Volume-4, Issue-8, August-2020: 21-27
International Journal of Recent Innovations in Academic Research ISSN: 2635-3040

The Dynamics of Tax Components in Relation to Good Governance in Nigeria: An Issue for Economic Development

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Received: August 2, 2020; **Accepted:** August 11, 2020; **Published:** August 18, 2020

Abstract: There is a public concern for a return on the formulation and implementation of macroeconomic policies. The study aim at determining effect of fiscal policy on Nigeria economic development. The study adopted secondary data obtained from the CBN 2019 statistical bulletin for the period of 1999-2018. The study used economic views for regression analysis and Granger Causality Test. The alternative hypothesis (Hi) "government's revenue and expenditure policies have significant effects on Nigeria economic development" and "annual budgets of government have significantly contributed to Nigeria economic development" are accepted. The study concluded that fiscal policy components are very significant to economic development. The study recommended that tax revenue generation policies should be addressed to avoid leakages in the economy.

Keywords: Tax component, Good governance, Economic development, Budget, Regression, Granger Causality.

Citation: Garba Ibrahim, Nyikaa Miriam Nguaverse and Audu Omeiza Leonard. 2020. The Dynamics of Tax Components in Relation to Good Governance in Nigeria: An Issue for Economic Development. International Journal of Recent Innovations in Academic Research, 4(8): 21-27.

Background of the Study

Government make use of fiscal policy which may be discretionary and active, involving the conscious changes in government spending and taxes to create expansionary or contractionary effects on economic growth; or it may be non-discretionary and passive, relying on what will sustain the economy. Especially where spending policies are plan to achieve sustained growth and price stability of the economy. When public revenue increases, it means availability and increase of money for government. Government is expected to make use of the funds to influence social and economic development of a nation. This means that there is a relationship between public revenue which tax is the main component and public expenditure. There is a public concern for a reform on how macroeconomic policies are being formulated and implemented in Nigeria. The reform, base on public expectation, is to cover the size, financial patterns, taxation, public budgeting and spending.

Study Objective
To examine the manner of tax system in relation to good governance in Nigeria.

Literature Review
Tax System, Government Expenditure and Economic Development
Bhatia (1980) observed that one of Kaldorian ideology is that the most effective measures of fiscal policy is a well-designed and executed tax system, especially during periods of inflation occasioned by excessive demand. He is of the view that budget surplus may be achieved through higher prices and tax rates; borrowing from the public is likely to raise interest rate while bank loans will raise prices and divert resources. This means the actual efficacy of fiscal policy will depend on national tax structure.

Musgrave and Musgrave (1984) supported this view, that fiscal measures enhance capital formation in less developed economies noting that tax on households saving involves two issues, the first being that disposable income would be large if tax were lower so that part of the gains would be translated into savings which will enhance capital formation. Expansionary pure fiscal caused either by an increase in government expenditure or by a reduction in taxation will shift the investment savings schedules to the right to reduce investment. It was on this note that Angelopoulos, Economides and Kamas (2006) pointed out that government expenditure over growth domestic product has link with growth while corporate income has a link with lower growth. This means that taxation is useful and contributed to economic growth and development.

Budget Implementation and Good Governance
Implementation of the budget is a function of executive arm of any government. Politicians are mostly members of the executive. NEEDS (2004) noted that approved budget implementation have faced a lot of problems in Nigeria such as; administrative machinery; fiscal habits, vague or poor project documentation, government uncontrolled spending, implementation capacity, transaction problem, political will, policy summersault, unfavourable external and internal macro-economics forces.

Nwosu (2000) noted that politicians in Nigeria are known for intolerance, sectional, lawlessness, idleness, greed, thievery, selfishness and tribal rivalry that pave way for persisting political and sustained economic backwardness which lead to majority of the citizen destitute condition. Given the definition of budget Ebong and Agabu (2009) defined it as a plan accomplishing programmes that are related to goals and objectives for a particular period of time. This include estimate of resources needed and resources that are available and comparing past period and presenting future requirement.

Adedeji and Ayo (2000) noted that good governance is base on a range of values which it is accepted and perceived to improved public wellbeing and response to needs of citizens, including delivering of services, create environment for production with good conduct. Tony (2015) stated that taxation as a component of government fiscal policy is a system of levying compulsory payment on every business organization and eligible citizen in a country. It has been government revenue source both in developing and developed nations. The requirement for successful economic transformation of Nigeria would need the ability of the government to achieve macroeconomic, social and political stability through the design and implementation of suitable policies over a long period of time. Fiscal incentives have been adopted over years, such policies as tax rebate, lower and tax system reforms have played important roles in fostering medium and long term economic growth.

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In particular, lower taxes raises the incentives for people to save, thereby providing additional resources for investment by the deficit units of the economy. The review of the tax structure and system has helped to reallocate and redistribute resources economically, geographically and sectorally. This has enhanced the quality and quantity of capital and labour through creating job and boosting the economic growth. Usman (2004) observed that to get the best out of a good tax system, the fiscal authorities must also embrace expenditure restraints.

Theoretical Framework

Tax-and-spend theory

Proponents of this theory include Buchanan and Wagner (1978) while some proponents like Friedman (1978) contend positive causation others like Buchanan and Wagner (1978) contend negative causation; but causation is generally assumed from tax revenue to government expenditure.

Research Methodology

The study spans from the year 1999-2018, and adopted data obtained from CBN 2019 statistical bulletin.

Data Analysis and Interpretation of Result

The researchers used econometric views (E-views 12) for the analysis.

Data Presentation

Year	Total Revenue (₦' Billion)	GDP (₦' Billion)	Government Borrowing (₦' Billion)	Government Recurrent Expenditure (₦' Billion)	Government Capital Expenditure (₦' Billion)	Total Approved Budget (₦' Billion)
1999	662.59	5,307.36	2,577.37	449.66	498.03	299.00
2000	597.28	6,897.48	3,097.38	461.60	239.45	702.00
2001	796.98	8,134.14	3,176.29	579.30	438.70	894.00
2002	716.75	11,332.25	3,932.88	696.80	321.38	1,060.00
2003	1,023.24	13,301.56	4,478.33	984.30	241.69	1,450.00
2004	1,253.60	17,321.30	4,890.27	1,032.70	351.30	1,190.00
2005	1,660.70	22,269.98	2,695.07	1,223.70	519.50	1,600.00
2006	1,836.61	28,662.47	451.46	1,290.20	552.39	1,880.00
2007	2,333.66	32,995.38	438.89	1,589.27	759.32	2,390.00
2008	3,193.44	39,157.88	523.25	2,117.36	960.89	2,740.00
2009	2,642.98	44,285.56	590.44	2,127.97	1,152.80	3,050.00
2010	3,089.18	54,612.26	689.84	3,109.38	883.87	4,400.00
2011	3,553.54	62,980.40	896.85	3,314.51	918.55	4,700.00
2012	3,629.61	71,713.94	1,026.90	3,325.16	874.83	4,900.00
2013	4,031.83	80,092.56	1,387.33	3,689.06	1,108.39	4,990.00
2014	3,751.68	89,043.62	1,631.50	3,426.90	783.12	4,960.00
2015	3,431.03	94,144.96	2,111.51	3,831.95	818.37	4,400.00
2016	3,184.72	101,489.49	3,478.91	4,160.11	653.61	6,060.00
2017	2,847.32	113,711.63	5,787.51	4,779.99	1,242.30	7,400.00
2018	4,185.64	127,762.55	7,759.20	5,675.19	1,682.10	8,600.00
Source: CBN Statistical Bulletin 2019						

Granger Causality Test

Date: 07/08/20 Time: 10:03			
Sample: 1999 2018			
Null Hypothesis:	**Obs**	**F-Statistic**	**Probability**
GDP does not Granger Cause TREVENUE	18	5.14719	0.02257
TREVENUE does not Granger Cause GDP	18	0.10092	0.90470
BORROWING does not Granger Cause TREVENUE	18	0.06816	0.93444
TREVENUE does not Granger Cause BORROWING	18	1.12689	0.35374
RECEXP does not Granger Cause TREVENUE	18	1.03953	0.38124
TREVENUE does not Granger Cause RECEXP	18	6.45328	0.01131
CAPEXP does not Granger Cause TREVENUE	18	3.04063	0.08254
TREVENUE does not Granger Cause CAPEXP	18	0.24308	0.78769
BUDGET does not Granger Cause TREVENUE	18	1.88061	0.19171
TREVENUE does not Granger Cause BUDGET	18	2.15622	0.15535
BORROWING does not Granger Cause GDP	18	0.14754	0.86426
GDP does not Granger Cause BORROWING	18	2.11519	0.16022
RECEXP does not Granger Cause GDP	18	1.21357	0.32868
GDP does not Granger Cause RECEXP	18	1.31257	0.30254
CAPEXP does not Granger Cause GDP	18	2.73760	0.10181
GDP does not Granger Cause CAPEXP	18	3.86413	0.04819
BUDGET does not Granger Cause GDP	18	3.35380	0.06691
GDP does not Granger Cause BUDGET	18	2.60695	0.11169
RECEXP does not Granger Cause BORROWING	18	0.64007	0.54309
BORROWING does not Granger Cause RECEXP	18	0.44423	0.65070
CAPEXP does not Granger Cause BORROWING	18	0.07688	0.92641
BORROWING does not Granger Cause CAPEXP	18	0.81646	0.46342
BUDGET does not Granger Cause BORROWING	18	1.16079	0.34368
BORROWING does not Granger Cause BUDGET	18	0.13617	0.87392
CAPEXP does not Granger Cause RECEXP	18	0.44949	0.64750
RECEXP does not Granger Cause CAPEXP	18	2.11123	0.16070
BUDGET does not Granger Cause RECEXP	18	1.71246	0.21871
RECEXP does not Granger Cause BUDGET	18	1.93988	0.18313
BUDGET does not Granger Cause CAPEXP	18	8.80040	0.00383
CAPEXP does not Granger Cause BUDGET	18	0.75458	0.48973

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The aim of the research is to examine the interrelationships among certain economic indicators in Nigeria by using the concept of Granger causality tests developed by Granger (1969). No causality exists between Government Borrowing and Total Revenue. Uni-directional causality exists between Total Revenue and Gross Domestic Product. Uni-directional causality exists between Total Revenue and Government Recurrent Expenditure. No causality exists between Government Capital Expenditure and Total Revenue, No causality exists between Total Approved Budget and Total Revenue, No causality exists between Government Borrowing and Gross Domestic Product, No causality exists between Government Recurrent Expenditure and Gross Domestic Product.

Uni-directional causality exists between Government Capital Expenditure and Gross Domestic Product and Uni-directional causality exists between Government Capital Expenditure and Total Approved Budget. Hence this proves that the above cause and effect relationship is unidirectional and not bidirectional.

Regression Analysis

Dependent Variable: GDP				
Method: Least Squares				
Date: 07/08/20 Time: 10:01				
Sample: 1999 2018				
Included observations: 20				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	-2436.227	6546.460	-0.372144	0.7154
TREVENUE	2.792298	5.147797	0.542426	0.5961
BORROWING	-0.254356	1.369011	-0.185795	0.8553
RECEXP	30.59460	8.760495	3.492337	0.0036
CAPEXP	8.433245	8.121818	1.038344	0.3167
BUDGET	-1.708845	5.135967	-0.332721	0.7443
R-squared	0.979499	Mean dependent var		51260.84
Adjusted R-squared	0.972178	S.D. dependent var		39032.41
S.E. of regression	6510.599	Akaike info criterion		20.64358
Sum squared resid	5.93E+08	Schwarz criterion		20.94230
Log likelihood	-200.4358	F-statistic		133.7816
Durbin-Watson stat	1.412331	Prob (F-statistic)		0.000000

The regression equation is result:

$GDP = b_0 + b_1TR + b_2GB + b_3RECEXP + b_4CAPEXP + b_5BUDGET + ei$

$GDP = -2436.23 + 2.7923TR - 0.2544GB + 30.5946REC + 8.4332CAP - 1.7088BUDGET$

(-0.372) (0.542) (-0.186) (3.492) (1.038) (-0.333)

* The parenthesized figures below the coefficients are the t-values.

R-Square: 0.979499
Adjusted R-square: 0.972178
Standard Error: 6510.599
F- Statistics: 133.7816
Durbin Watson: 1.412331

Total Revenue is found to be positive at a t– ratio of 0.5424 and it has a positive impact on Gross Domestic Product, having the value of its coefficient as 2.792298. The sign indicate that coefficient of Total Revenue is positively related to Gross Domestic Product.

Government Borrowing is found to be negative at a t– ratio of -0.185795 and it has a negative impact on Gross Domestic Product, having the value of its coefficient as -1.369011. The sign indicate that Government Borrowing is negatively related to Gross Domestic Product.

Government Recurrent Expenditure is found to be positive and significant at a t– ratio of 3.492337 and it has a positive impact on Gross Domestic Product, having the value of its coefficient as 30.59460. The sign indicate that Government Recurrent Expenditure is positively related to Gross Domestic Product.

Government Capital Expenditure is found to be positive and significant at a t– ratio of 1.038344 and it has a positive impact on Gross Domestic Product, having the value of its coefficient as 8.433245. The sign indicate that Government Capital Expenditure is positively related to Gross Domestic Product.

Total Approved Budget is found to be negative at a t– ratio of -0.332721 and it has a negative impact on Gross Domestic Product, having the value of its coefficient as -1.708848. The sign indicate that coefficient of Total Approved Budget is negatively related to Gross Domestic Product.

Coefficient of Determination (R^2)

The R-Square is 0. 979499, which suggests a strong positive relationship between the dependent variable that is: Gross Domestic Product and the independent variables: Total Revenue, Government Borrowing, Government Recurrent Expenditure, Government Capital Expenditure and Total Approved Budget. The adjusted R^2 of 0.972178 suggests that 97% of the total change in Gross Domestic Product can be attributed to the Independent variables.

F-Test

If F*>F, we reject the null hypothesis and if otherwise, we accept the null hypothesis. Given the results on the ANOVA table, the observed F* = 133.7816

At 5% level of significance, our theoretical F, given our level of significance and degree of freedom is $F_{0.05}$ = 133.7816 comparing these values

$F^* > F_{0.05}$

i.e. 133.78> 3.23

Discussion of Findings

The Null Hypothesis (Ho) "Government's revenue and expenditure policies have no significant effects on Nigeria economic development" and "Annual budgets of government have not significantly contributed to Nigeria economic development" are rejected and the Alternative Hypothesis (Hi) "Government's revenue and expenditure policies have significant effects on Nigeria economic development" and "Annual budgets of government have significantly contributed to Nigeria economic development" are accepted.

Conclusion and Recommendations

The result indicated that fiscal policy has had remarkable influence on Gross Domestic Product in the country. Government budget and revenue have impact significantly showing that they are very important determinant of economic growth and development. If tax reduction are not handled in an economical responsible way, they may result to fiscal imbalance.

Policies on revenue generations and tax should be look into. Every tier of the government should double efforts to broaden its revenue base in view of the associated economic gains. Politicization of fiscal policy and other economic programmes led to budget indiscipline and extra budgetary spending.

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