



(RESEARCH ARTICLE)



Tax Revenue Contribution and Economic Growth in Nigeria

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International Journal of Science and Research Archive, 2025, 17(03), 842-849

Publication history: Received 11 November 2025; revised on 16 December 2025; accepted on 18 December 2025

Article DOI: <https://doi.org/10.30574/ijrsra.2025.17.3.3299>

Abstract

The study examined the impact of tax revenue contribution on the economic growth in Nigeria. The effect of non-oil revenue on the Nigerian economy and the relationship between Economic Growths. Data collected from Central Bank of Nigeria Statistical Bulletin was used for extractions, this is done using the desk survey method. Ordinary least square of multiple regression models' equation was used to establish, the effect while correlation is used for test the relationship between the dependent and independent variable. It showed that there is a significant relationship between the non-oil tax revenue and the growth of the Nigerian economy. The findings also revealed that the non-oil tax revenue has a significant effect on gross domestic product. It was recommended that government should endeavour to provide social amenities to all hooks and crannies of the countries. Also, government should re-organise the taxation administration machineries in order to reduce tax evasion and tax avoidance. Finally, by enhancing the government tax base, employment opportunities should be created and good business environment for entrepreneurship and innovation to thrive for better tax proceeds.

Keywords: Tax Revenue; Non-Oil Tax Revenue Gross Domestic Product; Nigeria

1. Introduction

In order to optimise on the income accrual from its different tax compensations, governments of nations must put structures in place. Taxation has been widely recognised as a very powerful weapon of fiscal policy. The tax system should be constructed in such a way that it will be able to generate sufficient revenues to pay for government spending and various other government activities (Chavles, 2015). Availability of funds as well as other human and material resources is the key to the growth and development of any country. Four important factors, such as human resources, national resources and capital formation and technical advancement can contribute to economic progress Dwivedi, (2004). The government must provide social services and support initiatives that will increase the level of living in the country for its constituents. However the government has more often than not, bemoaned the dearth of funds for such programmes, requiring an urgent intensification of its efforts to raise money through taxation utilising theses resources effectively will speed up nation's political, economic, and social activities, since the necessary funds are not always accessible, a reliable and consistent source of income from well-designed tax system would undoubtedly generate the funds heeded to achieve the stated goals (Onakoya and Afintinni, 2016).

Due to the significance of tax money as replacement for declining oil revenue, Nigerian government implemented a number of tax legislation amendments in a bid to increase revenue collection and administration for example, Value added tax (amendment) Act of 2007 aimed at expanding the scope of the value added tax base and enhancing the mechanism of its collection 13 Federal government of Nigeria has underlined and proved in recent fiscal years its commitment to increasing ease of doing business. The commitment has seen the amendment to tax and fiscal legislation through the Finance Act 2019 ("FA 2019") and more recently, the Finance act 2020 and 2024 ("FA 2020 and 2024").

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Oil and gas export revenues have been a major source of income for the economy of Nigeria (dominating the other sources). The percentage of the total revenue from non-oil source which also include import duty, value added tax and corporate income tax has been less. Tax revenue to the government are anticipated to generate income which the government will use to provide social service and create the favourable condition for the well-being of the economy of this society. However, one would be tempted to wonder whether Nigeria is following in the lead of other nations whose government developed their economics through taxation. Such examples include United States, Netherlands, Canada and United Kingdom; Oluba (2008) reported that these developed countries derive substantial revenues from company income tax, value added tax and import duties and have used same to create prosperity. Over the past period, the tax revenue has been extremely minimal and little actual physical development has taken place (Afuberoh & Okoye, 2014). People are complaining more now about the infrastructure which is inadequate and in substandard levels. However, the administration has often lamented the lack of funding on these services.

1.1. Statement of the Problem

Due to the inability of the government in maximising its tax collection potential, the Nigeria economy has been facing declining trends (Charles, 2015). The problem of how the administration, the extent to which the tax laws are properly read and used and the recognition of the specific effects of tax revenues on economic growth. Tax administration machinery generates or fails to generate sufficient tax money from the various taxes, which translates into economic growth. The issue of how to effectively manage the administration of tax in Nigeria, to what extent the tax laws are read and applied correctly and recognising the precise impact of tax revenue on economic growth, are all burning issues.

1.2. Aim and Objective of the Study

The objective of this study is to examine the effect of tax revenue contribution on economic growth in Nigeria. The specific objectives are to:

- Determine the effect of oil tax revenue on gross domestic product.
- Ascertain the effect of non-oil tax revenue on gross domestic product.

1.3. Research Hypotheses

Research hypotheses were stated in null form

- Ho1: There is no significant effect of oil tax revenue on gross domestic product in Nigeria.
- Ho2: There is no significant effect of non-oil tax revenue on gross domestic product in Nigeria.

2. Literature Review

2.1. Theoretical Framework

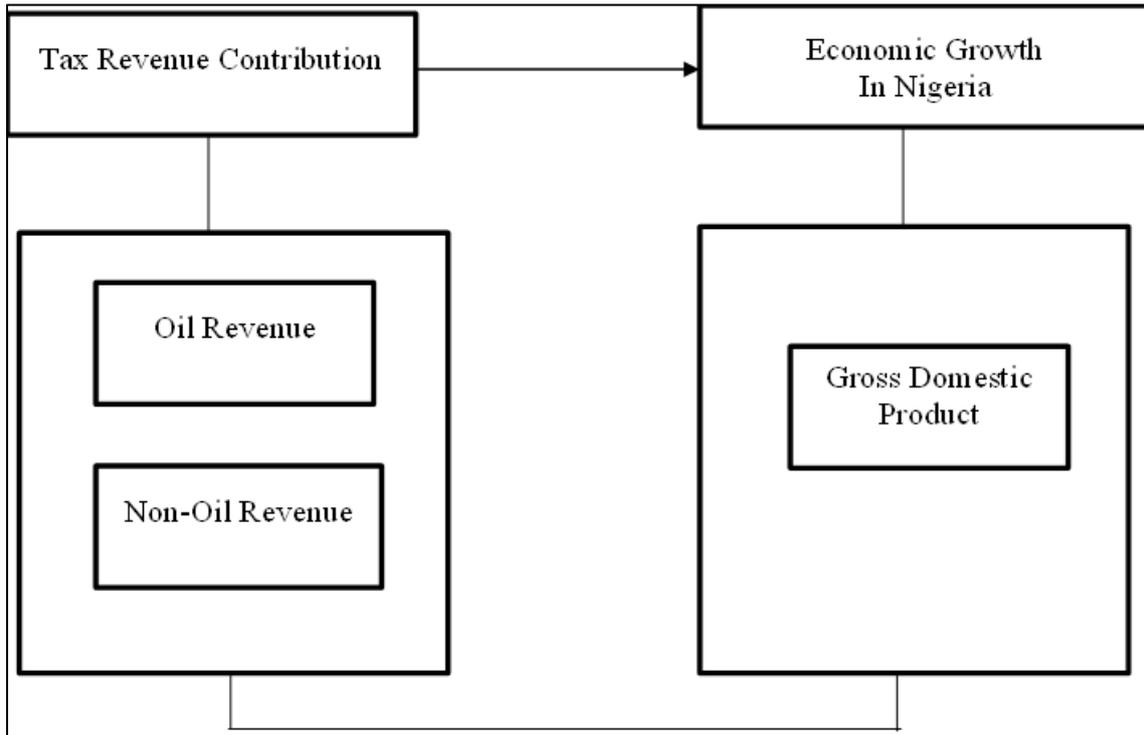
This study is anchored on the social political theory of taxation and benefit-received theory. Socio-political theory of taxation recognises the imposition of taxes by government for the financing of state activities and for the provision of a basis for apportioning the tax burden between the members of the society (re-distribution of wealth), It is also seen as a major source of funds for public goods and services such as healthcare, education and infrastructure. Consequently, the tax system should be directed towards the health of the society as a whole, since individuals are integral part of the bigger society (Chiegbu, et al., 2012).

This theory assumes that under an exchange or contractual relationship between the state and the tax payers, certain goods and services are provided by the state and the cost of such goods and services are contributed in the proportion of the received benefits thus the benefits received present the basis for distribution the tax burden in specific manner. This theory overlooks the possible use of tax policy for bringing about economic growth or stabilisation Chiegbu et al (2012) see the cost-of-service theory as very similar to the benefit received theory this theory emphasises on some commercial relationship between the state and the citizens to a greater extent.

2.2. Conceptual Framework

The conceptual framework for the study as depicted in the diagram shows that tax revenue contribution is constituent of the independent (predictive) variable and economic growth in Nigeria which is dependent (criterion) variable. Furthermore, indicators of economic growth are adopted as the variables with GDP being the measure of the economic

growth, oil tax revenue and non -oil tax revenue are dimensions of Tax revenue for analysis. All of these are toned down with Public Expenditure in Nigeria. The relationship tested is hypothesis as



Source: researcher's conceptualization tax revenue contribution and economic growth model.

Figure 1 Conceptual Framework Showing the Relationship Between Tax Revenue Contribution and Economic Growth

2.2.1. Oil Tax and Non- Oil Tax Revenue

The government uses the method of taxation as a way in which to increase money for public coffers (Ofoegbu et al 2016). It is a forced payment that is imposed by the government on the income, wealth or profits of the citizens, corporate entities etc. It entails the application of a tax rate on a tax base (Ofoegbu et al. 2016) according Okafor (2012) a well-crafted tax structure can assist government in developing nations in setting expenditure properties instituting reliable institutions and improving democratic accountability.

For the purpose of this study, the taxes are divided into Oil Tax Revenue (OTR) which is mainly derived from Petroleum Profit Tax which is levied on companies involved in petroleum exploration operations and Non- Oil Tax Revenue which is levied as both Direct and Indirect Taxing. They are constituted by income tax, company income tax, value added tax, tertiary education tax. Tax is made primary to achieve public operations and activities in order to achieve the economic and social objective of a nation. It may also be done to ensure social justice through the re-distribution of wealth (Ayuba, 2014). According to (Ofoegbu et al. 2016), taxes are a measure used by the government to get money to bring into the public expanse.

Personal Income Tax

This is type of tax which is charged on the income of individual. The chargeable income of an individual is the aggregate amount from all sources whether from employment, investment, profit from trade, profession or vocation after deducting all non-taxable incomes and relief granted. The 36 states and the FCT collect the PIT of the residents in their states while Federal Government of Nigeria collect the PIT for the armed forces and other diplomatic staff.

Company Income Tax

Nigerian companies who are incorporated pay tax called "company income tax" on their profits. The tax on the earnings of international businesses operating in Nigeria is also included, The assessable tax are called company income (CIT) while non-residents are subjected to CIT on their income with a Nigerian source, resident corporations are subject to CIT on their world-wide income taxes on corporate income based on accounting earnings that have been tax-adjusted.

Currently, enterprises that have a turnover exceeding 100 million naira are charged 30% CIT. There is nil tax for SMEs which are classified as businesses with turnover below N25 million while companies with turnover between N25million and N100million are assessed to tax at 25% of assessable profit. The tax is calculated on the basis of profits generated for the accounting year closing on the year before the assessment. In line with the Finance Act of 2019, companies with annual revenue below N25 million are not required to pay company income taxes. A non-resident corporation which has a fixed base or permanent establishment (PE) in Nigeria is liable to be taxed on the profits of the business attributable to such fixed base.

Petroleum Profit Tax

Petroleum profit tax involves the charging of tax on the income accruing to petroleum operations. It is a tax that is applicable to upstream operations in the oil industry Odusola (2006). The importance of petroleum to the Nigerian economy gives rise to different law regulating the taxation of incomes in petroleum operations. This means that companies that engage in petroleum operation is not subject to tax under the CIT, however in the petroleum profit tax act. For this reason, petroleum profit tax Act, Cap PIZLFN 2004 puts tax on the profit of companies engaged in petroleum operations.

On 16th August 2021 petroleum Industry Act 2021 was assented and signed into law by President Muhammadu Buhari. The objectives of the bill is to overhaul and transform the Nigerian oil and gas industry. Petroleum operation is defined and characterised as the winning or obtaining and transportation of petroleum chargeable oil in Nigeria or by on behalf of a company for its accounts by drilling, extracting or other like operations or process of a business earned on by the company incidental there to and only sale of or any deposit of chargeable oil or on behalf of the company. The rate of petroleum profit tax for non-petroleum sharing contract (PSC) operations is 65.7%, including joint ventures (JVS), in the first five years during which the company has not fully amortised all of its pre-production, capitalised expenditure, 85% for non-PSC operations after the first five years upstream gas profits are taxed at 30%.

Value Added Tax

Value added tax is a tax on consumption which is collected at each stage of sales of goods and services from production to consumption but eventually born by the final consumer. Each individual is responsible for charging and collecting the value added tax at a flat tax rate of 5% on each amount charged. Finance Act 2019 has modified the tax rate to 7.5%. VAT was introduced under the federal government of Nigeria in January 1993 (Ochci 2010). Analyst say that tax was on the purview of being super tax to eradicate completely many other taxes related to goods and services especially sales tax. Evasion is still a very sore point on the administration and collection of VAT especially for the small business and individuals.

2.2.2. Gross Domestic Product

Gross Domestic Product (GDP) Gross domestic product is a monetary measure of the final market value of all the final goods and services produced in a period of time, frequently annually or quarterly. "An aggregate measure of production equal to the sum of the gross values added of all the resident and institutional units emerged in production plus any taxes, and less any subsidies on products not included in its inputs "organisation for economic cooperation and development (OECD, 2014). An international monetary fund (IMF) publication states the (GDP) measure the monetary value of final goods and services - that are bought by final user - produced in a country in a given period of time ("Say a quarter or year") (Callen, 2016).

According to Dawson (2006), total gross domestic product may also be further broken down into the contribution of each industry or sector of the economy. The ratio of GDP and the total population of the region is the 'per capital GDP' and the standard of living. Gross Domestic Product (GDP) can be regarded as the "World's most powerful statistical indicator of national development and progress (Lepenies, 2016). Therefore, the most suitable method of measuring the economic status of a particular country is through Gross Domestic Product. It is the value of everything all the people and all the companies in the country produce. It does not matter whether they are citizens or foreign - based or owned companies: If they are situated within the country and its boundaries, the product they are manufacturing is considered Gross Domestic Product (GDP) by the government. The only exception is the shadow economy or black economy. The components of Gross Domestic Product (GDP) is Personal consumption expenditure (PCE) + Business investment (B1) + Government spending (GS) + (Exports - Imports). (Osho, et al ; 2018).

2.3. Empirical Review

Edame and Okoi (2014) conducted a research on the effect of taxation on investment and economic growth in Nigeria. The results presented had to do with the paper's goal of examining taxation's effect on investment and economic growth

in Nigeria from 1980 to 2000. Secondary source of data from Central Bank of Nigeria (CBN) statistical bulletin and NBS was used. The variables were tested using regression analysis, findings were depicted showing that taxation; is negatively related to the level of investment and GDP is positively related to government expenditure in Nigeria. The paper recommended that the government of Nigeria should effectively utilise taxation, to fulfil its set goals that will enhance economic growth and development.

Musa and Sansui (2013) analysed the impact of value added tax (VAT) on economic growth in Nigeria. The activity of the research was to examine the relative effect of value added tax aimed at discussing economic growth in Nigeria. The data collected from secondary source through the federal Inland Revenue service (FIRS) and Central Bank of Nigeria (CBN) statistical bulletin. Unlimited-horizon vector autoregressive order (VARs) methods were used to analyse and extract policy implications for the study. Impulse response functions (IRFs) and Forecast Error variance decomposition (FEVDs) results were derived using a 1000 Monte Carlo simulations. The results revealed that Value Added Tax (VAT) have positive impact on economic growth in Nigeria and the paper recommended that policy makers in Nigeria should continue this fiscal policy with other macro-economic indicator. This will improve Nigerian economy during this time of economic crisis.

Akeem and Adejare (2015) have conducted research to start on the impact of Petroleum Profit Tax (PPT) on economic growth in Nigeria. The study was to determine the effect of petroleum profit tax on economic growth in Nigeria. Secondary sources of data from Central Bank of Nigeria (CBN) was used, multiple regressions were used to analyse the data. Result of the findings showed that petroleum profit tax has positive significant impact on GDP both in the short run and in the long run respectively, the study recommended that since petroleum profit tax impacted economic growth positively in the short run and in the long run, government should also minimise or find ways of eliminating totally the widespread corruption and leakages in the petroleum profit tax administration. Ude and Agodi (2014) examined the time series role of non-oil revenue variables on economic growth of Nigeria at the period of 1980-2013. They noted that the non-oil revenue variables that are analysed include agriculture revenue and manufacturing that have significant impact on the economic growth in Nigeria. Medee and Nenbee (2011) studied the econometric analysis of the impact of fiscal policy variables on Nigeria's economic growth (1970-2009) using vector auto regression and error correction mechanism techniques and claimed that tax revenue has effect on gross domestic product both at the short and long run, meaning that tax revenue has positive impact on economic growth in Nigeria.

3. Methodology

The ex post facto was adopted as a research design for this study for the fact that the researcher did not manipulate the already existing data (Olulu-Briggs & Sunday, 2023; Olulu-Briggs & Sunday, 2021). The study was carried out using secondary source of data for a period of ten years (2014 - 2024). The data were taken from The Central Bank of Nigeria Statistical Bulletin, and Federal Inland Revenue Services. The data are gross domestic product (GDP) from 2014-2024 while the data for tax revenue was captured for same time period. Gross domestic product can be considered as dependent variable and explanatory variables include oil tax revenue, non-oil tax revenue.

Model used to estimate impact of oil tax revenue and non -oil tax revenue tax on Nigerian economic growth. In order to examine the impact of tax on Nigerian economic growth, a multiple regression model was developed for this paper represented in the following function.

$$GDP = f(OTR, NOTR)$$

From the above function, the following model is derived

$$GDP_t = \beta_0 + \beta_1 OTR_t + \beta_2 NOTR_t + \mu_t$$

Where

GDP = Gross Domestic Product

OTR = Oil Tax Revenue

NOTR = Non-oil Tax Revenue

$\beta_1 - \beta_2$ = Co-efficient

μ = Error term

4. Results and Discussion

Table 1 Correlation Result

Correlation		GDP	OTR	NOTR
GDP	Pearson correlation	1		
	s.g 2-tailed N	30		
OTR	Pearson correlation	0.767		
	s.g 2-tailed N	0.000 30	30	30
NOTR	Pearson correlation	0.958	0.753	1
	s.g 2-tailed N	0.000 30	0.000 30	30

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

Table 2 Model Summary

Model	R	R square	ad R square	Std error of estimate	Durbin waste
1	0.926	0.926	0.917	04830	1.704

Predictors (constant) NOTR, OTR ; Dependent variable GDP

Table 3 ANOVA

Table Coefficients Model Unstandardized Coefficient

	B	sta.	Beta		
Constant	3.186	0.138		23449	0.000
OTR	0.086	0.05	0.142	1.462	0.162
NOTR	0.318	0.043	0.854	8.809	0.000

Dependent variable GDP

H₀₁: Oil tax revenue has no significant impact on Nigerian economic growth table 1 above is enough to give an appropriate view at research assumption formulated earlier. From the intercept, it is shown that oil revenue (OTR) has a significant impact on Nigerian economic growth. It further shows that a unit increase in OTR will trigger an increase of 0.081 in the GDP. The t-tab for OTR is shown as 1.462 which is less than the t-tab of 2 with a probability of 0.162 which is statistically insignificant at 5% significant level. The researcher hereby accepts the null hypotheses and conclude oil tax revenue has no significant impact on Nigeria economic growth.

H₀₂: There is no significant relationship between non-oil tax revenue and Nigerian economic growth table 2 presented above is considered suitable to treat the research assumption stated above as formulated earlier in chapter one of this research work. Following the assumption of the above hypotheses, the correlation table revealed that non-oil revenue has a strong positive relationship with GDP with a Pearson correlation of 0.958. The researcher therefore rejects the null hypotheses and concludes that there is significant relationship between non-oil tax revenue and Nigerian economic growth. The study examined the impact of tax revenue on the Nigerian economy. The objectives of the study were to the Nigerian economy and the relationship between oil tax revenue and non-oil tax revenue Nigerian economic growth. This study examined the impact of tax revenue on the Nigerian economy. Data were sourced from Central Bank Statistical Bulletin and extracted through desk survey method.

Ordinary least square of multiple regression models was used to establish the impact and effect while correlation is used to test for the relationship between dependent and independent variables. The finding revealed oil tax revenue (OTR) has no significant impact on Nigerian economic growth. It showed that there is a significant relationship between oil tax revenue and the growth of the Nigerian economy.

Based on the findings of this study, we concluded that, there was a great level of difference between the effects of oil and non-oil revenue on economic growth in Nigeria. This study has equally generally revealed that, tax revenue has a positive impact on economic growth in Nigeria, especially it's socio-economic as oil and non-oil tax revenue also has significant impact on GDP. The results obtained in this study confirm that, a positive and strong correlation exists between oil tax revenue OTR and non-oil tax revenue (NOTR) and the level of economic growth proxy by RGDP in Nigeria.

5. Conclusion

According to the result, it showed that non-oil tax revenue (NOTR) has significant effect on a gross domestic product. It further goes on to show an increase in NOTR will cause an increase in GDP by a value of 0.378. The t-cal for non-oil is shown as 8.809 which is greater than the t-tab of 2 with a probability of 0.000 which is statistically significant at 5% significant level. This therefore means that the governments can rely on the non-oil revenue in predicting the growth of the Nigerian economy. It was recommended that, government should seriously work towards diversifying the revenue base of the economy as the reduction in the price of crude oil at the international market that adversely affect income from petroleum profit tax. The regulatory authorities' charges with the sole responsibility of collecting of tax should further be strengthened to enforce compliance by taxpayers there should be accountability and transparency from government officials on the management of revenue derived from taxes and also citizen should be able to benefit from the payment of taxes in Nigeria.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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