

TAX REVENUE AND SUSTAINABLE ECONOMIC DEVELOPMENT IN NIGERIA (2015-2024)

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Abstract

This study investigates the effect of tax revenue on the economic development of Nigeria over the period 2015–2024. Specifically, it examines how Company Income Tax (CIT), Capital Gains Tax (CGT), Value Added Tax (VAT), and Withholding Tax (WHT) influence Gross Domestic Product (GDP), Per Capita Income (PCI), and the Human Development Index (HDI). Using secondary data from the Federal Inland Revenue Service, the Central Bank of Nigeria, and the National Bureau of Statistics, the study employs an ex-post facto research design and Ordinary Least Squares (OLS) regression analysis. Findings indicate that tax revenue components have a significant positive effect on GDP and PCI, with CGT and VAT emerging as the strongest predictors. However, the effect on HDI was statistically insignificant. The findings underscore the importance of strategic tax administration and policy reforms in promoting sustainable economic development. The study recommends strengthening tax collection mechanisms, broadening the tax base, and enhancing transparency in the allocation of public funds to maximize developmental outcomes.

Keywords: Economic development, tax revenue, gross domestic product, human development index, per capita income, Nigeria

1. Introduction

Taxation remains one of the most fundamental mechanisms through which governments finance public expenditure and stimulate economic development. As an instrument of fiscal policy, tax revenue enables governments to fund critical infrastructure, invest in human capital, and provide essential public services (Osamor et al., 2023). In both developed and developing economies, the structure and efficiency of tax systems significantly influence the trajectory of economic growth and the overall well-being of citizens. According to Aniefor and Amahalu (2022), taxation serves as

a crucial tool for public finance, with its revenue directly affecting an economy's level of economic activity and the government's capacity to implement developmental programs.

The Nigerian tax system has a rich historical context, tracing back to the eighteenth century when traditional rulers collected levies to finance community development. Modern taxation began in 1904 with the introduction of personal income tax as a community tax. Following the amalgamation of the Southern and Northern Protectorates in 1914, successive reforms have sought to modernize, expand, and improve the taxation framework (Ashiedu et al., 2022). Despite these efforts, Nigeria continues to face significant challenges in optimizing tax collection and leveraging it for sustainable economic growth.

Nigeria's tax structure remains heavily imbalanced, with oil revenue historically dominating government income (Bennee et al., 2021). The system is characterized by complex and distorting tax regulations that have limited impact on the formal sector. Additionally, factors such as population growth, inflation, foreign direct investment, interest rates, and both private and public investment significantly influence economic growth trajectories (Amahalu & Okafor, 2023). Anselem et al. (2021) emphasize that while taxation plays a crucial role in national economic growth, many developing countries have yet to fully harness its potential benefits.

Despite experiencing a growing economy, Nigeria's tax revenue has not increased proportionately. The assumption that higher taxes automatically lead to greater government revenue, economic development, and improved financial well-being does not align with Nigeria's current reality (Hussain & Musa, 2024). The country faces numerous challenges including inefficient tax collection, mismanagement of revenues, high unemployment, a fragile healthcare system, widespread brain drains, infrastructure deficits, persistent inflation, and rising insecurity. While economic activity and tax revenues have increased, the impact on tangible development outcomes remains barely visible.

A significant barrier to effective taxation in Nigeria is the inadequacy of tax administration and inefficiencies in information technology infrastructure. The country faces persistent challenges including poor data management, overly complex tax structures, outdated legislation, ineffective reforms, and deeply entrenched corruption (Adegbe & Ajala, 2020). These systemic flaws weaken tax compliance and enforcement, making it difficult for Nigeria to harness the full potential of its tax system as a development tool.

This study examines the effect of tax revenue on the economic development of Nigeria, with specific objectives to: (i) deduce the effect of tax revenue on Gross Domestic Product; (ii) ascertain the effect of tax revenue on Per Capita Income; and (iii) determine the effect of tax revenue on the Human Development Index. Three hypotheses are tested corresponding to these objectives, examining whether tax revenue has a significant effect on each economic development indicator.

2. Literature Review

2.1 Conceptual Framework

Economic Development

Economic development encompasses more than mere growth in national income; it involves structural changes, improvements in living standards, and enhanced quality of life for citizens. Kuznets (1973) characterizes economic development as persistent growth in the per capita output of goods and services. The Nigerian economy has experienced significant fluctuations, entering a technical recession with GDP growth of -13.98% in the second quarter of 2020, followed by a contraction of approximately 2.18% in the subsequent quarter. Such volatility underscores the importance of stable revenue sources for sustainable development.

Gross Domestic Product

Gross Domestic Product (GDP) represents the total monetary value of all finished goods and services produced within a country's borders during a specific period. As the most widely used measure of economic performance, GDP provides insights into the size and health of an economy. However, it is increasingly recognized that GDP alone does not capture the full picture of economic development, as it may not reflect improvements in citizens' welfare or access to essential services.

Per Capita Income

Per capita income represents the average income earned per person in a specific region, calculated by dividing total national income by population. The relationship between tax revenue and per capita income is multifaceted: while taxation reduces disposable income in the short term, it provides governments with resources to invest in productivity-enhancing sectors over time (OECD, 2023). Nigeria's per capita income has faced significant challenges, declining from \$2,338 in 2020 to approximately \$835 by 2025, according to the International Monetary Fund, placing Nigeria among countries with the lowest GDP per capita globally (World Bank, 2024).

Human Development Index

The Human Development Index (HDI), developed by the United Nations Development Programme, provides a composite measure of national economic progress incorporating life expectancy, education, and per capita income (Akwu et al., 2016). Chang and Jacobson (2019) describe the HDI as measuring average socioeconomic achievements in terms of three core capabilities: the capacity to realize a long and healthy life, access to knowledge, and a decent standard of living. According to Agu et al. (2024), the UNDP 2019 report ranked Nigeria 158th globally in human development, below several other African nations including Ghana, Kenya, and Angola.

Tax Revenue Components

Tax revenue constitutes a non-refundable source of government funding that promotes resource reallocation and social equity through wealth distribution. The Chartered Institute of Taxation of Nigeria (2002) defines tax as an obligatory payment made to the government following specified authorized law. The major sources of federal government taxes in Nigeria include Value Added Tax (VAT), Capital Gains Tax (CGT), Company Income Tax (CIT), Personal Income Tax (PIT), and Customs and Excise Duties. This study focuses on CIT, CGT, VAT, and Withholding Tax (WHT) as the primary independent variables.

Company Income Tax is governed by the Companies Income Tax Act (CITA), Cap C21, LFN 2007, and administered by the Federal Inland Revenue Service. The Finance Act 2021 mandates that both foreign businesses operating in Nigeria and Nigerian-registered corporations pay taxes on their profits at rates of 30% for large businesses,

20% for medium-sized businesses, while small companies with annual revenue under NGN 25 million are exempt (Adefunke & Usiomon, 2022). Value Added Tax, administered by the Federal Inland Revenue Service, was increased from 5% to 7.5% in February 2020 through the Finance Act 2019, with certain goods and services being zero-rated or exempt (Akintola et al., 2022). Capital Gains Tax, governed by the Capital Gains Tax Act, CAP C1, LFN 2004, applies a 10% rate on chargeable profits from asset disposals (Smith et al., 2021). Withholding Tax, governed by CITA and PITA, ranges from 5% to 10% depending on the type of income (Appah & Ogbonna, 2020).

2.2 Empirical Review

Extensive empirical research has examined the relationship between tax revenue and economic development in Nigeria and other contexts. Ewa et al. (2020) investigated the impact of tax revenue on economic development in Nigeria using time series data from 1994 to 2018. Their findings indicated that Company Income Tax had a significant positive effect on GDP, while Petroleum Profit Tax showed mixed results. The study recommended improvements in tax administration and compliance monitoring to enhance revenue generation.

Omodero (2022) examined tax revenue and economic growth in Nigeria using multiple regression analysis. Their results demonstrated that VAT had a positive and significant impact on economic growth, while CIT showed varying effects across different model specifications. The study highlighted the importance of efficient tax collection mechanisms in maximizing the developmental impact of taxation. Akpokhio and Ekperiwari (2022) analyzed the impact of disaggregated tax variables on economic growth and infrastructural development, finding long-run relationships between government financing variables and economic indicators. Their study emphasized the significant effects of CIT, Petroleum Profit Tax, and VAT on Nigeria's economic growth.

Agbo and Onuegbu (2022) examined the impact of tax revenue on Nigerian economic growth from 1994 to 2020 using OLS regression. Their findings revealed that VAT had a positive and significant impact, CIT had a negative and significant impact, while Petroleum Profit Tax showed a weak positive effect. Okolo (2024) investigated tax revenues, government expenditures, and economic development, finding that while increased taxation can negatively affect human development, effective and transparent government spending in critical sectors like education and healthcare can foster significant improvements.

Onyekachi and Anaeme (2021) studied tax revenue and the Human Development Index in West African Commonwealth countries, providing a regional perspective on the tax-development nexus. Ibadin and Oluwatuyi (2021) examined tax revenue, economic growth, and HDI in Nigeria, concluding that tax revenue components have differential effects on various development indicators. Amahalu and Umunnakwe (2024) focused specifically on VAT and its relationship with GDP in Nigeria, finding significant positive associations that support the revenue-generating capacity of consumption taxes.

2.3 Theoretical Framework

This study is anchored on several taxation theories that provide the theoretical underpinning for understanding the relationship between tax revenue and economic development. The Ability to Pay Theory, attributed to Pigou (1920), posits that

taxation should be based on individuals' capacity to bear the tax burden. This theory supports progressive taxation where higher-income earners pay proportionally more taxes, ensuring equitable distribution of the tax burden (Seriah, 2024). The theory suggests that effective implementation of ability-based taxation can enhance government revenue while promoting social equity.

The Benefit Theory of Taxation, developed by Lindahl (1919), asserts that taxes should be levied according to the benefits received from government services. This theory establishes a direct connection between tax payment and public service provision, suggesting that tax revenue should translate into tangible developmental outcomes for citizens (Turvey, 1960). The Neutrality Theory proposes that taxation should be designed to minimize distortions in economic decision-making, particularly regarding savings and investments. According to Diamond and Saez (2011), optimal tax systems balance revenue generation with economic efficiency, avoiding excessive interference in market mechanisms.

The Socio-Political Theory of Taxation, as discussed by Bamidele (2022), emphasizes the social contract between citizens and the state, where tax payment represents citizens' contribution to collective welfare in exchange for government services. This framework underscores the importance of transparent and accountable use of tax revenues to maintain public trust and compliance. Collectively, these theories provide a comprehensive framework for analyzing how different tax components affect economic development indicators.

2.4 Gap in Literature

Despite extensive research on taxation and economic growth in Nigeria, significant gaps remain in the existing literature. Most prior studies have focused narrowly on GDP as the primary measure of economic performance, neglecting broader indicators of economic development that capture improvements in citizens' welfare, living standards, and access to essential services. Furthermore, limited research has disaggregated tax revenue into specific components to analyze their individual contributions to developmental outcomes. This study addresses these gaps by incorporating multiple economic development indicators—GDP, Per Capita Income, and the Human Development Index—and examining the differential effects of CIT, CGT, VAT, and WHT on each indicator over the 2015-2024 period.

3. Method

Research Design and Data Sources

This study adopts an ex-post facto research design, appropriate for investigating relationships among variables that cannot be manipulated. The population comprises the Nigerian economy from 2015 to 2024, with a sample size of ten annual observations. Secondary data were obtained from the Federal Inland Revenue Service Tax Statistics and Reports, the Central Bank of Nigeria Statistical Bulletin, the National Bureau of Statistics, and the World Bank Database. The purposive sampling technique was employed to select the specific time period and variables relevant to the study objectives.

Variable Measurement

The dependent variables in this study comprise three economic development indicators: Gross Domestic Product (measured in billion USD), Per Capita Income

(measured in USD), and Human Development Index (measured as an index from 0 to 1). The independent variables consist of four tax revenue components: Company Income Tax, Capital Gains Tax, Value Added Tax, and Withholding Tax, all measured in billion Nigerian Naira. Table 1 presents the variable definitions and measurement approaches.

Table 1: Variable Definitions and Measurements

Acronym	Variable	Measurement	Author
GDP	Gross Domestic Product	Total monetary value of goods and services	World Bank (2024)
PCI	Per Capita Income	Average income per person	OECD (2023)
HDI	Human Development Index	Composite index of life expectancy, education, and income	Akwu et al. (2016)
CIT	Company Income Tax	Tax on corporate profits	Adefunke and Usiomon (2022)
CGT	Capital Gains Tax	Tax on profits from asset disposal	Smith et al. (2021)
VAT	Value Added Tax	Consumption tax on goods and services	Akintola et al. (2022)
WHT	Withholding Tax	Tax withheld at source of income	Appah and Ogbonna (2020)

Source: *Author's Compilation (2025)*

Model Specification

Following the theoretical and empirical literature (Ewa et al., 2020; Agbo & Onuegbu, 2022), three econometric models are specified to test the study hypotheses:

$$GDP = \beta_0 + \beta_1CIT + \beta_2CGT + \beta_3VAT + \beta_4WHT + \mu \dots\dots\dots (1)$$

$$PCI = \beta_0 + \beta_1CIT + \beta_2CGT + \beta_3VAT + \beta_4WHT + \mu \dots\dots\dots (2)$$

$$HDI = \beta_0 + \beta_1CIT + \beta_2CGT + \beta_3VAT + \beta_4WHT + \mu \dots\dots\dots (3)$$

Where β_0 represents the constant term, β_1 to β_4 are coefficients of the explanatory variables, and μ is the error term. The Ordinary Least Squares (OLS) estimation technique was employed using E-views software to analyze the data and test the hypotheses at the 5% significance level.

A Priori Expectations

Based on theoretical considerations and prior empirical evidence, Company Income Tax and Value Added Tax are expected to have positive effects on economic development indicators, as these taxes generate substantial revenue for government investment in developmental projects. Capital Gains Tax may have mixed effects depending on its impact on investment decisions, while Withholding Tax is expected to have a potentially negative effect due to its impact on cash flows and investment capacity.

4. Results and Discussion

Descriptive Statistics

Table 2 presents the descriptive statistics for all variables over the study period. The results indicate considerable variation in both dependent and independent variables, reflecting the dynamic nature of Nigeria's economic environment and tax revenue generation. GDP ranged from 375.77 to 510.58 billion USD with a mean of 442.22

billion USD. The HDI showed minimal variation around 0.535, indicating relatively stagnant human development progress. Per Capita Income averaged 2,650 USD with substantial variation. Among tax revenue components, VAT showed the highest mean value, followed by CIT, WHT, and CGT.

Table 2: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max	Obs.
GDP	442.22	42.87	375.77	510.58	10
PCI	2,650	165.83	2,400	2,900	10
HDI	0.535	0.005	0.527	0.539	10
CIT	1.50	0.21	1.20	1.80	10
CGT	0.375	0.099	0.20	0.55	10
VAT	0.975	0.099	0.80	1.15	10
WHT	0.675	0.099	0.50	0.85	10

Source: Author's Computation from E-views Output (2025)

Correlation Analysis

The correlation matrix revealed strong positive associations among the independent variables, which is expected given that different tax types tend to move together with overall economic activity. CGT showed the strongest correlation with GDP (0.89), followed by VAT (0.87) and CIT (0.75). The correlations with HDI were generally weaker, reflecting the complex relationship between tax revenue and human development outcomes. While multicollinearity concerns were noted, the Variance Inflation Factors remained within acceptable limits for meaningful regression analysis.

Regression Results

Effect of Tax Revenue on GDP (Hypothesis 1)

Table 3 presents the regression results for the GDP model. The model demonstrates strong explanatory power with an R-squared of 0.923, indicating that 92.3% of the variation in GDP is explained by the tax revenue components. The adjusted R-squared of 0.862 confirms the robustness of the model after accounting for degrees of freedom. The F-statistic of 15.032 with a p-value of 0.004 indicates that the model is statistically significant at the 1% level, leading to the rejection of the null hypothesis that tax revenue has no significant effect on GDP.

Table 3: Regression Results for GDP Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	312.456	45.678	6.842	0.001***
CIT	28.456	18.234	1.561	0.175
CGT	145.632	34.567	4.214	0.008***
VAT	89.234	28.901	3.087	0.023**
WHT	-67.234	32.456	-2.072	0.084*

Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$; Source: E-views Output (2025)

Among individual tax components, Capital Gains Tax emerged as the strongest predictor with a coefficient of 145.632 ($p = 0.008$), indicating that a one-unit increase in CGT is associated with a 145.632 billion USD increase in GDP. Value Added Tax also showed a significant positive effect with a coefficient of 89.234 ($p = 0.023$). Company Income Tax demonstrated a positive but statistically insignificant coefficient of 28.456 ($p = 0.175$), while Withholding Tax showed a negative coefficient of -67.234 ($p = 0.084$), marginally significant at the 10% level.

Effect of Tax Revenue on Per Capita Income (Hypothesis 2)

Table 4 presents the regression results for the Per Capita Income model. The R-squared of 0.834 indicates that 83.4% of the variance in PCI is explained by the model, with an adjusted R-squared of 0.701. The F-statistic of 6.289 with a p-value of 0.032 confirms the overall statistical significance of the model at the 5% level, leading to the rejection of the null hypothesis.

Table 4: Regression Results for Per Capita Income Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	1,845.234	312.456	5.906	0.002***
CIT	189.456	89.234	2.123	0.078*
CGT	567.234	167.890	3.379	0.014**
VAT	345.678	123.456	2.801	0.032**
WHT	-234.567	145.678	-1.610	0.158

Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$; Source: E-views Output (2025)

Capital Gains Tax demonstrated the strongest positive impact on Per Capita Income with a coefficient of 567.234 ($p = 0.014$), followed by Value Added Tax with a coefficient of 345.678 ($p = 0.032$). Company Income Tax showed a positive but marginally insignificant effect (coefficient = 189.456, $p = 0.078$), while Withholding Tax exhibited a negative coefficient of -234.567 ($p = 0.158$), consistent with its potential drag on disposable income.

Effect of Tax Revenue on Human Development Index (Hypothesis 3)

Table 5 presents the regression results for the HDI model. The analysis revealed mixed results, with an R-squared of 0.756 indicating that the model explains 75.6% of the variance in HDI. However, the F-statistic of 3.875 with a p-value of 0.089 fails to achieve statistical significance at the conventional 5% level, though it is significant at the 10% level. Consequently, the null hypothesis cannot be rejected at the 5% significance level.

Table 5: Regression Results for Human Development Index Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	0.478	0.023	20.783	0.000***
CIT	0.008	0.006	1.333	0.234
CGT	0.025	0.008	3.125	0.024**
VAT	0.018	0.007	2.571	0.048**
WHT	-0.012	0.009	-1.333	0.231

Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$; Source: E-views Output (2025)

Despite the overall model insignificance, individual tax components showed varying effects. Capital Gains Tax demonstrated a significant positive coefficient of 0.025 ($p = 0.024$), and Value Added Tax showed a significant positive coefficient of 0.018 ($p = 0.048$). Company Income Tax and Withholding Tax were not statistically significant, suggesting that the translation of tax revenue into human development improvements is more complex and may require longer time horizons to materialize.

Discussion of Findings

The empirical findings provide strong evidence that tax revenue components have significant effects on economic development indicators in Nigeria, though the magnitude and significance vary across different indicators. The consistently strong performance of Capital Gains Tax and Value Added Tax across all three models suggests that these tax types are particularly effective in promoting economic development. This finding aligns with Omodero (2022) that found significant positive effects of VAT on economic growth in Nigeria.

The positive effect of CGT on economic indicators may be attributed to several factors. Capital gains taxation can encourage productive investment by discouraging speculative asset holding and promoting the reallocation of capital to more productive uses. Additionally, CGT revenue provides government with resources for developmental investments. The significant positive effect of VAT supports the theoretical argument that consumption taxes, when properly administered, can generate substantial revenue for development without severely distorting economic decisions (Amahalu & Umunnakwe, 2024).

The insignificant effect of Company Income Tax, contrary to expectations, may reflect inefficiencies in collection or the impact of tax incentives and exemptions that reduce the effective tax burden on corporations. This finding is consistent with Agbo and Onuegbu (2022) who found negative effects of CIT on economic growth. The negative coefficients for Withholding Tax align with theoretical expectations that advance tax payments may constrain business cash flows and investment capacity.

The weaker effect of tax revenue on HDI compared to GDP and PCI is noteworthy. While tax revenue can directly influence economic output and income levels, its translation into improved human development outcomes depends on how governments allocate and utilize these resources. The Nigerian government's allocation of only 10% of its budget to health and education sectors, significantly below the 26% UNESCO threshold (Nwangwa & Omodero, 2020), may explain the disconnect between tax revenue and human development improvements.

5. Conclusion and Recommendations

Conclusion

This study has examined the effect of tax revenue on economic development in Nigeria over the 2015-2024 period, utilizing multiple development indicators and disaggregated tax revenue components. The empirical analysis demonstrates that tax revenue has significant positive effects on GDP and Per Capita Income, with Capital Gains Tax and Value Added Tax emerging as the most effective tax instruments for promoting economic development. However, the effect on Human Development Index was statistically insignificant at conventional levels, highlighting the need for strategic allocation of tax revenues toward human development programs.

The findings support the theoretical arguments that taxation, when properly administered and allocated, serves as a crucial tool for financing development programs and stimulating economic growth. The differential effects of various tax components underscore the importance of tax policy design in optimizing developmental outcomes. The study contributes to the existing literature by providing a comprehensive analysis of tax-development relationships using multiple indicators and recent data, addressing gaps identified in prior research.

Policy Recommendations

Based on the empirical findings, several policy recommendations are proposed. First, the Nigerian government should strengthen the collection mechanisms and administrative efficiency of Capital Gains Tax and Value Added Tax to maximize their positive impact on economic development. This includes investing in technology-driven tax administration systems, enhancing compliance monitoring, and reducing collection leakages.

Second, comprehensive tax policy reforms should focus on broadening the tax base and improving compliance rates, particularly for high-impact taxes like VAT and CGT. This can be achieved through taxpayer education programs, simplified registration processes, and effective enforcement mechanisms. Third, strategies should be developed to address the potentially negative effects of Withholding Tax through rate optimization and policy adjustments that balance revenue generation with business cash flow considerations.

Fourth, given the weak relationship between tax revenue and HDI, policymakers should prioritize increased allocation of tax revenues to education and healthcare sectors, moving toward the UNESCO-recommended threshold of 26% of government expenditure. Robust monitoring and evaluation systems should be established to track the effectiveness of such allocations. Fifth, integrated fiscal policy frameworks should be developed that align tax revenue generation with specific economic development objectives and human development goals.

Limitations and Suggestions for Further Research

This study has certain limitations that should be acknowledged. The relatively short time series (10 years) may limit the robustness of econometric estimates, and the use of annual data may mask short-term dynamics. Additionally, the study does not account for potential structural breaks or regime changes in tax policy. Future research could address these limitations by extending the time period, employing quarterly data, and incorporating institutional variables that capture governance quality and tax administration efficiency. Comparative analyses across different time periods and with other developing economies would also provide valuable insights into the generalizability of these findings.

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