

# Effect Of Tax Revenue On Fiscal Performance In Nigeria

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## Abstract

*This study investigates the effect of tax revenue on fiscal performance in Nigeria from the first quarter of 2013 to the first quarter of 2023. An ex post facto research design was adopted for the study. Quarterly time series data for companies' income tax, value added tax, customs and excise duty, and fiscal performance were collected from the Central Bank of Nigeria statistical bulletin. Philip Perron test was used to test the stationarity of the data and the ARDL test was utilized to determine the presence of a long-run relationship. The Fully Modified Ordinary Least Squares technique was used to test the effect of tax revenue on fiscal performance in Nigeria. The findings showed that companies' income tax and customs and excise duty have an insignificant effect on fiscal performance in Nigeria. However, value added tax has a significant effect on fiscal performance in Nigeria. The study recommends that the Nigerian government through the Federal Inland Revenue Services should introduce targeted tax incentives to encourage compliance and stimulate economic activities. Also, the government of Nigeria should evaluate the current value added tax rates and structure to ensure they are competitive and conducive to economic growth. The government of Nigeria should conduct a comprehensive review of the customs and excise duty structure to identify complexities or inefficiencies that may be hindering their impact. They should simplify the duty structure to make it more transparent and easily understandable for businesses and taxpayers.*

**Keywords:** Tax Revenue, Companies Income Tax, Value Added Tax, Customs and Excise Duty

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## I. Introduction

Since the discovery of Oil in Oloibiri, Bayelsa state in 1956 it has been the main stay of the Nigerian Economy. Successive governments since then have not tried to look for alternative revenue sources to finance government expenditure until the preceding fluctuations in crude oil prices, ranging from \$95.16 per barrel in January 2008 to \$146.15 per barrel in July 2008, and a subsequent drop to \$76.15 per barrel in October 2008, eventually reached a significant low in 2016, falling to less than \$28 per barrel (Sanusi, 2010).

The decline in oil prices had a significant impact on the Nigerian economy, as noted by researchers such as Olomola (2006) and Ogochukwu (2016). The plummeting crude oil prices led to various economic challenges, including inflation, widespread job layoffs in private companies, an increase in the cost of living, delayed salary payments by Nigerian state governments, a rise in foreign exchange rates, a decrease in funds flowing into the foreign reserve, and a reduction in the excess crude oil account (Adeoye & Atanda, 2005).

The drop in oil prices served as a wake-up call for the Nigerian government to consider diversifying its sources of revenue (Ogochukwu, 2016). It became necessary for the country to explore alternative avenues to enhance economic viability, rather than relying solely on oil. This proactive approach is crucial to mitigate the effect of future crises in the crude oil market on the Nigerian economy. Therefore, there is a pressing need for Nigeria to shift its focus to neglected sectors during the oil boom.

Drawing inspiration from countries like China, India, and South Korea, which have successfully generated substantial revenue from non-oil sectors such as manufacturing and information technology, provides a model for Nigeria to emulate in navigating the era of diminishing crude oil prices (Dahlman, 2016). The Nigerian economy began exploring other non-oil sectors. For instance, one of the recent priorities of the financial economy of Nigeria is Small and Medium Scale Enterprises, the agricultural sector and tax revenue (Ogochukwu 2016).

Nigeria has one of the world's lowest rates of tax collection, and to improve this, the country has undertaken several innovative reforms to increase tax revenue standing at around 10.8 percent of its Gross Domestic Product (GDP) as of December 2021 (IMF, 2022). The harmonization and codification of taxes at both the national and sub-national levels are seen as crucial steps to create a tax-friendly environment in Nigeria. The Nigerian government, particularly through the Federal Inland Revenue Service (FIRS), is actively pursuing measures to enhance the nation's tax-to-GDP ratio. This initiative aligns with the broader framework of the Federal Government Strategic Revenue Growth Initiative (SRGI) and is reinforced by the provisions of the 2020 Finance Act.

The Medium-Term Plan for 2021-2024 represents the fifth strategic plan since the initiation of FIRS reforms in 2004. The plan is strategically aligned with the SRGI and focuses on four years, emphasising the need for comprehensive tax reforms. At this juncture, the Federal Government aims to significantly increase tax revenue, targeting an ambitious tax-to-GDP ratio of 15 percent by 2025. The SRGI outlines four main objectives to achieve this goal: raising revenue to GDP, expanding the tax base, countering tax evasion, and promoting a cultural change to encourage tax compliance. These objectives aim to enhance transparency, reduce corruption in the tax system, and improve overall compliance.

An increase in tax revenue is expected to positively affect a country's fiscal performance. Firstly, it helps stabilize the budget by providing enough funds for public services, infrastructure projects, and social welfare programs without relying too much on borrowing. This boost in revenue can also help in reducing fiscal deficits, which contributes to the overall sustainability of the government's finances. Moreover, as tax revenue increases, governments can manage their national debt better by relying less on external borrowing, which means lower costs for servicing the debt. Additionally, having a strong and growing tax base improves a country's creditworthiness in global financial markets, possibly leading to better credit ratings and more favourable terms for borrowing.

Fiscal performance, a key focus of fiscal rules and frameworks introduced in many countries since the 1990s, is about how well a government handles its money, including revenue, spending, and debt. It shows how effective a country's fiscal policies are in achieving economic stability and lasting growth. Having a strong fiscal performance is crucial for an economy. When a government manages its money well, it keeps the budget stable by making sure spending matches revenue and avoiding excessive borrowing. This stability builds confidence among investors and the public, creating economic predictability. Effective fiscal performance also lets governments use money wisely, investing in important areas like infrastructure, education, and healthcare, which are essential for long-term economic development. Furthermore, a well-managed fiscal policy can help during tough times by allowing the government to adapt, like using stimulus packages during economic downturns.

In this research, we will utilize Value Added Tax (VAT), Companies Income Tax, and Customs and Excise Duty as indicators of tax revenue. Scholars such as Festus and Samuel (2007) and Chude and Chude (2015) highlight the significance of Companies' Income Tax as a major source of revenue in Nigeria. Additionally, Custom and Excise Duty have been identified by Azaiki and Shagari (2007) as having the potential to diversify the country's revenue sources, promoting fiscal sustainability and economic growth. Furthermore, Value Added Tax revenue has consistently represented a substantial portion of total public revenue globally, as emphasized by Ugochukwu and Azubike (2016). To measure fiscal performance, we will consider the debt-to-GDP ratio. This metric is chosen because it provides insights into the government's ability to manage its debt about the size of the economy, serving as an important indicator of fiscal health and sustainability. This study will use Value added tax, Companies' income tax and Customs and excise duty to measure tax revenue because according to scholars like Festus and Samuel (2007) as well as Chude and Chude (2015) company Income Tax is a major source of revenue in Nigeria. Custom and Excise Duty has the potential to diversify the revenue portfolio of the country to promote fiscal sustainability and economic growth (Azaiki & Shagari, 2007), Value Added Tax revenue has accounted for a significant percentage of the total public revenue universally (Ugochukwu & Azubike, 2016) respectively.

This study sets out to explore whether the rise in tax revenue has had an impact on fiscal performance in Nigeria. Specifically, the study focuses on examining the effects of Companies' Income Tax, Value Added Tax, and Excise Tax on the country's fiscal performance. This study therefore hypothesized that:

**H<sub>01</sub>:** Companies' Income Tax has no significant effect on fiscal performance in Nigeria.

**H<sub>02</sub>:** Value added taxes have no significant effect on fiscal performance in Nigeria.

**H<sub>03</sub>:** Customs and Excise duty has no significant effect on fiscal performance in Nigeria.

## **II. Literature Review**

### **Conceptual Framework**

#### **Tax revenue**

Tax revenue is the money that governments collect from taxpayers. It is the main source of income for governments and is used to fund essential services such as education, healthcare, and infrastructure. Taxation was originally designed to generate revenue for public authorities, and it has been in existence for ages. Tax revenue is a major source of revenue for the government. It is an important tool of fiscal policy of the government and the opposite of government spending. One of the early definitions of tax was by Dalton (1920, p.384), he stated that "a tax revenue is a compulsory contribution imposed by public authority, irrespective of the exact amount of service rendered to the taxpayer in return, and not imposed as a penalty for any legal offence". His view suggested that tax is forcefully collected from the citizen and that no taxpayer pays tax willingly.

Despite Dalton's (1920) exposition on tax, Bofah (2003) simplified taxes to mean revenue collected by the government to provide services and finance themselves. This view, however, did not state from whom the

revenue is collected. In contrast to Bofah (2003), Dike (2014) elucidated more on the notion of taxes to assert that tax is a compulsory exaction from a taxpayer, either remitted in cash or in kind to the government to provide public services of common interest without regard to a particular benefit received by the taxpayer. In other words, the remittance is done individually, but the outcome of the services provided is enjoyed by all, rather than giving specific benefits to a taxpayer.

Moreover, Stotsky (2006) views taxation as a "public good" that provides several societal benefits. The study argued that taxation contributes to government revenue generation for essential services, reduces economic inequality through wealth redistribution, promotes economic growth by facilitating infrastructure investment, stabilizes the economy by mitigating fluctuations, and encourages compliance with other laws and regulations. Stotsky (2006) suggested that the advantages of taxation are principally significant in developing countries, given their smaller tax base and less developed tax administration systems, necessitating greater reliance on taxation for revenue generation and economic growth promotion. However, the study acknowledges the potential negative consequences of taxation, including distortions in economic activity, administrative and compliance costs, and regressive effects. Adeusi et al (2020) stated that tax revenues are revenues generated from sources other than oil producing activities (such as petroleum revenue from the upstream activity and other oil related operations). Examples of tax revenue include revenues from companies not engaged in oil & gas explorations, such as Companies Income Tax, Custom and Excise Duties, Value Added Tax, Education Tax, and Personal Income Tax (PIT) (Uremadu et al, 2020).

### **Companies Income Tax**

Corporate income tax remains a germane fiscal instrument across the globe. The Companies Income Tax (CIT) specifically targets the profits generated by registered companies operating in Nigeria. The regulation of corporate taxation in Nigeria is primarily governed by the Company Income Tax Act (CITA). This act serves as the principal legal framework overseeing the taxation of companies in the country. Nigeria employs a multi-level tax system, wherein taxation is administered by the three tiers of government. Ogwuche et al. (2019) asserted that this tax also extends to the profits of foreign companies engaged in any form of business within the country. The Companies Income Tax applies to various corporate entities, including limited liability companies and public limited liability companies, requiring them to pay taxes on their profits as stipulated by the provisions (Kiabel & Nwokah, 2009).

### **Value Added Tax**

Value Added Tax (VAT) is an indirect tax imposed on goods or services based on a percentage of their added value. In simple terms, the customer pays a price that includes the VAT, and the seller later pays the VAT they incurred on the inputs they purchased. This tax system emerged in the early 20th century and has been adopted by over 160 countries, contributing about 20 percent to the total global tax revenue (James, 2011; Gerard & Naritomi, 2020). Many countries see VAT as a reliable way to boost their internally generated revenue, with VAT revenue constituting a significant portion of total public revenue worldwide (Ugochukwu & Azubike, 2016). According to Omesì & Nzor (2015), VAT is a consumption tax applicable to goods and services consumed by individuals, businesses, and organizations, and it is determined by consumption rather than income (Fowler, 2016; Ebiringa, & Emeh. (2012). Unlike a progressive income tax, VAT is applied uniformly to all purchases, not discriminating among different classes of income earners.

### **Customs and Excise Duty**

Customs and excise duty is the basic tool of economic protectionism and an indirect tax (i.e. one that is not levied directly on citizens but indirectly when goods are purchased) on certain consumer goods. Customs duties are tariffs paid on goods entering (or occasionally leaving) a country. Customs duty is nothing more than a charge for moving goods across customs borders. Customs duty may be collected to: increase state budget revenue, protect internal market and domestic manufacturers against goods manufactured abroad, and exert pressure on a trading partner to change (or not to change) the terms of trade (retaliatory duties) (Okafor, 2012).

Although sometimes applied to services, excise taxes are generally imposed on the sale of specifically listed goods (Accurate Tax, 2018). An excise tax is a legislated tax on specific goods or services at the time they are purchased. They are intranational taxes imposed within a government infrastructure rather than international taxes imposed across country borders (Dragos, 2014).

### **Fiscal Performance**

Fiscal performance is a measure of how well a government can use its assets or liability to generate more revenues. Fiscal performance refers to the effectiveness of a government's fiscal policies in achieving their intended goals. Fiscal performance is the use of government spending to influence the economy. Fiscal institutions can strengthen fiscal performance by providing independent analysis and advice on fiscal policy.

Budgeting for fiscal space is a concept that suggests that some countries may have more fiscal space than others and that fiscal space can be created by improving government performance (Kamasa et al, 2022).

According to Ayoguzee and Anidiobu (2017), fiscal performance is a summary of intended expenditures along with proposals on how to meet them. It provides a plan for the earnings and spending of a country for some time. It can be balanced, surplus or deficit. In circumstances in which inflows equals outflows, it is said to be balanced. This study emphasizes the importance of a balanced budget and the consequences of budget surpluses and deficits. For a sustainable economic growth of a country, a balanced budget is decisive. When a budget surplus is witnessed, revenue becomes more than current expenditures and results in an excess of funds that can be appropriated as desired. However, in circumstances in which a budget deficit is identified, current expenses exceed the amount of income being received through standard operations. To correct a budget deficit, a nation may need to cut back on certain expenditures or increase revenue-generating activities, or employ a combination of the two (Peterson, 2007).

Various indicators can be used to measure fiscal performance. The budget deficit, which represents the difference between government spending and revenue, indicates whether a government is spending more than it earns. The debt-to-GDP ratio reflects the proportion of government debt to the size of the economy, influencing a government's ability to finance its spending. The growth rate of government spending examines the pace at which expenditures are increasing and its potential impact on private investment and inflation.

Strong fiscal performance offers several benefits. It promotes economic stability by averting excessive borrowing and debt, resulting in reduced inflation and interest rates that facilitate business investment and job creation. Financial security is enhanced by maintaining a low debt-to-GDP ratio and avoiding excessive government borrowing. Social welfare is improved through the provision of essential public services such as education and healthcare, which reduces poverty and inequality while enhancing the overall quality of life.

## **Empirical Review**

### **Tax Revenue and Fiscal Performance**

Manik (2023) evaluated the effect of revenue collection on the national budget along with the division-wise allocation in Bangladesh. Data was collected from the websites of the Finance Ministry and Bangladesh Bureau of Statistics. From the tax sector, Bangladesh collected 81.5% of revenue in 2021 and has planned to collect 88.9% in 2023. The government is expecting more earnings from the tax sector. The budget deficit of the country was -28.1% of expenses in 2021 and 35.7% of expenses in 2023. The increasing budget deficit is creating a fiscal burden on the economy. The country spent 18.7%, 14.8%, and 12.0% in public service, education, and interest payments, respectively, in the revised budget for 2022. Bangladesh should increase the budget allocation in agriculture, health, and housing sectors to promote sustainable development, and it should cut allocation in interest payment, public service, and defence sectors to reduce the budget deficit. However, the study considered the total expense of 15 divisions, so further study is required involving operating and developing expenses among different sub-divisions for a better understanding of the national budget allocation of Bangladesh.

Kamasa et al (2022) assessed the impact of tax revenue on revenue mobilization in Ghana. The autoregressive distributed lag model together with dynamic ordinary least squares and fully modified least squares techniques were employed on a time-series data spanning from 1980–2018. Exploiting data from the IMF monitoring of fund arrangements database, the study constructed an index of tax reforms as a function of the number of successfully implemented tax-related reforms and policy measures per year over the study period. The study established the presence of co-integration between tax revenue and revenue mobilisation, the study found strong evidence that tax-related reforms exert a positive and significant impact on tax revenue generation in Ghana. The results also showed that the tax base (real GDP), public debt and education (human capital index) significantly boosted tax revenue in the long run. The study filled the gap in the literature by analysing the impact of tax reforms on tax revenue mobilisation in Ghana and recommended that well-designed and implemented tax reforms as well as policies that are aimed at increasing the tax base, education and effective utilisation of funds from public debt will be to be instrumental to boosting tax revenue in Ghana. Before we can adopt this recommendation in Nigeria there is a need to investigate if the tax reforms have a similar effect in Nigeria.

Kaka (2021) examined the existence of a mutual consensus on the effect of tax revenue and non-tax revenue on public debt in Nigeria. The study used a documentary research design. Data was collected using the secondary method of data collection from the Debt Management Office and Bureau of Statistics and Central Bank of Nigeria statistical bulletin data bank. Ordinary Least Square Multi regression model was used in analyzing the data. The research found that there is a negative and insignificant relationship between tax revenue, non-tax revenue and interest rate in Nigerian public debt. Moreover, the study found that the exchange rate and population rate had a significant and positive relationship with Nigerian public debt. The study implies that the contribution of tax revenue to the reduction of public debt is minimal as could be shown from the results. While non-tax revenue contributed more than tax revenue to public debt reduction in Nigeria. In addition, an increase in the exchange rate, and population rate contributed more to the increase in public debt, while, an increase in interest

rate does not increase public debt but rather it discourages the government from collecting more debt and pushes the government to go for other revenue sources that were not assessed. The study recommended that; the government should harness untapped taxes to increase tax revenue generation to pay interest on loans and principal. Most of the information at the researcher's disposal used for the study was for 15 years, from 2003 to 2018. Thus, studies need to be conducted involving more years like from 20 years upward to see whether it will change the result. The originality of this research lies in the government's inability to generate enough tax revenue and non-tax revenue to meet expenditures without collecting debt. This is because the collection of debt always leads to frequent increases in debt burden in Nigeria. The study used total public debt as the dependent variable this study will be using the debt to GDP ratio as the dependent variable while both variables are valuable for understanding a country's fiscal health, they offer different perspectives as the debt to GDP ratio offers a broader macroeconomic view.

Udeh (2021) examined the effect of non-oil revenue on the economic growth of Nigeria. The scope of the research covers a period of thirty-five years running from 1981 to 2015. The study adopted an ex-post facto research design to achieve the objectives. The researcher made use of multiple linear regression models. Secondary data on oil and non-oil revenue of the government for the period were collected from the CBN statistical bulletin. Economic growth which is the dependent variable was represented by gross domestic product (GDP). The researcher applied the augmented Dickey-Fuller unit root test, co-integration test and error correction model in the analysis of data. From the findings, oil and non-oil revenue exerted a positive and significant effect on gross domestic product. However, the study did not conduct a post-estimation test. These tests are essential for ensuring that the results and insights drawn from the regression result are valid and trustworthy.

Awwad and Zidan (2020) analyzed the effect of tax on the level of public debt and the deficit of the balance of payment in Palestine for the years 1996-2019. Data was collected from the Palestinian Monetary Authority and the Ministry of Finance. The study applies the ordinary least square to test the effect of the clearance tax on the public expenditures (current and budgeted) from one side and on the balance of payment from the other side. Findings show that current expenditures and budget deficits are positively associated with the clearance tax while budgeted expenditures are not correlated with the reported tax. The study stresses the importance of restructuring the economic agreements with Israel, more specifically the Paris Economic Protocol. The study concludes with important recommendations. Palestinian authorities and relevant policymakers should reinforce their strategies to improve the tax system and the efficiency of tax collection. They should diversify their revenues, rationalize their spending, and undertake new projects to reduce the public debt level.

Ntekpere and Olayinka (2020) examined the effect of tax revenue on public debt and capital expenditure in Nigeria during the period 1999 - 2018. Secondary data was sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin. It adopted the ordinary least square regression method by E-views program to study the effect of the independent variables (represented by value added tax, company income tax, petroleum profit tax and customs and excise duty) on the dependent variable (external debt, internal debt and capital expenditure). The data treatments used for the times series secondary data are Descriptive Statistics, Unit Roots using Augmented Dickey-Fuller, Co-integration tests using Bounds Test and Vector Error Correction Model. The findings revealed that tax revenue had a statistically significant, positive and negative effect on public debt and capital expenditure. Tax revenue had both positive and negative effects on external debt in Nigeria; Tax revenue had both positive and negative effects on internal debt in Nigeria and Tax revenue had both positive and negative effects on capital expenditure in Nigeria. The study concluded that tax revenue affects public debt and capital expenditure in Nigeria.

Ilori and Akinwunmi (2020) examined the effects of generating revenues on Nigeria's economic development from 1989 through 2018 using secondary data extracted from the statistical bulletin of the Central Bank of Nigeria. The study employed the model for analytical co-integration and error correction. The study employed the co-integration model and error correction model. Test stationarity of the time series, the Augmented Dickey-Fuller (ADF) test was applied. Similar analytical processes were applied to the multivariate data on components of oil and non-oil revenue, exchange rates, and real gross domestic products. Results generated indicated that the oil revenue harms real gross domestic products in Nigeria, but this is the same with effects reported from non-oil revenue. Nonetheless, Nigeria's exchange rate gives a positive sign and statistical significance for real gross domestic products. Consequently, the study concludes that the continuing decline in global crude oil prices, resistance from insurgents in Nigeria's oil-producing area, the profligate expenditure of the Nigerian Government, the global COVID-19 health pandemic, among other factors, are harming the economic development of Nigeria.

Efuntade et al (2020) examined tax revenue and its effect on government expenditure in Nigeria. Secondary data source was explored in presenting the facts of the situation. The secondary data were obtained from relevant literature, Central Bank of Nigeria Statistical Bulletin and National Bureau of Statistics publications amongst others. Data were tested using the Ordinary Least Square Linear Regression model. From the Central Bank of Nigeria Statistical Bulletin and National Bureau of Statistics, information concerning Total Expenditure,

Petroleum Profit Tax, Value Added Tax, Company Income Tax and Personal Income Tax in Nigeria were extracted. The findings showed that tax revenue has a significant effect on government expenditure in Nigeria. The study concluded that Increased tax revenue is a function of effective enforcement strategy which is the pure responsibility of tax administrators and Tax administration requires highly trained personnel to match up with the sophistication of tax evasion with the use of modern technology. The study then recommends among others, that a carefully planned tax policy which is consciously and faithfully implemented can help to generate revenue that can transform a nation in totality.

Uremadu et al (2020) investigated the impact of tax revenue on the economic growth of Nigeria for the period 1994 – 2017 studied. Data were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin (2017). Real gross domestic product (RGDP) proxy for economic growth was adopted as the dependent variable while agricultural revenue (AR), manufacturing revenue (MNR), mining revenue (MR) and value-added tax revenue (VATR) were adopted as the independent variables. The Augmented Dickey-Fuller (ADF) unit root test was used to test the stationarity of the variables. The results revealed a mixed order of integration, hence, the Auto-Regressive Distributed Lag (ARDL) bounds test was used to test the long-run relationship (co-integration) among the variables in the model and that there was a long-term relationship among the variables. The ARDL results showed that agricultural revenue and mining revenue had a negative and insignificant effect on the economic growth of Nigeria in both the short run and long run. Manufacturing revenue had a positive and insignificant effect on economic growth in the short run and a positive and significant effect on the economic growth of Nigeria in the long run. However, VAT revenue had a positive and very significant effect on the economic growth of Nigeria both in the short run and long run.

Olowo et al (2020) examined the sectorial contributions of tax revenue to economic growth in Nigeria from 1981 to 2018 with the aim of examining the effects of environmental, information and communication technology and financial sectors' revenue on economic growth in Nigeria. The autoregressive distributed lag model was the main estimation technique applied. The time series data for the study on environmental sector revenue, information and communication technology sector revenue, financial sector revenue and real gross domestic product were secondarily sourced from the Central Bank of Nigeria's Statistical Bulletin. The study found that environmental sector revenue has positive and insignificant contributions to economic growth whereas the information and communication technology and financial sectors' revenue contributed positively and significantly to economic growth in Nigeria. The study, thus, implies that the sectorial contributions of non-oil revenue are undermined. It is concluded that sectorial contributions of non-oil revenue are positive and significant to economic growth in Nigeria.

Adeusi et al (2020) examined the effect of non-oil revenue on economic growth in Nigeria. The four specific variables proxy for non-oil revenue are Value Added Tax, Companies Income Tax, Personal Income Tax and Customs and excise Duties, while Gross Domestic Product was used to represent economic growth in Nigeria. The study population consists of all individuals, corporation soles and corporate organizations whose taxes were paid to the Nigerian government except firms operating in the upstream industry. The study sample consists of the entire population of the study using the census sampling approach. The secondary source of data collection method was used in generating data from the Federal Inland Revenue Service Statistical Bulletin of 2018 and the National Bureau of Statistics of 2019 for the period 1994-2018. Descriptive statistics and Ordinary Least Square (OLS) regression techniques were used to analyse the data collected. The study findings revealed that indirect taxes (Custom & Excise Duties and Value Added Tax) have a more significant positive effect on Nigerian economic growth than direct taxes (Companies Income Tax and Personal Income Tax). Also, direct taxes have a significant but negative effect on Nigerian economic growth, especially in the long run.

Adegbie et al (2020) investigated the effect of taxes on the economic growth and development of Nigeria. The study employed ex post facto research design. Macro data for the period 1994Q1- 2017Q4 representing seventy-six (76) observations were obtained from the CBN statistical bulletin and the National Bureau of Statistics. The documents were already exposed to the scrutiny of the appropriate regulatory agencies. The data were analyzed using descriptive and inferential statistics employing multiple regressions. The study discovered that non-oil taxes (custom and excise duties, capital gain tax, company income tax, tertiary education tax and value added tax) have a significant effect on economic growth. This study concluded that non-oil taxes significantly influenced both economic growth and economic development in Nigeria. However, 2018 or 2019 data should have been added to the work since the work was published in 2020.

## **Theoretical Framework**

### **Theory of Fiscal Federalism**

The term "fiscal federalism" was introduced by Richard Musgrave, a German-born American economist, in 1959. However, Wallace E. Oates, expanded and refined the concept in his work "Fiscal Federalism" in 1972, nevertheless the foundational ideas of fiscal federalism were laid out by Kenneth Arrow, Richard Musgrave, and Paul Samuelson. This theory assumes that a federal system of government can effectively address contemporary

challenges, such as income distribution, resource allocation, and economic stability. Fiscal federalism is a result of federalism, a political concept where power is shared between national and subnational governments. According to Arowolo (2011) and Akindele and Olaopa (2002), federalism implies that each tier of government is independent in its sphere of authority, with taxing powers to exploit its revenue sources. Fiscal federalism aims for each government level to have adequate resources to fulfil its functions without relying on the other for financial support (Wheare, 1963). This theory makes assumptions about government behaviour, such as equal effectiveness in collecting taxes and balanced budgets. It also considers that governments work to maximize collective well-being and have full information about each other's actions. Fiscal federalism explores the relationship between different government levels, emphasizing cooperation and coordination for equitable distribution of responsibilities and resources, contributing to overall fiscal stability and performance.

### III. Methodology

The research design adopted for this study is ex post facto design. This study uses quarterly time series data covering the period 2013Q1 to 2023Q1. The variables of the study are Companies' Income Tax, Value Added Tax, Excise Tax, and fiscal performance (see Appendix I). Data for the study was obtained from the Central Bank of Nigeria Statistical Bulletin 2023. Descriptive statistics were used to explain the data. A stationarity test was conducted to test for the presence of unit roots in the time series data. In addition, the co-integration test was conducted to investigate the possible correlation among the variables of this study. A vector error correction model was also used: The vector error correction model is a restricted type of VAR designed for the use of non-stationary series that are known to be co-integrated. The data obtained was also analyzed using Fully Modified Ordinary Least Square regression through the Eviews 10 Statistical Package. The analysis process of this study follows the following steps:

The Phillips-Perron (PP) unit root test was employed to determine the order of integration of the variables to establish the stationarity level of the variables. The PP unit root test is conventionally said to have greater unit root detection ability when compared with the ADF unit root test. The PP test is thus preferred to the Augmented Dickey-Fuller (ADF) because it deals with a potential correlated error by employing a correction factor that estimates the long-run variance of the error process.

$$\Delta y_{t-1} = \alpha_0 + \lambda y_{t-1} + \dots + \lambda y_{t-p} + \varepsilon_t$$

#### Cointegration

The cointegration test determines if the integrated variables are cointegrated. Cointegration regressions measure the long-term relationship between the dependent and the independent variables. The bound test cointegration approach was preferred in the study as it allows the researcher to test for cointegration using variables that are stationary at different orders. It also helps to estimate a dynamic error correction specification, which provides estimates of both the short and the long-run dynamics.

#### Error Correction Model

Granger (1987) showed that if two variables are cointegrated, then they have an error correction representation. The Error Correction Model (ECM) provides information about the long-run, and short-run relationship as well as the speed of adjustment between the variables in incorporating the estimated equation, the Error Correction Term (ECT).

$$\Delta Y_t = a_0 + b_1 \Delta X_t - \lambda \hat{u}_{t-1} + Y_t$$

The model is specified as follows:

$$FP = f(\text{LOGCIT}, \text{LOGVAT}, \text{LOGCED}) \dots \dots \dots (1)$$

The econometric form of equation (1) is represented as:

$$FP_t = \beta_0 + \beta_1 \text{LOGCIT}_t + \beta_2 \text{LOGVAT}_t + \beta_3 \text{LOGCED}_t + \mu_t \dots \dots \dots (2)$$

Where: FP = Fiscal Performance; LOGCIT = Logarithm of Companies Income Tax; LOGVAT = Logarithm of Value Added Tax; LOGCED = Logarithm of Customs and Excise duty;  $\beta_0$  = Intercept or Constant;  $\beta_1 - \beta_3$  = Slope of the regression line concerning the independent variables;  $\mu$  = Error Term. The Cointegration model of the study is represented by:

$$\Delta FP_t = \mu + \sum_{i=0}^{m-1} \Gamma_i \Delta FP_{t-i} + \sum_{i=0}^{m-1} \gamma_1 \Delta \text{LOGCIT}_{t-i} + \sum_{i=0}^{m-1} \gamma_2 \Delta \text{LOGVAT}_{t-i} + \sum_{i=0}^{m-1} \gamma_3 \Delta \text{LOGCED}_{t-i} + \text{ECM}_{t-1} + \varepsilon_t (3)$$

FP = Fiscal Performance; LOGCIT = Logarithm of Companies Income Tax; LOGVAT = Logarithm of Value Added Tax; LOGCED = Logarithm of Customs and Excise duty; and ECM = Error-correction coefficient;  $\varepsilon$  = Error term;  $\Delta$  = First difference operator;  $\mu$  = Intercept or Constant;  $t-i$  = Time lagged;  $\gamma_1 - \gamma_3$  = Coefficient of independent variables.

**IV. Results and Discussion**

**Table 1: Descriptive Statistics**

	FP	LOGCIT	LOGVAT	LOGCED
Mean	0.200702	11.47340	11.49296	11.06441
Maximum	0.375320	12.55074	12.39172	12.07631
Minimum	0.054618	10.50832	10.94766	10.42163
Std. Dev.	0.111597	0.496066	0.444635	0.462780
Observations	41	41	41	41

Source: Eview Version 10 Output, 2023

Table 1 reveals that fiscal performance has a mean value of 0.200702 for the period under consideration, while the deviation from the mean (standard deviation) was 0.111597. This means that fiscal performance is normally distributed because the standard deviation value is lower than the mean value. The maximum fiscal performance within the period of this study was 0.375320. This implies that the highest fiscal performance is not more than 38% within the 41 quarters. The table shows the minimum percentage to be 0.05.

Table 1 also shows that the logarithm of companies' income tax had a mean value of 11.47340, while the deviation from the mean was 0.496066. This indicates that the logarithm of companies' income tax is normally distributed. The maximum value within the period under consideration was 12.55074, implying that the highest level of logarithm of companies' income tax was not more than 13 in percentage. While the minimum value was 11% indicating the lowest level of logarithm of companies' income tax.

The logarithm of value added tax had a mean value of 11.49296, while the deviation from the mean was 0.444635. This indicates that the logarithm of value added tax is normally distributed. The maximum value within the period under consideration was 12.39172, implying that the highest level of logarithm of value added tax was not more than 12 in percentage. While the minimum value was 11% indicating the lowest level of logarithm of value added tax.

Finally, the logarithm of customs and excise duty had a mean value of 11.06441, while the deviation from the mean was 0.462780. This indicates that the logarithm of customs and excise duty is normally distributed. The maximum value within the period under consideration was 12.07631, implying that the highest level of logarithm of customs and excise duty was not more than 12% and the minimum value of 10% indicates the lowest level of logarithm of customs and excise duty.

**Table 2: Stationarity Check**

Variables	Adj. T-Statistic	Prob. Values	Order of Integration
FP	-4.020186	0.0159	I(0)
LOGCIT	-6.248067	0.0000	I(0)
LOGVAT	-9.268168	0.0000	I(1)
LOGCED	-18.28503	0.0000	I(1)

Source: Researcher's Computation 2023.

To examine the existence of stochastic non-stationarity in the series, the research establishes the order of integration of individual time series through the unit root tests. The test of the stationarity of the variables adopted was the Phillips-Perron (PP) test. The variables tested are FP, LOGCIT, LOGVAT and LOGCED, with results in Table 2.

From Table 2, it can be seen that LOGVAT and LOGCED were found to be stationary at first difference, that is, at order I(1). While FP and LOGCIT were found to be stationary at level, that is, at order I(0). The PP test statistics are greater than their respective tabulated values and their p-values are all below the 0.05 significant level for this study. Since the variables were found stationary at level I(0) and first order I(1), the Bound test approach to co-integration was applied to determine the long-run relationship among the variables.

**Table 3: ARDL Bound Test**

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	2.214806	10%	2.37	3.2
k	3	5%	2.79	3.67
		2.5%	3.15	4.08
		1%	3.65	4.66

Source: Extract of Eview 10 output

The decision criteria are: if the value of the F-statistics is lower than the I(0) bound we cannot reject the null hypothesis of no cointegration, but if the F-statistics is higher than the values of the I(1) bound we reject the null hypothesis. In this study, we obtained F-statistics of 2.214806 which is lower than the I(0) bound values of 2.37 (10%), 2.79 (5%), 3.15 (2.5%) and 3.65 (1%) in this case we accept the null hypothesis that there is no cointegration. Therefore, this means that there is no long-run relationship between fiscal performance, the logarithm of companies' income tax, the logarithm of value added tax and the logarithm of customs and excise duty.

**Table 4: Fully Modified OLS Regression Result**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGCIT	-0.008110	0.024903	-0.325681	0.7466
LOGVAT	0.146638	0.064056	2.289204	0.0280
LOGCED	0.091754	0.066942	1.370653	0.1790
C	-2.409897	0.295256	-8.162063	0.0000
R-squared	0.851690	Mean dependent var		0.204286
Adjusted R-squared	0.839331	S.D. dependent var		0.110603
S.E. of regression	0.044334	Sum squared resid		0.070757
Long-run variance	0.003833			

*Source: Eview 10 output*

The regression result shows that the logarithm of companies' income tax has an insignificant effect on fiscal performance because the p-value was 0.7466 which was higher than the 5% significant level, indicating that an increase in companies' income tax will not change fiscal performance by the extent of 0.008%. Also, the logarithm of value added tax has a significant effect on fiscal performance because the p-value was 0.0280 which is lower than the 5% significant level, indicating that an increase in value added tax will increase fiscal performance to the extent of 0.147%. Logarithm of customs and excise duty has an insignificant effect on fiscal performance because the p-value was 0.1790 which was higher than the 5% significant level, indicating that an increase in customs and excise duty will not change fiscal performance by the extent of 0.092%.

The coefficient of determination (R-square) indicates that the model fits in prediction. It showed that about 85 percent of changes in fiscal performance were collectively due to companies' income tax, value added tax and customs and excise duty, while 15 percent of unaccounted variations were captured by the error term.

**Table 5: Post Estimation Test**

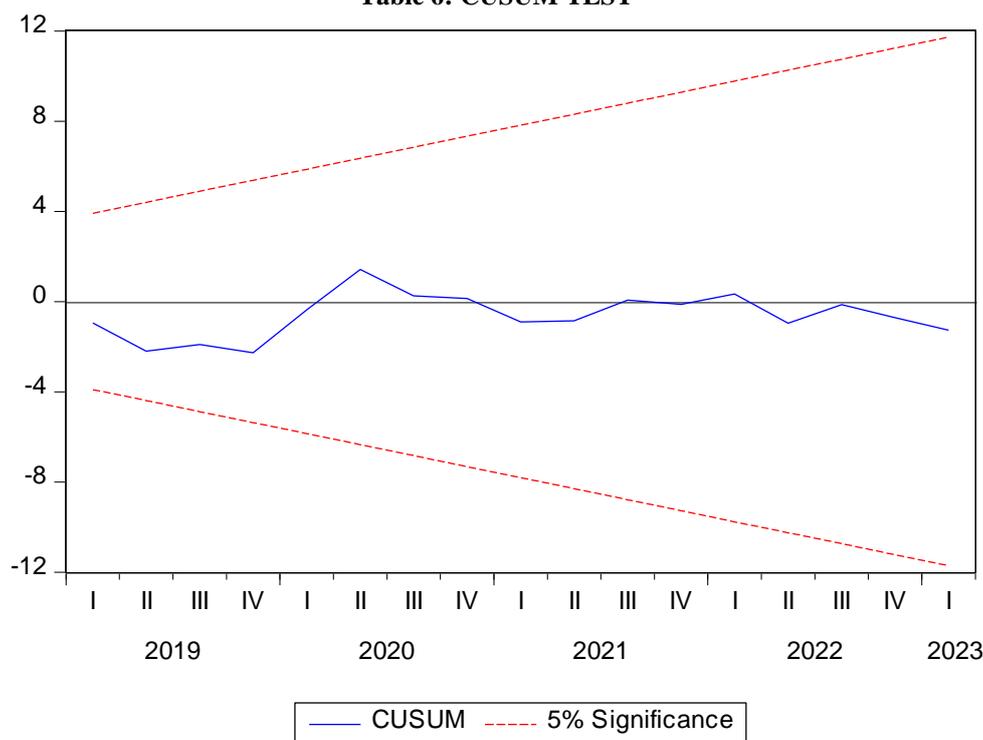
Description	Probability values
<b>Normality Test:</b>	
Jarque-Bera	0.023798
P-value:	0.988171
<b>Serial Correlation</b>	
F-statistics	0.664709
P-value	0.5289
<b>Heteroskedasticity Test</b>	
F-statistics	1.606961
P-value	0.1652

*Source: Researcher's computation, 2023*

Table 5 indicates that the data is skewed, denoting that the data is normal. This is corroborated by the Jarque-Berra Statistic of 0.023798 and its corresponding P-value of 0.988171 which is greater than the p-value of 0.05.

The Breusch-Godfrey Serial Correlation LM Test indicates that there is no autocorrelation. This is given by the F-statistic of 0.664709 and its corresponding P-value of 0.5289. The Breusch Pagan Godfrey Test of Heteroskedasticity given the F-statistics 1.606961 and its corresponding P-value of 0.1652 indicates that there is no problem with heteroskedasticity.

Table 6: CUSUM TEST



Source: Eview Version 10 Output, 2023

The stability of the model was checked using the CUSUM test and it shows that the model is stable as it is within the 5% boundary.

### Test of Hypotheses

H<sub>01</sub>: Companies' Income Tax has no significant effect on fiscal performance in Nigeria.

From Table 4, where the effect of companies' income tax was tested on fiscal performance, it was shown that companies' income tax has no significant effect on fiscal performance because both p-values and t-statistics show that companies' income tax has no significant effect on fiscal performance in Nigeria. Therefore, the study accepts the null hypothesis (H<sub>01</sub>).

H<sub>02</sub>: Value added taxes have no significant effect on fiscal performance in Nigeria.

From Table 4, where the effect of value added taxes was tested on fiscal performance, it was shown that value added taxes have a significant effect on fiscal performance because both p-values and t-statistics show that value added taxes have a significant effect on fiscal performance in Nigeria. Therefore, the study rejects the null hypothesis (H<sub>02</sub>).

H<sub>03</sub>: Customs and excise duty have no significant effect on fiscal performance in Nigeria.

From Table 4, where the effect of customs and excise duty was tested on fiscal performance, it was shown that customs and excise duty has no significant effect on fiscal performance because both p-values and t-statistics show that customs and excise duty has no significant effect on fiscal performance in Nigeria. Therefore, the study accepts the null hypothesis (H<sub>01</sub>).

## V. Conclusion And Recommendations

This study examined the effect of tax revenue on fiscal performance in Nigeria for the period 2013Q1 to 2023Q1. Based on the findings of the study, it can be concluded that there is no existence of a long-run equilibrium relationship between companies' income tax, value added tax, customs and excise duty, and fiscal performance in Nigeria. The study concludes that companies' income tax has no significant effect on fiscal performance. This means that companies' income tax in Nigeria has not helped to appreciate the debt-to-GDP ratio which is the proxy for fiscal performance. The study also found that customs and excise duty have an insignificant effect on fiscal performance. This implies that the increase or decrease in customs and excise duty will not significantly affect the performance of the fiscal policies. However, the study concludes that value added tax has a significant

effect on fiscal performance in Nigeria. This means that value added tax is an important contributor to fiscal performance.

Based on the findings of this study, it was recommended that the Nigerian government through the Federal Inland Revenue Services should introduce targeted tax incentives to encourage compliance and stimulate economic activities. For instance, a 0.5% or 1% discount could be offered to early bird filing. They should strengthen tax administration and enforcement mechanisms to ensure the efficient collection of companies' income tax. They should also invest in training and capacity building for tax officials to enhance their ability to enforce tax regulations effectively. All these can help companies' income tax to become significant when considering fiscal performance.

The Nigerian government should evaluate the current Value Added Tax (VAT) rates and structure to ensure they are competitive and conducive to economic growth. They should consider adjusting VAT rates based on economic conditions to balance revenue generation with the need to stimulate consumption and investment. They should explore opportunities to broaden the VAT base by including more goods and services. Expanding the base can enhance revenue without necessarily increasing tax rates. Strengthen measures should be employed to improve VAT compliance and reduce evasion. This may involve investing in technology for better tracking and monitoring of transactions or collaboration with financial institutions to access transaction data. This can aid in verifying the accuracy of reported transactions and detecting potential evasion.

The government of Nigeria should conduct a comprehensive review of the customs and excise duty structure to identify complexities or inefficiencies that may be hindering their impact. They should simplify the duty structure to make it more transparent and easily understandable for businesses and taxpayers. The government should evaluate and consider harmonizing duty rates to ensure consistency and fairness across different goods and services. This can help eliminate distortions and create a more equitable system. They should also implement measures to facilitate trade and streamline customs processes. Like implementing a single window system that integrates and simplifies all import and export-related procedures. This allows businesses to submit required information and documents through a single platform, reducing redundancy and processing time. Introduce pre-arrival processing mechanisms to allow customs clearance procedures to begin before the arrival of goods. This can significantly reduce the time it takes for goods to be released from customs. Simplifying and expediting clearance procedures can encourage compliance and reduce the administrative burden on businesses.

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