series analysis techniques. The present study fills these gaps by adopting a comprehensive approach, considering the impact of company income tax specifically on gross domestic product (GDP) over a longer period (2000-2022), utilizing secondary data from reliable sources such as the National Bureau of Statistics. By employing both exploratory and ex-post facto designs, this study provides a broader understanding of the relationship between company income tax and economic growth in Nigeria, offering insights that can inform policy decisions and tax reforms aimed at fostering sustainable economic development.

3. METHODOLOGY

This study adopted the exploratory and ex-post facto design. The exploratory design is used to gather relevant materials from text books, journal articles and so on while the ex-post facto design is adopted

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on the basis that it does not provide the study an opportunity to control the variables mainly because they have already occurred and cannot be manipulated. The data for this study were obtained mainly from secondary sources. In order to examine the impact of company income tax on economic growth (gross domestic products) in Nigeria, information from National Bureau of Statistics concerning Company Income Tax (CIT) and Gross Domestic Product (GDP) covering the period of years 2000-2022 (23years) is used. Increased company income tax is expected to have a direct effect on the gross domestic product; hence the model specification becomes:

RGDP= f (CIT)………………………………… (1)

Its econometric expression becomes

RGDP t = β0 + β1CITt + et ………………………………… (2)

Where;

RGDP = Real Gross Domestic Product (Proxy for economic growth)

CIT = Company Income Tax

β0 = Constant

β1, = Coefficients attached to explanatory variables

t = Time Period

e = Stochastic Error Term

4. DATA ANALYSIS AND DISCUSSION

4.1. Data Analysis

The descriptive statistics presented in table one below comprises the variables, mean, minimum, maximum, standard deviation and the number of observations. It shows the result of the data used to estimate the relationship between the predictor variables and real gross domestic product in Nigeria from 2000 to 2022.

Table 4.1 Descriptive statistics on the items of company income tax and economic growth of Nigeria.

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
CIT	23	.32	3.25	2.5804	.70853
RGDP	23	2.72	9.06	6.3778	1.69090
Valid N (listwise)	23				

Source: SPSS output.

From table 4.1 above, it can be observed that between 2000 and 2022, company income tax, realized an average of N 2.5804 billion. On the comparative, RGDP (Real Gross Domestic Product) realized an average of N 6.3778 billion within the study period, and the maximum RGDP is N 2.72. A comparative assessment between the mean and the maximum values of the dependent and independent variables of the study shows a significant difference; the maximum values are greater than the mean values. This indicates that real gross domestic product, and company income tax are averagely low in Nigeria between the study periods. However, the real gross domestic product can be taken to be substantial on the average, an indication that the economy has been on the growth path over the period, but the predictor variables cannot be said to have been undergoing growth given their extreme low values.

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Table 4.2 Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions	
				(Constant)	CIT
1	1	1.966	1.000	.02	.02
	2	.034	7.579	.98	.98

a. Dependent Variable: RGDP

The study investigated the relationship between company income tax and economic growth of Nigeria. The objective of this test was to calculate if the model and the assumptions we made about the results are consistent with the recorded data. The result of the Collinearity Diagnostics shows that there are no Collinarity problem.

Table 4.3 Correlation table on the extent of relationship between company income tax and economic growth of Nigeria.

Correlations			
		CIT	RGDP
CIT	Pearson Correlation	1	.635**
	Sig. (2-tailed)		.001
	N	23	23
RGDP	Pearson Correlation	.635**	1
	Sig. (2-tailed)	.001	
	N	23	23

**. Correlation is significant at the 0.01 level (2-tailed).

Table 4.3 indicated that there is relationship between company income tax and economic growth of Nigeria. The relationship between the variables is strong and positively related. The level of significance is computed at 0.001 which indicates that the results were not obtained by chance. The threshold for significance stands at 0.05 above which a relationship would be deemed insignificant. The Pearson Correlation coefficient was computed at 0.635 which interpreted as a fairly strong relationship. The significance level and the Pearson R coefficient lead us to interpretation of a significant strong positive relationship.

Decision Rule: In the light of these finding, the main null hypothesis is hereby rejected since there is ample evidence of a relationship or association between company income tax and economic growth of Nigeria.

RGDP= f (CIT)………………………………… (1)

Table 4.4 Estimation of company income tax on economic growth (RGDP) of Nigeria

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.635[a]	.403	.374	1.33753

a. Predictors: (Constant), CIT

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	25.333	1	25.333	14.160	.001[b]
	Residual	37.569	22	1.789		
	Total	62.901	23			

a. Dependent Variable: RGDP
b. Predictors: (Constant), CIT

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According to the data in table 4.4 above, it can be seen that there is a significant and positive correlation between company income tax and economic growth of Nigeria (R-value = 0.635 and p-value = 0.001 > 0.05 level of significance). The coefficient of determination (R2) = 0.403 indicates that the changes in the predictor variables (CIT) account for 40.3% of the variation in criterion variable (RGDP), leaving other variables not included in the model to account for the remaining 59.7%.

Decision Rule: Accept Ho if P > 0.05. Otherwise reject Decision: The researcher concluded that there is a positive significant relationship between company income tax and economic growth of Nigeria.

4.2. Discussion of Findings

According to the data in table 4.3 & 4.4 above, it can be seen that there is a significant and positive correlation between company income tax and economic growth of Nigeria (R-value = 0.635 and p-value = 0.001 > 0.05 level of significance). The coefficient of determination (R2) = 0.403 indicates that the changes in the predictor variables (CIT) account for 40.3% of the variation in criterion variable (RGDP), leaving other variables not included in the model to account for the remaining 59.7%. The researcher concluded that there is a positive significant relationship between company income tax and economic growth of Nigeria. The results above is in agreement with Egiyi (2021), Adebisi and Ibrahim (2020), and Osho et al (2018), who investigated empirically the impact of company income tax on gross domestic products in Nigeria, using secondary data obtained from relevant literatures, Central Bank of Nigeria Statistical Bulletin and National Bureau of Statistics publications. Findings revealed that company income tax revenue has a positive and significant effect on gross domestic products in Nigeria. Their study concluded that company income tax revenue plays a crucial role in the economy activity and making funds available in the government purse that can be used to adequately execute massive projects to the benefit of the citizens of the country. They recommended that Government should endeavour to support companies by providing basic public amenities to all nooks and crannies of the country as this will boost the level of tax compliance in Nigeria. However, the study disagreed with Nwanakwere (2019), Okwara and Amori (2017), Eze and Onyedikachi (2020), and Olaoye et al (2019), who studied taxation and economic development of Nigeria from 2003 to 2017 with the Vector Error Correction Model (VECM) methodology, Augmented Dickey-Fuller (ADF) unit root test, Autoregressive Distributed Lag (ARDL) bounds test, Jarque-Bera Normality Test and Eigenvalue stability condition. The findings of their study revealed that company income tax has a negative significant relationship with economic development while the value-added tax has a positive significant long-run impact on the economic development of Nigeria. Their study further suggested that the government ought to not increase the company income tax rate since it is detrimental to the economic development of the nation, in the long run, instead the government ought to increase the value-added tax since it can lead to the economic development of Nigeria.

5. CONCLUSIONS AND RECOMMENDATIONS

Nigeria is part of the global community and should mirror policies that have benefited other nations of the world. Company income tax is an indispensable tool that can be utilized to boost the development of Nigeria's economy. The study examined the relationship between company income tax and economic growth (gross domestic growth) using annual time series data spanning 2000 through 2022. The empirical results offer evidence that taxation is an instrument of economic development in Nigeria. However, the present study indicated that company income tax has a positive relationship with economic growth and development; thus, the impact is substantial. This conclusion points to the need to reduce the level of tax evasion in Nigeria by the means of an efficient and effective tax administration to ensure that citizens do not dodge and avoid tax so that income can be properly redistributed within the economy. From these findings, we made the following recommendations:

1. Policymakers should strengthen tax administration and compliance mechanisms to maximize revenue generation from company income tax, thereby bolstering economic growth.

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2. Government should prioritize initiatives aimed at promoting investment and fostering a conducive business environment, including simplifying regulatory procedures and enhancing infrastructure development.
3. Government should explore opportunities to diversify revenue sources beyond oil revenue by tapping into non-traditional sectors such as agriculture, manufacturing, and services, to build a more resilient and diversified economy.

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