

## **TAX REVENUE AND ECONOMIC GROWTH IN NIGERIA: EVIDENCE FROM COMPANY INCOME TAX, VALUE ADDED TAX AND TERTIARY EDUCATION TAX**

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### **Abstract**

The study focuses on the effect of tax revenue on Nigeria's economic growth period from 2010 to 2022, which has not gained attention in previous studies. In this study, three major taxes, namely company income tax (CIT), value added tax (VAT), and tertiary education tax (TET) are identified, with gross domestic product (GDP) as the measure of growth. Fully modified ordinary least squares (FMOLS) is used to perform the analysis of the long-term relationship between these variables. The results indicate that there is a positive relationship between CIT and economic growth (coefficient: 0.4412; p-value: 0.0008), which means that CIT increases fiscal capacity and expenditure. Value-added tax, on the other hand, had a negative impact on growth (coefficient: -0.5064, p-value: 0.0315), perhaps because of a decrease in consumption. The log of the exchange rate, which is significant at the 5% level, highlights the importance of the external sector on Nigeria's growth. The TET had a positive but insignificant effect (coefficient 0.1373, p-value 0.2154) on economic growth. The study concludes that the taxation–growth nexus is different depending on the tax type and the macroeconomic factors. In addition, the Nigerian economy could not generate enough revenue to support economic growth under the previous tax policy.

*Keywords:* tax revenue, macroeconomic variables, economic growth, Nigeria

### **1. Introduction**

Taxation plays a crucial role in resource mobilisation and sustainable development, affecting revenue, capital, resource allocation, productivity, human capital, and institutional quality for long-term growth (Nguyen et al., 2022; Organisation for Economic Co-operation and Development [OECD], 2024). The global fiscal challenges, including rising debt, pressures from the post-pandemic period and losses in resource revenues, underscore the importance of efficient tax systems for fiscal sustainability and inclusive growth (International Monetary Fund [IMF], 2023; African Tax Administration Forum [ATAF], 2023; World Bank, 2023). The taxation–growth link is especially crucial in developing economies for financing development goals.

The study of the taxation-growth relationship is of great interest in Nigeria. It is highly dependent on oil revenue, which puts limits on domestic revenue generation and makes the budget vulnerable to oil price fluctuations (Odusola, 2006; IMF, 2023). Although it has undergone reforms, it has one of the lowest tax-to-GDP ratios, which restricts investment in infrastructure, human capital, and social programmes (World Bank, 2023; OECD, 2024). Poor tax collection, size of the informal sector, and compliance problems are among the key obstacles to fiscal sustainability and inclusive growth (IMF, 2023; ATAF, 2023; ADB, 2024).



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Over the years, the tax system in Nigeria has undergone changes to increase revenue and lessen reliance on oil. Reforms since independence have been directed towards the enhancement of the tax administration, broadening the tax base, improving compliance, and addressing tax evasion (Adegbe & Fakile, 2011; Odusola, 2006). The recent efforts have modernised through digitalisation, improved agency coordination, and strengthened institutions like the Federal Inland Revenue Service (FIRS) and Joint Tax Board (JTB) (IMF, 2023; FIRS, 2022). These reforms highlight the importance of non-oil taxes to fiscal sustainability and underscore the need for a diversified and efficient non-oil tax system to finance development, stability and growth (World Bank, 2023; ATAF, 2023).

The non-oil tax components of Nigeria include company income tax, value added tax, and tertiary education tax, with each affecting the economic performance in varying ways. The impacts of CIT are on profitability, investment, and capital; VAT is on consumption and revenue, particularly after the rate was raised from 5% to 7.5% in 2020 (FIRS, 2022; IMF, 2023); and TET is on higher education, through TETFund, which can enhance growth by improving human capital, labour productivity and innovation (Barro, 1990; Romer, 1990; World Bank, 2023).

The link between taxation and economic growth is key in public finance and development economics. According to endogenous growth theory, fiscal policy impacts long-term growth through financial capital, innovation, human capital, and productivity (Barro, 1990; Romer, 1990). Distortionary taxes can stunt growth because they discourage investment, but well-designed taxes can promote growth by providing funding for public goods such as infrastructure, education, health care, and institutions. The growth effects of revenue levels, tax structure, administration, governance, and resource allocation are considered (Arnold et al., 2011; Gemmell et al., 2011; IMF, 2023; OECD, 2024). Tax tools affect growth in different ways and need a detailed analysis of the tax components.

The literature on the taxation-growth nexus is mixed, with recent research yielding mixed results by country, tax type, and institutions (Nguyen et al., 2022; OECD, 2024). Across countries, it is found that consumption taxes are less distortionary and more growth-friendly than income taxes, but that depends on governance, tax administration, and economic structure (Arnold et al., 2011; Nguyen et al., 2022). The improvement of tax administration is not sufficient for growth, ATAF (2023) notes, without strengthening public expenditure, institutions and fiscal reform in Africa.

The results highlight the importance of country-specific analysis of the growth impact of taxation. The results from studies are diverse, with some indicating positive impacts of CIT and VAT, and others reporting weak, insignificant, or negative effects (Agunbiade & Idebi, 2020; Eneche & Stephen, 2021; Osamor et al., 2023). These differ because of structural constraints like tax evasion, lack of efficiency, macroeconomic instability, institutional weaknesses, and a large informal sector. Recent studies highlight the importance of institutional quality and governance in translating tax revenues into growth (Nwude et al., 2023). In general, there may be a masking effect on differences in the growth impacts of individual taxes in aggregate tax revenue.

Though there has been an increase in studies on taxation-growth in Nigeria, there are three major gaps in the literature. First, most studies are based on aggregate tax revenue and ignore the fact that different taxes have different effects on growth, which in turn have different impacts on investment, consumption and productivity (Gemmell et al., 2011; OECD, 2024). Second, and more significantly, there has been little empirical work that has isolated the TET, despite its increasing fiscal significance

and importance for human capital. Third, a large portion of the evidence is based on pre-reform tax structures, which provide a limited understanding of baseline relationships and recent reforms.

The fiscal reforms in Nigeria are designed to increase revenue through expansion of the tax base, increase compliance, digitalisation of the administration, and less reliance on oil. The 2026 reforms signify a major policy shift. This study revisits the taxation-growth concept, which examines the impact of tax revenue on Nigeria's economic growth between 2010 and 2022, filling the gap in the previous studies by analysing the impact of disaggregated tax revenue, namely company income tax, value added tax and tertiary education tax, on Nigeria's economic growth between 2010 and 2022. The research provides a pre-reform reference point for the tax reforms implemented in Nigeria and has implications for resource mobilisation, fiscal sustainability and long-term economic growth.

## **2. Literature Review**

### **Conceptual Background**

Taxation plays an essential role in the mobilization of resources, financing of public expenditure, and influencing economic development. This section separates out direct and indirect taxes that have different effects on economic activity.

#### **Company Income Tax**

Direct taxes include company income taxes, which are taxes on a country's incorporated businesses' profits (Fuest & Neumeier, 2023; Jacob, 2022; OECD, 2022). It is a direct tax that is paid by companies based on their profits after deductions, unlike indirect taxes, which are passed on to the consumers, and it is a significant source of tax revenue, as well as important for companies' investment and financing decisions (Fuest & Neumeier, 2023; Jacob, 2022; OECD, 2022; FIRS, 2023). It is based on the principles of benefit and ability to pay, so that profitable companies pay their fair share to public revenue, which is used to provide services for businesses.

Company income tax plays a pivotal role in Nigeria, serving as a crucial non-oil revenue source and mitigating reliance on fluctuating oil prices, thereby contributing to tax equity (OECD, 2023; FIRS, 2023; Otekunrin et al., 2022). It has a significant impact on corporate decisions regarding investment, financing, dividend policies, and tax planning, from an economic perspective (Jacob, 2022; Fuest & Neumeier, 2023). A higher tax rate could also reduce investment by reducing firms' after-tax profits, and a more competitive tax system can spur growth and attract foreign investment (Fuest & Neumeier, 2023; Beer et al., 2021). The impact of CIT, however, relies on tax administration, tax compliance and enforcement, and the tax base, which determines government revenue and influences the impact of CIT (Beer et al., 2021; Devereux et al., 2023). So, today's tax policies are designed to reconcile revenues with sustainable economic growth (Fuest & Neumeier, 2023).

#### **Value Added Tax**

Value-added tax is an indirect tax on the value addition at every stage of the production and distribution of goods and services (OECD, 2022; Keen & Lockwood, 2021). The registered businesses are responsible for collecting the VAT; they can receive input tax credits, and then they are responsible for shifting the final tax burden onto the consumer (OECD, 2022). The VAT differs from turnover taxes in that it does not have the cascading effect of the previous tax, it is more neutral in its effect, and VAT is taxation of consumption, not income (Keen & Lockwood, 2021; de la Feria & Krever, 2021).



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VAT is a necessity for domestic revenue, due to its efficiency, neutrality, and revenue-generating potential (OECD, 2022; de la Feria & Krever, 2021). Because it is a tax on consumption rather than income, VAT also carries some benefits in terms of its less distortive nature, its greater stability and neutrality towards growth compared to income taxes (Arnold et al., 2011; Gemmell et al., 2011; OECD, 2024). In the meantime, household consumption is more stable than corporate profits, and VAT is a more reliable revenue stream (OECD, 2022).

In developing countries such as Nigeria, the proportion of non-oil tax revenue that comes from VAT is growing quickly, as the tax is broad-based, self-enforcing, and has been implemented to deter tax evasion (OECD, 2022; IMF, 2023). VAT is, however, a regressive tax since it is paid as a smaller proportion of income for those with lower incomes. This is frequently tackled by exemptions, zero rating of essentials, or fiscal transfers (de la Feria & Krever, 2021; OECD, 2022). The introduction of VAT in Nigeria will help diversify revenue sources from oil and promote fiscal sustainability (FIRS, 2023; OECD, 2022).

### **Tertiary Education Tax**

Earmarked taxes refer to targeted corporate taxes levied on the profits of eligible companies within Nigeria; the proceeds of which are dedicated to tertiary education infrastructure, research, staff development, and capacity building (FIRS, 2023; Tertiary Education Trust Fund Act, 2011). The TET is allocated exclusively to education and development to fund the Tertiary Education Trust Fund for the enhancement of the quality and capacity of tertiary education; unlike typical corporate income taxes, these taxes are levied and spent only for the purpose of educational development (Tertiary Education Trust Fund, 2024; FIRS, 2023). It is a good example of earmarked taxation, which is the process of allocating revenues to specific public projects to enhance transparency, accountability and public trust (Bird & Zolt, 2021; Tertiary Education Trust Fund, 2024).

The TET plays a crucial role in addressing the inadequate funding of tertiary institutions, with its role in funding infrastructure, staff training, research and innovation (FIRS, 2023; Tertiary Education Trust Fund, 2024). TET funds a long-term funding source for higher education that is sustainable and predictable and which goes beyond government budgets by earmarking tax revenue for tertiary education (Tertiary Education Trust Fund, 2024).

In addition to revenue mobilisation, investments in TET also contribute to economic development through the enhancement of human capital, research, innovation and labour productivity, which are important factors in sustainable growth (Hanushek & Woessmann, 2020; Tertiary Education Trust Fund, 2024). Efficient tax administration, corporate compliance, careful allocation of the intervention funds, and thorough monitoring of funded projects to ensure that educational investments yield measurable development outcomes are key to the effectiveness of TET (FIRS, 2023; Tertiary Education Trust Fund, 2024). TET is a financial instrument for revenue mobilization and a strategic instrument to improve human capital and the long-term productivity of Nigeria's economy.

### **Economic Growth**

Economic growth is the long-term growth of the productive capacity of the economy, in terms of the total value of goods and services produced, typically expressed as real GDP or as per capita economic growth. It encompasses not only output growth but also improvements in productivity, innovation, capital, human

capital, and institutions, which boost long-term income and living standards (Jones, 2022; Doré & Teixeira, 2023).

The contemporary literature on growth sees growth as a dynamic process that is not just physical capital, but also knowledge creation and innovation, R&D, resource allocation, and macroeconomic institutions (Jones, 2022). Endogenous and semi-endogenous growth theories highlight the importance of technological progress, human capital, and the spread of new ideas that increase the productivity of economic sectors for long-term growth.

Current literature on fiscal policy suggests that the effect of taxes on economic growth is linked to institutional aspects of the tax system such as tax administration, tax compliance, governance and spending efficiency (IMF, 2023; OECD, 2024). But the dependence on oil revenue, the limited tax base, and administrative difficulties mean that tax policy is crucial in Nigeria. The instruments that impact growth (CIT, VAT, TET) have an impact on investment, consumption, and human capital. The disaggregated approach reflects the contribution of each tax type.

### **Theoretical Review**

#### **Endogenous Growth Theory**

The tax-growth link is based on endogenous growth theory, which suggests that long-term growth is driven by capital, technology, and human capital, and is influenced by fiscal policies (Barro, 1990; Romer, 1990). The impact of taxes on growth is dependent on tax incentives, on the efficiency of resource use, and on the efficiency of public spending, and these impacts vary depending on institutional quality, tax structure, and the efficiency of public spending, particularly in developing countries with administrative challenges (IMF, 2023; OECD, 2024; World Bank, 2023). Effective tax systems boost growth via fiscal capacity and investment, while weak systems hinder it (ADB, 2024; ATAF, 2023).

Distortionary taxes on income and corporate profits affect the returns, investment growth, incentives, and growth potential for capital accumulation and limit long-term growth in the economy, as shown in endogenous growth models (Barro, 1990; Romer, 1990). This is particularly the case for CIT, impacting profits and investment. Recent studies indicate that taxes can be beneficial, provided that the tax revenues are allocated to productive public investment in education and infrastructure, particularly in developing countries with low institutional quality (IMF, 2023; World Bank, 2023; OECD, 2024; ADB, 2024). So, if the tax revenues are used for public capital, then taxation can increase the rate of long-term growth.

Unlike other taxes, the impact of VAT is more on consumption than on savings or investment. It provides a steady income, wide coverage and limited impact on growth with good management (Arnold et al., 2011; Gemmell et al., 2011; OECD, 2024). Recently, there has been evidence that the growth impact of VAT is contingent on its administration, compliance, and revenue utilization, particularly in developing countries where there are institutional constraints (IMF, 2023; World Bank, 2023; ADB, 2024).

VAT is not in itself growth-promoting but is neutral and efficient, thereby encouraging growth under good governance. From the endogenous growth theory perspective, the TET is used for enhancing human capital, productivity, and innovation, which facilitates long-term growth (Barro, 1990; Romer, 1990). TET's enhancement of human capital and economic capacity is directly managed by TETFund. The growth impact will be influenced by governance, system capacity, and the efficiency of funds,



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particularly in developing economies with constraints (World Bank, 2023; IMF, 2023; ADB, 2024). With proper management, TET can provide for long-term growth.

In addition to the endogenous growth theory, fiscal policy transmission claims tax effect on growth is moderated by institutional characteristics like tax administration, governance, compliance and public expenditure. But tax itself does not guarantee growth, weak institutions, corruption and lack of good economic management can hinder the results. Effective governance, effective revenue systems and disciplined spending are essential for using tax revenue effectively to drive sustainable growth in developing countries with fiscal constraints (IMF, 2023; OECD, 2024; World Bank, 2023; ADB, 2024).

The literature demonstrates that the relation between taxation and growth is not linear and depends on tax type, channels and institutions, and that taxation effects on CIT, VAT, and TET have differing forms depending on tax mechanisms that impact investment, consumption, and human capital. They are based on institutional quality, tax administration, and public expenditure efficiency (IMF, 2023; OECD, 2024; World Bank, 2023). The differences in tax structures and governance imply that using aggregate measures may not reveal the heterogeneity, and analysis at disaggregated level is necessary for Nigeria.

### **Review of Empirical Literature**

Empirical literature on the tax-growth link is quite large but mixed; findings vary between countries, tax systems, administrations, and institutions. Some recent studies emphasise that the impact of taxes and tax policies on growth is complex and depends on the type of tax, particularly in developing countries where institutional capacity, informality and enforcement can affect fiscal outcomes, according to the IMF (2023), OECD (2024), and ATAF (2023).

Some studies find that companies' income taxes have a modest impact on growth, whereas others do not. According to Nguyen et al. (2021), the greater the income tax benefit, the more revenues are available for public services like infrastructure, education, and healthcare. In Nigeria, Adebayo and Ojo (2023) revealed that there was a positive correlation, with improved tax administration leading to higher revenues and growth. However, Hossain et al. (2022) contend that higher corporate taxes could lead to lower investment and growth rates, particularly in countries with poor institutions. Alade and Salisu (2023) opined that excessive taxes can increase costs, decrease profits, and prevent investment. The results of these studies indicate that the effects of corporate income taxes on growth are dependent upon tax administration, revenue use, tax rates, and the general economic and institutional environment.

There is a clear connection between investing in education and the productivity of human capital. Education improves skills and economic growth (Lucas, 1988), and education relates to innovation and technological change (Romer, 1990). This is supported by empirical evidence, which shows that an increase in education expenditure results in an increase in skills and employability in Nigeria (Okafor and Eze, 2022), while the World Bank (2023) shows that investment in quality education improves workforce skills and productivity.

Others, however, have cautioned that while adequate funding is essential, other challenges may include mismanagement, inadequate infrastructure, weak governance, and outdated curriculum (Adegboye et al, 2021; Chukwu et al, 2024). Resource use is important, as Ezeani et al. (2020) say, and it is clear that spending has to be well done through good institutions and policies, as Dauda (2010) points out. Education enhances

productivity, provided it is of good quality, and it is well governed and managed in terms of resources.

The composition of taxes is more important than the amount of taxes across countries and across Africa. Different taxes impact growth through investment, consumption, and redistribution. OECD (2024) and ATAF (2023) state that consumption taxes, such as VAT, are more stable and less distortionary than direct taxes, especially in economies with significant informal sectors. The impact on growth, however, will depend on the way in which VAT is implemented and how the revenues are spent, underlining the need to ensure good governance and fiscal discipline to achieve macroeconomic results.

Recent findings from Nigeria indicate mixed findings. Research findings show that VAT and CIT have a positive impact on economic growth and on government revenue (Akininnyi et al., 2025; Omotehinse et al., 2023; Idebi et al., 2024). The findings by Osamor et al. (2023) show that both VAT, CIT, and customs duties have positive effects on GDP, although the results are different between the models and methods. In general, the evidence indicates that taxation can increase economic growth if taxes are collected efficiently, tax compliance is enhanced, and money is spent productively. The mixed results, however, suggest that the growth impact of taxation is dependent on structural and institutional characteristics.

The growth implications of VAT have received a great deal of research efforts. Barro (1990) has pointed out that growth can be achieved by revenue from VAT, provided there is efficient use of the revenues in providing public goods like education and infrastructure. This is supported by Adekoya et al. (2022), who noted that VAT contributes to growth by enhancing fiscal capacity and investment in development.

According to Olanipekun et al. (2023), VAT has the potential to contribute to Nigeria's growth as it enhances revenue generation and lessens dependence on oil resources. In the case of Omodero (2021), the VAT impact has been positive due to good compliance and management. According to Udo and Agwu (2024), VAT is a viable source of revenue that boosts growth through government spending. The findings are in line with the IMF 2022, which says that a good VAT design is more about increased revenue and less about distortion.

Broad VAT systems can generate regular revenue for infrastructure, human capital and social services, fostering inclusive growth, said the World Bank (2023). Studies on the Nigerian economy report weak or insignificant effects of taxation on growth due to structural problems such as tax evasion, tax inefficiency, macroeconomic instability, weak institutions, etc. (Osamor et al., 2023; ATAF, 2023). Recent Nigerian studies show a positive relationship with economic growth, due to its broad base and efficient collection (Oto & Wayas, 2023; Akininnyi et al., 2025). However, OECD (2024) points out that inflation can stunt the growth effect of VAT, and low compliance can quash it, and notes that macroeconomic stability and administrative capacity "are essential too.

The empirical evidence on CIT is inconclusive. Positive impacts on GDP through revenue and investment are reported in some studies. Others, however, find that they are adversely affected by a loss of profitability, loss of incentives, and compliance expenses, particularly in unfriendly business environments. This indicates that the growth impact of CIT is related to institutional quality and the macro environment.

Empirical evidence of the TET becomes more and more relevant, although it is limited. Research has indicated that TET contributes positively to economic growth in



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terms of human capital, education financing, and productivity (Ikechukwu & Nwankwo, 2016; World Bank, 2023). Despite the increased role of TETFund, however, TET is not so much studied as a standalone fiscal instrument, an area that has not been sufficiently explored in the literature.

Stable exchange rates, favourable trade conditions and low inflation are essential for economic growth (Barro & Sala-i-Martin, 2024; IMF, 2023; World Bank, 2023). These factors promote investment and enhance external competitiveness and resource allocation. They note that, however, the benefits rely on wider structural conditions such as economic diversification, strong institutions, and good macroeconomic policies. These provide the building blocks that can otherwise be undermined by exchange rate movements and poor trade terms, impacting investment, inflation, and growth.

According to Aghion et al. (2021) and the World Bank (2023), fiscal policy can promote sustainable long-term economic growth by generating tax revenue and effectively allocating it to investment in education, infrastructure, health, research and innovation. Such investments boost human capital, productivity, and private sector investment.

Weak tax administration, small tax bases, high informality and tax enforcement challenges not only hinder tax revenue collection, but also make it difficult to translate it into growth in African economies (ATAF, 2023; OECD, 2024; IMF, 2023). Direct taxes are more distortionary than indirect taxes, particularly in emerging economies, where they can have a negative effect on investments. Indirect taxes are more stable but also have a growth impact on institutional efficiency and expenditure quality (OECD, 2024; Hakim 2020). In sum, the literature revealed that there is a non-linear and context-specific relationship between taxes and economic growth.

### **Research Gaps in the Literature**

While attention has been paid to Nigeria's taxation-growth literature, four important gaps still remain. Most studies use total tax revenue without distinguishing the effect of individual taxes. Disaggregated analysis is essential to comprehend the different transmission mechanisms (OECD, 2024; ATAF, 2023). Second, empirical studies focusing on the TET are still limited, even though the fiscal importance of the TET is increasing and its potential to improve human capital is growing. Third, there are a few studies that analyse CIT, VAT, and TET together, in a long-term perspective, leaving gaps in understanding their combined effect on growth. The empirical literature indicates that the tax-growth nexus is context-specific, is not always negative, and is highly dependent on the nature of the tax and the institutions, hence this study.

### **3. Methodology**

The study is based on an ex post facto research design to assess the effect of tax revenue on Nigeria's economic growth. In this study, the focus is on the relationship between taxation and economic growth in the pre-reform tax era in Nigeria. It includes the period before the major tax reforms of 2026. Thus, the study offers empirical evidence for the evaluation of future tax reforms and policy discussions on fiscal sustainability and economic growth in Nigeria. This study followed the works of Golit (2008), Owolabi and Okwu (2011), and Ayodele and Oke (2022), who specified a regression model with modification of the independent variables, which are CIT, VAT and VAT.

### Model Specification

To examine the effects of CIT, VAT, and TET on the Nigerian economy, the study specifies a functional model in which economic growth is expressed as a function of tax revenue and other macroeconomic variables such as gross capital formation (GFCF), terms of trade (TOT), exchange rate (EXCR), and inflation (INF), which were used as control variables. The functional model is expressed as:

$$GDP = f(CIT, VAT, TET, X) \quad (1)$$

The econometric model of the functional form between the dependent variable, independent variables, and other control variables ( $X$ ) is specified as:

$$GDP_t = \alpha + \beta_1 CIT_t + \beta_2 VAT_t + \beta_3 TET_t + \beta_4 GFCF_t + \beta_5 TOT_t + \beta_6 EXCR_t + \beta_7 INF_t + \varepsilon_t \quad (2)$$

where: GDP = Gross Domestic Product; CIT = Company Income Tax; VAT = Value Added Tax; TET = Tertiary Education Tax; GFCF = Gross Capital Formation; TOT = Terms of Trade; EXCR = Exchange Rate; INF = Inflation Rate;  $\alpha_0$  = Constant;  $\alpha_1 - \alpha_7$  = Regression Parameters; and  $\varepsilon_t$  = Stochastic error / Error term.

**Table 1**

*Description and Measurement of Variables*

| Variable | Description                   | Measurement                                 |
|----------|-------------------------------|---------------------------------------------|
| GDP      | Economic Growth               | Gross Domestic Product (₦ Billion)          |
| CIT      | Company Income Tax            | Company Income Tax Revenue (₦ Billion)      |
| VAT      | Value Added Tax               | Value Added Tax Revenue (₦ Billion)         |
| TET      | Tertiary Education Tax        | Tertiary Education Tax Revenue (₦ Billion)  |
| GFCF     | Gross Fixed Capital Formation | Gross Capital Formation (₦ Billion)         |
| TOT      | Terms of Trade                | Export Price Index/Import Price Index       |
| EXCR     | Exchange Rate                 | Naira per US Dollar                         |
| INF      | Inflation Rate                | Annual Percentage Change in Consumer Prices |

**Source: Author's Compilation, 2026**

### Apriori Expectations

The expected signs of the explanatory variables are based on economic theory and empirical evidence.



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**Table 2**  
*Apriori Expectations*

| Variable | Expected Sign | Justification                                                                                    |
|----------|---------------|--------------------------------------------------------------------------------------------------|
| CIT      | ±             | Positive through revenue mobilisation, but potentially negative through investment disincentives |
| VAT      | +             | Broad tax base and relatively less distortionary effect on economic activity                     |
| TET      | +             | Supports human capital development and productivity enhancement                                  |
| GFCF     | +             | Promotes capital accumulation and productive capacity                                            |
| TOT      | +             | Improved trade conditions stimulate economic growth.                                             |
| EXCR     | ±             | May either enhance competitiveness or increase production costs                                  |
| INF      | –             | High inflation reduces purchasing power and investment.                                          |

**Source: Author's Compilation, 2026**

The study is based on the quarterly time-series data obtained from Central Bank of Nigeria (CBN) Statistical Bulletin, Federal Inland Revenue Service (FIRS) Annual Reports, the NBS publications and TETFund reports for the period 2010 to 2022. Long term estimates may be unstable due to policy changes, exchange-rate liberalisation, inflation, subsidy reforms and other structural changes in 2023. The addition of these data might produce disruptions, masking the old taxation-growth relationship. The effectiveness of the 2026 tax reforms are determined by a pre-reform benchmark.

## **Estimation Technique**

The study used descriptive statistics to explore distributions and characteristics of variables and then goes further to conduct correlation analysis to examine the relationships between variables and detect any multicollinearity. The time series stationarity properties of the variables are assessed through the order of integration tests (Augmented Dickey-Fuller (ADF) test and the Phillips-Perron (PP) test), and to ensure that the variables are not integrated more than once.

Long-term relationships among variables are confirmed and the impact of tax revenue on economic growth is then estimated using the Fully Modified Ordinary Least Squares (FMOLS) method of Phillips and Hansen (1990). The post-estimation test was carried out, and the Jarque-Bera test was applied to check the normality of the residuals. The study acts as a benchmark for Nigeria's tax system before the reforms. This baseline enables future evaluation of the impact of reforms on these areas of revenue, fiscal sustainability and growth.

## **4. Results and Discussion**

The descriptive analysis in Table 3 highlights the variability and distribution of the data, providing insights for further statistical modelling or analysis. The mean and median values for all variables fall between their maximum and minimum values, indicating good consistency in the data series. The skewness indicates that all variables are positively skewed. The kurtosis of the company income tax and value-added tax

variables exceeds 3, indicating that the series is peaked (leptokurtic) rather than normal (mesokurtic).

On the other hand, education tax, gross capital formation, terms of trade, exchange rate, inflation rate, and real gross domestic product are flat (platykurtic) since their kurtoses are less than 3, implying that their distributions are flatter than those of a normal distribution.

**Table 3**

*Descriptive Statistics*

|              | RGDP     | CIT      | TET      | VAT      | GFCF     | TOT      | EXCR     | INF      |
|--------------|----------|----------|----------|----------|----------|----------|----------|----------|
| Mean         | 1.69E+13 | 1254.279 | 197.4738 | 1117.052 | 6.14E+12 | 117.3136 | 255.0609 | 12.8543  |
| Median       | 1.67E+13 | 1215.06  | 189.61   | 828.2    | 3.77E+12 | 116.4832 | 255.582  | 12.0983  |
| Maximum      | 2.14E+13 | 2649.19  | 328.67   | 2511.52  | 1.72E+13 | 201.2115 | 445.71   | 21.3     |
| Minimum      | .28E+13  | 654.45   | 89.18    | 564.89   | 2.08E+12 | 52.73066 | 147.9648 | 7.8333   |
| Std. Dev.    | 1.90E+12 | 517.8204 | 63.3481  | 569.757  | 4.42E+12 | 35.61395 | 100.3754 | 3.5036   |
| Skewness     | 0.050229 | 1.3182   | 0.3262   | 1.3670   | 1.0840   | 0.1027   | 0.3481   | 0.4253   |
| Kurtosis     | 2.718642 | 4.6372   | 2.6701   | 3.6815   | 2.7781   | 2.2808   | 1.6481   | 2.3272   |
| Jarque-Bera  | 0.193384 | 20.8686  | 1.1581   | 17.2036  | 10.2915  | 1.2121   | 5.0098   | 2.5482   |
| Probability  | 0.907836 | 0.0000   | 0.5604   | 0.0001   | 0.0058   | 0.5454   | 0.0816   | 0.2796   |
| Sum          | 8.76E+14 | 65222.52 | 10268.64 | 58086.68 | 3.19E+14 | 6100.307 | 13263.17 | 668.4267 |
| Sum Sq. Dev. | 1.84E+26 | 13675037 | 204662.4 | 16555773 | 9.95E+26 | 64686.04 | 513836.7 | 626.0417 |
| Observations | 52       | 52       | 52       | 52       | 52       | 52       | 52       | 52       |

**Source: Author's Compilation, 2026**

**Correlation Matrix**

The pairwise correlation test is used to determine the strength and direction of the relationship between the variables. The strength of the link prompts speculation about multicollinearity. The correlation test findings in Table 4 indicate that the strength of the relationship between the variables ranges from weak to moderate.

It is important to note that revenue from corporate income tax, education tax, value-added tax, and other control variables is positively and moderately linked to gross domestic product, except for inflation, which has a positive but weak relationship with real GDP. However, terms of trade showed a negative relationship with the real GDP. The correlation statistics suggest that the independent and control variables can be included in the same model without multicollinearity

**Table 4**

*Correlation Matrix*

| Variable | RGDP    | CIT     | TET     | VAT     | GFCF    | TOT     | EXCR   | INF |
|----------|---------|---------|---------|---------|---------|---------|--------|-----|
| RGDP     | 1       |         |         |         |         |         |        |     |
| CIT      | 0.6525  | 1       |         |         |         |         |        |     |
| TET      | 0.4808  | 0.7156  | 1       |         |         |         |        |     |
| VAT      | 0.5823  | 0.9146  | 0.6425  | 1       |         |         |        |     |
| GFCF     | 0.6425  | 0.8500  | 0.5615  | 0.9525  | 1       |         |        |     |
| TOT      | -0.4658 | -0.4311 | -0.2266 | -0.4636 | -0.5453 | 1       |        |     |
| EXR      | 0.6816  | 0.8132  | 0.4748  | 0.8904  | 0.8942  | -0.5355 | 1      |     |
| INF      | 0.2985  | 0.4845  | 0.0255  | 0.6201  | 0.5572  | -0.2278 | 0.7156 | 1   |

**Source: Author's Compilation 2026**

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## Unit Root Tests

The unit root test is important in economic analysis for determining the variable's stationarity and guiding the choice of an appropriate estimation method. The Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests are used in this study, and their results are presented in Table 5. The results show that not all variables are stationary at the level but are stationary after first differencing. This implies a likelihood of long-run convergence, which needs to be determined using a cointegration test.

**Table 5**

*Unit Root Test Results*

|       | ADF Test |        |                  | PP Test |         |        |                  |        |
|-------|----------|--------|------------------|---------|---------|--------|------------------|--------|
|       | Level    | Status | First Difference | Status  | Level   | Status | First Difference | Status |
| LRGDP | 0.8009   | I(0)   | -13.9309***      | I(1)    | 2.4797  | I(0)   | -9.8183***       | I(1)   |
| LCIT  | -2.3479  | I(0)   | -5.2850***       | I(1)    | -2.4591 | I(0)   | -7.4018***       | I(1)   |
| LTET  | -2.5180  | I(0)   | -4.95880***      | I(1)    | -2.4308 | I(0)   | -7.7051***       | I(1)   |
| LVAT  | -0.9820  | I(0)   | -6.93620***      | I(1)    | -1.0109 | I(0)   | -4.5225***       | I(1)   |
| LEXR  | -2.5161  | I(0)   | -4.8396***       | I(1)    | -2.3426 | I(0)   | -5.7858***       | I(1)   |
| INF   | -2.7387  | I(0)   | -4.2282***       | I(1)    | -1.9567 | I(0)   | -3.5377***       | I(1)   |
| LGFCF | 1.5723   | I(0)   | -1.9599**        | I(1)    | 3.2847  | I(0)   | -9.2573***       | I(1)   |
| LTOT  | -1.9222  | I(0)   | -4.9599***       | I(1)    | -3.1518 | I(0)   | -10.0465***      | I(1)   |

**Source: Author's Compilation, 2026**

## Effects of Tax Revenue on Economic Growth

In Table 6, the results show that CIT has a significant positive impact on economic growth. This indicates that the company income tax significantly contributed to the overall growth of the Nigerian economy.

Furthermore, the VAT coefficient (-0.5064) is statistically significant. The negative coefficient implies that VAT is associated with decreased economic growth. This is consistent with economic theory, which has predicted that consumption taxes will affect economic activity. This outcome could be due to the regressive nature of VAT, which make those with lower incomes have lower purchasing power, thus reducing the amount of VAT revenue.

Other factors that help to explain the large negative impacts are: the limited number of companies or individuals that are included in the VAT base, the lower tax rate compared to neighbouring countries, low VAT sensitisation and awareness among citizens, detection and blocking of loopholes for tax evasion, and enforcement of tax laws.

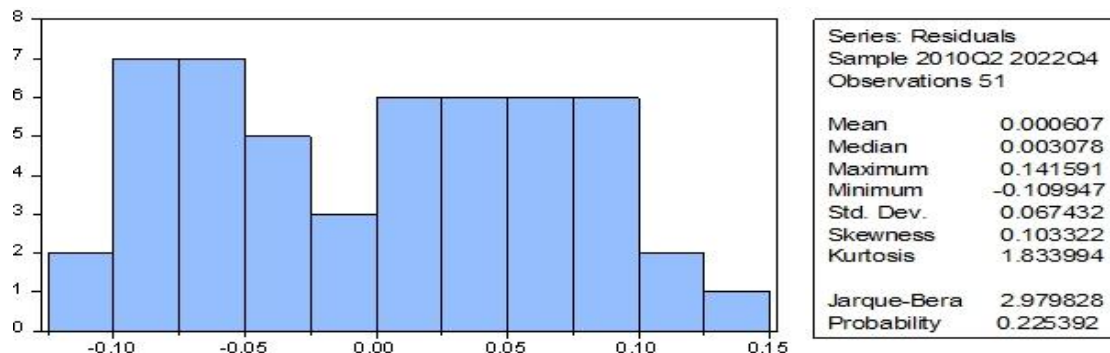
The positive coefficient of LEXR (0.1297) is significant at the 5% level. It suggests that a higher exchange rate (potentially indicating a stronger domestic currency) is associated with increased economic growth. However, the coefficient on LTET (0.1373) is positive but insignificant for economic growth. The insignificant contribution of the education tax to economic growth could be attributable to the 2% rate applied to the company's assessable profit.

**Table 6**  
*Effect of Tax Revenue on Economic Growth*

| Variable           | Coefficient | Std. Error | t-Statistic | Prob.     |
|--------------------|-------------|------------|-------------|-----------|
| LTOT               | -0.0371     | 0.0299     | -1.2391     | 0.2220    |
| LGFCF              | 0.0523      | 0.0591     | 0.8840      | 0.3816    |
| LEXR               | 0.1297      | 0.0620     | 2.0898      | 0.0426**  |
| INF                | 0.0006      | 0.0048     | 0.1340      | 0.8940    |
| C                  | 28.9592     | 0.4533     | 63.8816     | 0.0000*** |
| LCIT               | 0.4412      | 0.1222     | 3.6082      | 0.0008*** |
| LTET               | 0.1373      | 0.1092     | 1.2572      | 0.2154    |
| LVAT               | -0.5064     | 0.2278     | -2.2227     | 0.0315**  |
| R-squared          |             |            |             | 0.6124    |
| Adjusted R-squared |             |            |             | 0.5493    |
| S.E. of regression |             |            |             | 0.0727    |
| Mean dependent var |             |            |             | 30.4546   |
| S.D. dependent var |             |            |             | 0.1083    |

**Source: Author's Compilation, 2026**

Figure 1 shows the Jarque-Bera test results and a probability value of 0.2253. This value is greater than the 5% significance level, and so the null hypothesis is not rejected for this model, meaning that the model is normally distributed. Based on the above, we accept the alternative hypothesis, and it is concluded that the model used in this study is indeed normally distributed. Normality validation increases the validity of the results and inferences of the model, which makes the data and the relationship between the variables more reliable.



**Figure 1: Normality Test Results**

**Source: Author's Compilation, 2026**

### Discussion of Findings

The study analyses the effect of tax revenue on economic growth in Nigeria and its effect over the period 2010-2022. The findings indicate that, based on the Endogenous Growth Theory, the impact of the tax revenue depends on the form of the tax and the efficiency of the tax revenue utilisation. The results indicate that the income tax of the companies has a positive effect on economic growth in Nigeria and is statistically significant. The results are consistent with the recent empirical evidence from developing economies that better mobilisation boosts fiscal capacity and long-term economic growth (Nguyen et al., 2021; Adebayo & Ojo, 2023).

This study shows that the tertiary education tax has a positive effect on the economy, but the effect is not statistically significant. The coefficient is positive, but



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no macroeconomic changes are observed during the study period. There is also empirical evidence to show that education spending contributes to growth in the long run but with a lag, as is found in Endogenous Growth Theory by Lucas (1988) and Romer (1990) and recent empirical papers by Okafor and Ezenekwe (2022) and the World Bank (2023).

The existing education taxes in Nigeria, measured both in terms of scale and efficiency, might not be enough to propel the country's economic growth. The findings are consistent with recent studies like Adegboye et al. (2021) and Chukwu et al. (2024), which highlighted the inefficiencies, delays, and low-quality institutions that affect education spending in developing countries and reduce its short-term impact. However, Ezeani et al. (2020) and Dauda (2010) reported positive and significant results for Nigeria's growth and education investment, respectively.

The results show that VAT is negatively impacting the economic growth of Nigeria, which suggests that increasing consumption tax may lead to a decrease in the level of economic activity. In endogenous growth theory, fiscal policy serves to stimulate growth through investment (Barro, 1990) without distortion (Friedman, 2004). The negative VAT effect indicates that its present system could limit demand. This is consistent with the findings obtained from the recent studies of Adekoya et al. (2022) and Olanipekun et al. (2023) that direct taxes in developing economies can lead to a fall in consumption and growth. It also resonates with the more recent evidence of Omodero (2021) and Udo & Agwu (2024), which point to inefficiencies in Nigeria's VAT regime, including low tax coverage and compliance rates. The IMF (2022) and the World Bank (2023) studies indicate that, with efficient implementation and re-investment in productive sectors, VAT can help achieve growth.

External sector conditions have a positive impact on economic growth, proving the influence of exchange rates on Nigeria's economy. This agrees with the Endogenous Growth Theory which states that macroeconomic stability and external competitiveness are associated with long-term growth (Barro & Sala-i-Martin, 2004; IMF, 2023). There is however little statistical evidence to show that investment, inflation, and the terms of trade have significant effects on economic growth, which may be attributed to the structural rigidities, macroeconomic instability and resource inefficiencies in Nigeria (World Bank, 2023)

Summarily, the tax revenue has different impacts on the economic growth of Nigeria. The combined impact of income tax on the company and the value added tax is a negative effect on growth while the tertiary education tax has a positive but statistically insignificant one. The results also confirm the Endogenous Growth Theory: that is, fiscal policy can support growth provided taxes are sufficiently collected and directed towards sectors providing productivity and human capital development as well as increased investment efficiency (Aghion et al., 2021; World Bank, 2023).

### **5. Conclusion and Recommendations**

This study provides empirical evidence on the impact of taxation on growth in Nigeria for the pre-reform period (2010-2022) and will serve as a benchmark for testing tax reform in Nigeria. The results indicate that CIT positively and significantly affects economic growth, making it an important source of revenue that helps in making effective, productive public spending and stabilizes the country's economy.

VAT, by its very nature, has a rather negative effect on economic growth and, in the current state of the economy, the cost to the consumer of this tax on consumption could be higher than the benefits of VAT revenue. This illustrates the fragility of

consumption taxes in the face of macroeconomic shocks such as low purchasing power, inflation, and structural informality.

The tertiary education, however, has a positive coefficient but no statistical significance, meaning its current fiscal contribution is not sufficient to have a statistically measurable impact on economic growth. The opposite is the case of exchange rate volatility, which has a significant impact on growth, thereby underlining the importance of stability in the external sector in the Nigerian economy.

As a whole, the study concludes that taxation has a wide range of effects on the economic growth of Nigeria, the effects of which are significantly determined by the tax framework, the state of the economy, and the efficacy of the transmission mechanism, and that the economy was unable to generate any growth-enhancing revenue during the 2010-2022 tax era.

Based on the findings, the following recommendations were made: first, the study proposes that the government review its VAT policy with measures to provide relief for essential goods, to make tax more equitable, and to lessen informality in the economy. Secondly, the effectiveness of the education tax needs to be increased. To achieve meaningful results, fiscal authorities must improve the efficiency of their revenue collection and disbursement in TET.

Third, the more important issue is to expand the tax base instead of raising taxes, making the tax base larger and ensuring compliance should be much more important than increasing taxes. In addition, the government needs to step up its tax base expansion initiatives, such as the adoption of digital tax systems, further digitalisation of taxpayer registration, and increased tax compliance checks. Fourth, coordination efforts on macroeconomic stability should be spot on. The government and its handlers need to re-synchronise their tax reforms with exchange rate and inflation policies to make sure the increased tax revenues are utilised to boost the economy.

### **Policy Implications**

The results have significant policy relevance for Nigeria's fiscal policy. First and foremost, the positive impact of CIT demonstrates that corporate tax continues to be a powerful source of revenue generation and economic growth if managed appropriately and reinvested into areas like infrastructure and industry. Secondly, consumption taxes should be carefully designed to stimulate household spending and overall demand because of their negative impact.

Target exemptions or cushioning strategies for low-income households should be considered as a critical factor to mitigate the regressive effects of VAT. Third, the modest effects of TET imply that the tax rates and tax systems in place for education may not be significant to the Nigerian economy. This brings into focus concerns about the uses of funds and the importance of tying education funding more closely to productivity gains. Finally, the exchange rate changes boost growth.

### **Limitations of the Study**

This study is limited to the period 2010-2022. In addition, it only includes three tax instruments (CIT, VAT, TET), neglecting other important revenue sources such as petroleum taxes and customs duties. There may be measurement inconsistencies between reporting institutions because of the use of secondary data

### **Suggestions for Further Research**

There is a need for future studies to analyse post-reform data to evaluate Nigeria's continuing fiscal restructuring process. Further, there is a need to investigate the impact of institutional quality, tax compliance, and digital tax administration on the tax-growth nexus, which may reveal more insights. The petroleum profit tax and



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customs revenue would also be other sources of revenue that would contribute to the understanding of Nigeria's fiscal position.

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