



Tax Revenue and Public Expenditure in Nigeria (2011 – 2022)

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Abstract

Research Purpose: In light of the critical role of tax revenue in economic development, this study examines the relationship between various tax revenue components and public expenditure in Nigeria from 2011 to 2022. The investigation aims to elucidate how tax revenues, such as Companies Income Tax (CIT), Value-Added Tax (VAT), and Stamp Duties (SD), influence capital and recurrent expenditure.

Methodology: The study employs a quasi-experimental design and an ex-post facto method, analysing secondary data using SPSS (version 26.0). Hypotheses were tested using T-test and p-value statistics to determine the significance of the relationships between tax revenues and public expenditure.

Findings: The analysis reveals a positive and significant relationship between CIT, VAT, SD, Total Tax Revenue (TTR), and public expenditure. However, no significant relationship is found between Petroleum Profits Tax (PPT), Capital Gains Tax (CGT), and the dependent variables. Additionally, a significant difference is identified between capital expenditure and recurrent expenditure.

Conclusion: The study concludes that tax revenue is essential for advancing Nigeria's economy. Proper administration and collection of CIT, VAT, and SD are crucial for enhancing economic prospects, highlighting the importance of these tax components in funding public expenditure.

Recommendations: It is recommended that efforts be intensified to ensure the effective administration and collection of CIT, VAT, and SD. These measures are vital for improving the economic prospects of Nigeria by bolstering public expenditure and fostering economic growth.

Key words: *Tax revenue, Public expenditure, Companies Income Tax, Value-Added Tax, Stamp Duties.*



1.0 Introduction

Background To The Study

The economic philosophy of any given country determines the way and manner in which economic activities will be organised. The methodological arrangements of organisations and institutions will all things being equal determine the structural ownership of factors of production and distribution related to the entire society. Therefore, in a free-enterprise economy or mixed economy, the private and public sector both act as integral units (sub-system) and interact to maximise societal goals. In this model, the need for fiscal measures and need (welfare) injects complexity and adjustments on how best to operate and generate revenue and at the same time spend it for public needs (Ihe and Umeaka, 2022).

In any economy, the usefulness of taxation in the activities of any government cannot be overemphasised. The main aim of any developing nation like Nigeria is to increase the rate of economic growth and per capita income which otherwise increases the standard of living thus taxation can be used as a stimulus to accelerate such growth. Tax is one of the major sources of government revenue however, not every government effectively exploits this opportunity as a means of revenue generation (Okwara and Amori, 2017). Azubike (2009), advocates that tax is a major player in every society of the world. It is an opportunity for the government to generate additional revenue to discharge its pressing obligations. Also, it is one of the effective means of mobilising a country's internal resources so as to promote economic growth. According to Appah (2004), tax is a compulsory levy imposed on a subject or properties by the government to provide security, social amenities and cater for the wellbeing of the society. It is levies imposed by the government on incomes, profits and properties of both individuals and corporate bodies for the sole administration of that government which has no compensatory benefits.

For the Nigerian government to effectively carry out its primary function and other subsidiary functions, governments need adequate funding. Government responsibilities have continued to increase over time especially in developing countries like Nigeria resulting from growing population of citizens, and infrastructural decay. But quite unfortunately the revenue of the government has not been growing above her expenditure to enable capital formation. In Nigerian, the government has depended so much on oil revenue for execution of its primary functions and economic goals neglecting taxation which is the primary sources of government revenue (Uzonwanne, 2015)

Kiabel and Nwokah (2009) revealed that the dwindling revenue and increased cost of running government require all tiers of Nigeria government to look for alternative means



of improving their revenue base. It is obvious that the country's revenue from oil can no longer fully support its development objectives. Government spending as the basic tool of economic policy is conditioned by the necessity of their financing, where the tax revenues usually represent the most significant part of state budget income and this has always been neglected in Nigeria not until the fall in all prices in 2016. The reduction in government revenue from oil has led the government at all levels to focus on tax and has equally abused the same by overcharging and occurrence of incidence multiple taxation, (Obaje & Ogirima, 2019).

Obaje & Ogirima (2019), further stipulated that Tax systems are primarily aimed at financing public expenditures. Tax systems are also used to promote other objectives, such as equity, and to address social and economic concerns. They need to be set up to minimise taxpayers' compliance costs and government's administrative costs, while also discouraging tax avoidance and evasion. But taxes also affect the decisions of households to save, supply labour and invest in human capital, the decisions of firms to produce, create jobs, invest and innovate, as well as the choice of savings channels and assets by investors. What matters for these decisions is not only the level of taxes but also the way in which different tax instruments are designed and combined to generate revenues.

However, many developed countries integrated in OECD are currently affected by the significant budget crisis within which they have problems repaying their short-term and long-term liabilities. Due to this, governments themselves are exposed to increased supervision from the financial markets and therefore they are forced to consolidate public budgets. The public finance crisis is usually solved by two concrete channels – the channel of reducing public spending, and the channel of increasing taxes, or tax revenues. On one hand, the basic aim of the consolidation is to keep criteria of budget responsibility as determined, and on the other hand, to restore the economic growth as soon as possible (Obaje & Ogirima, 2019).

According to Nguluu (2017), the major objective of any nation is to improve the welfare of her citizens by providing social goods. To finance the government spending, the government needs revenue, which is primarily collected through taxes. According to Duncan (2019), the revenue generation role of taxes for both developing and developed countries has been given much attention than the fiscal role of income and wealth redistribution due to the increasing fiscal budget deficits. Marina et al (2002) argues that the only practical way the government can collect revenue to finance its expenditure is through taxation. Although taxation is the most preferred tool of government revenue collection as it is easily assessed in terms of equity, fairness and simplicity, taxation as a



method of revenue collection creates disincentives in the economy by generating contraction effects. Taxation reduces consumption by households by reducing their disposable income and motivation to invest in physical or human capital and innovation. Taxation also crowds out the private sector. A higher tax burden on businesses and corporations increases the cost of doing business and reduces profits creating distributional consequences like increase in unemployment levels (Maingi 2010). There are a variety of ways that the government can use to levy taxes on its citizens and this can either be through direct or indirect taxes. Direct and indirect taxes further fall into three classes and these are: the tax base, tax incidence and tax rate. Taxes classified based on the tax base include income tax and corporation tax while taxes classified based on tax rate include progressive tax, regressive tax, digressive tax and proportional tax (Omar, Musyoki, Muliwa, Wangechi, Mbuthia, Mbolu & Ombati, 2021).

With the revelation that taxation is one of the most important sources of revenue for the various tiers of government and a major way of sourcing financial support to the Nigeria government at large, it is imperative that this study therefore investigated the relationship between tax revenue and public expenditure in Nigeria (2011-2022).

Statement Of The Problem

There exists a consensus in the literature that an adequate and effective policy is critical to any successful development process aimed at achieving high employment, sustainable economic growth, price stability and long-viability of the balance of payments. The first need of any modern government is to generate enough revenue; however, taxation is the most significant source of revenue for the government. Nigerians regard payment of tax as a means whereby the government raises revenue on herself at the expense of their labour. While taxation plays a significant role in income redistribution, protection of the weak and infant industry, the revenue generated through it plays a crucial role in promoting economic growth and development, (Obaje & Ogirima, 2019).

Taxation is the most preferred form of government revenue collection and has the highest contribution to total government revenue compared to non-tax sources. While government revenue finances public expenditure and is essential for growth, a tax becomes harmful to the economy if it is not formulated based on sound macroeconomic policies. Tax policies affect prices of commodities and income of individuals and this further affect savings, consumption and investment behaviour. The change in consumption, savings and investment habits of households and firms has an impact on the economy and this can be positive or negative. While there are positive effects that taxation generates such as redistribution of income and wealth and maintenance of price



stability, the negative effects such as creation of disincentives to save and invest far outweigh the benefit, (Omar, et al 2021).

Agu, (2010) opined that fiscal administration is tax policy making and collection as well as expenditure programming at all levels of government. It involves the controlling, organising, directing, monitoring, planning and management of government revenues and expenditure. Furthermore, the long term role of fiscal administration is to collect all registered taxes at minimum cost, as well as execute government programmes as efficiently as possible by avoiding waste. There is no doubt that taxation must have affected the economic development of Nigeria. Effort shall therefore be made in this research to see how the Nigerian government has been able to achieve her economic goals with her tax policies and administration and identify the various challenges of tax administration.

It is imperative here to note that no tax succeeds without the taxpayer's commitment and cooperation. Considering this backdrop, we can ask some adjudicating questions such as: what makes taxation such a difficult issue? Why do people feel cheated when it comes to tax? Is the government making judicious use of taxpayer's money? Why should Nigeria's economy be drawn into recession considering the variety of taxes collected by the Nigeria government? Is there any hope for the Nigeria economy to improve considering the array of taxes collected and the upward review of tax rates such as Value Added Tax (VAT) rate that was increased from 5% to 7.5%? What are the implications of the new Finance Act 2019/2020 on taxes hence the Nigeria economy?

Kanu et al (2021) asserts that the common feature of government expenditure in developing economies such as Nigeria is that government revenue has increased year by year, resulting in a widening gap or imbalance between government revenue and government expenditure. It has been argued that this issue has had a negative impact on government macroeconomic policies in developing economies such as Nigeria. Although according to Keynesian theory, increasing government spending has an advantage in stimulating economic growth and development relative to reducing government revenue and increasing government spending, Wagner's law of increasing spending also assumes the same advantage of increasing government spending. The short-term impact of economic spending has been criticised as a pressure on government revenue-generating activities over the years.

As opined by Craig et al (2020), the population growth and the resulting demographic changes will put enormous pressure on public spending to provide more social goods, infrastructure and basic services to satisfy dense populations and realise the potential for



economic growth. To achieve this goal, the government will need to raise additional revenue from tax and non-tax sources, which may not immediately meet the government's anticipated large spending needs. According to reports, the Nigerian economy has seen an astronomical increase in budget spending over the past decade, from billions to trillions of naira, although the results of this spending are not readily available as perceived by the public.

The drive to raise revenues leads governments to borrow and run permanent deficit budgets and try to get extra revenue from taxes and other sources to keep the economy going, especially in times like these where oil revenues in Nigeria have fallen sharply. This raises the question: whether; the revenue available to the government is sufficient for public spending to generate the much-needed economic growth in Nigeria (Ime, Jonah & Chinda 2023).

This question is timely as Nigeria and almost every country in the world is now shifting the focus of research to tax revenue generating jobs. Previous studies have evaluated tax revenue and its effects on public expenditure in various ways, but the findings, opinion and conclusion remains controversial as there is no consensus reached by all the researchers which formed the motivation for this study. Also, limited to the existing literature consulted in this study, only a few studies use value-added tax (VAT) and Stamp Duty (SD) as the dimensions of tax revenue. Therefore, to fill these gaps in literature and the sociology of knowledge, this study investigated tax revenue and public expenditure (2011-2022).

Objectives Of The Study

The broad objective of this study is to investigate the relationship between tax revenue and public expenditure. Specifically, the study shall:

- i. Determine the relatedness of Petroleum Tax (PPT) revenue and public expenditure in Nigeria.
- ii. Establish the contribution of Companies Income Tax (CIT) revenue on public expenditure in Nigeria.
- iii. Investigate the effect of Capital Gain Tax (CGT) revenue on public expenditure in Nigeria.
- iv. Evaluate the effect of Value-Added Tax revenue to public expenditure in Nigeria.
- v. Demonstrate the contribution of Stamp Duty revenue on public expenditure in Nigeria.



- vi. Evaluate the differences in capital expenditure and recurrent expenditure in Nigeria.
- vii. To establish the impact of total tax revenue on public expenditure in Nigeria.

Research Questions

- i. Does Petroleum Profit Tax revenue affect public expenditure in Nigeria?
- ii. What is the impact of Companies Income Tax (CIT) revenue to public expenditure in Nigeria?
- iii. What effect has Capital Gain Tax (CGT) revenue has on public expenditure in Nigeria?
- iv. Has Value-Added Tax any impact on public expenditure in Nigeria?
- v. Does Stamp Duty revenue contribute to public expenditure in Nigeria?
- vi. What differences exist in capital expenditure and recurrent expenditure in Nigeria?
- vii. What impact has total tax revenue on public expenditure in Nigeria?

Statement Of Hypotheses

In order to ascertain the veracity and validity of this research work, some hypotheses, which are fundamental to this study, were tested to provide empirical evidence. Hence, this study tested the following hypotheses, all stated in NULL FORM.

H₀₁: There is no significant relationship between petroleum profit tax revenue and public expenditure in Nigeria.

H₀₂: Companies Income Tax revenue does not impact significantly on Public Expenditure in Nigeria.

H₀₃: Capital Gains Tax revenue does not have a significant relationship with public expenditure in Nigeria.

H₀₄: There is no significant relationship between Value Added Tax revenue and public expenditure in Nigeria.

H₀₅: Stamp Duty revenue does not contribute significantly to public expenditure in Nigeria.

H₀₆: There is no significant difference between capital expenditure and recurrent expenditure in Nigeria.



H_{07} : There is no significant relationship between Total Tax Revenue and public expenditure in Nigeria.

Scope Of The Study

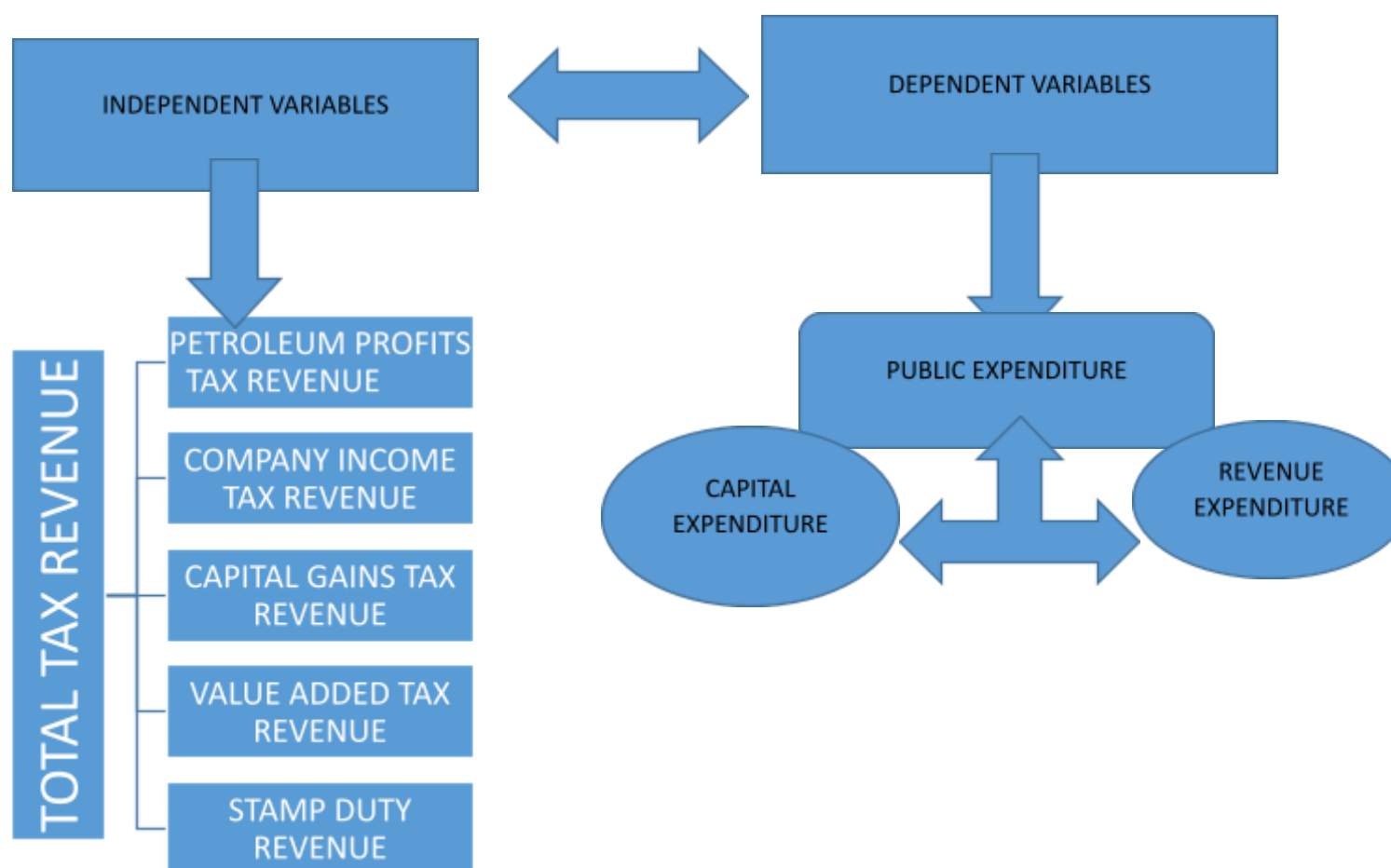
This study covers federally collected tax revenue from the formal sector of the Nigeria economy. While public expenditure covered all federal government expenditure. The proxies for tax revenue are: Petroleum Profits Tax (PPT), Companies Income Tax (CIT), Capital Gains Tax (CGT), Value Added Tax (VAT), Stamp Duty, while proxies for Public Expenditure are Capital and Recurrent Expenditure. These are notable proxies of the variables measured.

This study covers a period of twelve (12) years from 2011 – 2022. Secondary time-series data were used for the analysis and the data were sourced from the central bank of Nigeria Statistical Bulletin and the Federal Inland Revenue Services as specified in their websites.

2.0 REVIEW OF RELATED LITERATURE

CONCEPTUAL REVIEW

Conceptual Framework





Source: Researcher (2024)

Concept of Tax

Zubairu (2014) defined tax simply as a charge on income of individuals and corporate bodies by government or as a compulsory payment imposed by the government through its agents on income of individuals and corporate bodies as well as on goods and services. Tax is a compulsory payment levied on the persons or companies to meet the expenditure incurred on conferring common benefits upon the people of a country. Two aspects of taxes follow from this definition (1) a tax is a compulsory payment and no one can refuse to pay. (2) Proceeds from taxes are used for common benefits or a general purpose of the state (Ahuja, 2012). Akintoye and Tasie (2013) opined that tax is not imposed on a citizen by the government because it has rendered specific services to him or his family. Tax is the money paid to the government other than for transactions or specific goods and services while taxation is a particular system of taxing people or companies. In the views of Anyanwu (2007) tax is defined as compulsory transfer or payment of money (or occasionally of goods and services) from private individuals, institutions or and services) from private individuals, institutions or groups to the government. It may be levied upon wealth or income or in the form of surcharge on price.

Okpe (2008) opined that tax is the transfer of resources and income from the private sector to the public sector in order to achieve some of the nation's economic and social goals, maybe in the form of provision of additional government basic services particularly in education, public health, transportation, capital formation and in the provision of facilities. Anyanwaokoro (2004) asserts that tax is a compulsory payment imposed by the government on individuals and corporate bodies in the governed area for which no direct goods or services are given in exchange of the payment made. According to Adebao (2009) tax is defined as a compulsory levy imposed by the government on individuals and business organisations. It is a payment in return for which no direct and specific "quid pro quo" is offered by the government and indirect benefit to different individual taxpayers cannot be determined. Okwo (2011) summarised tax as a compulsory payment made by individuals and corporate bodies to the government for financing government expenditure or for the general purpose of the government aimed at improving the taxpayers welfare and in which both the taxpayer and the public benefit. There are three elements of taxation. These are;

- The tax base
- The tax rate



- The tax yield

The tax base is the object being taxed. Examples of tax based are income, profit and property.

The tax rate is the proportion of the value of the tax based that is paid as tax.

The tax yield is the actual amount accrued to the government in tax.

Structure of the Nigeria Tax System

According to Akintoye and Dada (2013). The structure of Nigerian tax administration is in line with the system of government in operation. These include the three-tier system comprising the local government, state government and federal government structures. Each of these tiers of government is constitutionally saddled with administration of specific taxes, while the joint tax board oversees the whole system and resolves disputes. James and Moses (2012) opined that the Board of Inland Revenue administers the federally collected taxes through the Federal Inland Revenue Service (FIRS), while the board of State Internal Revenue Service administers the taxes collectible by the state government and the revenue committee administers taxes and levies collectible by the local governments.

Objectives of Taxation

Though the structure of taxation in many developing countries differs from each other, the objectives of taxation are virtually the same in these countries. Cutt (1969), therefore identified some of the objectives of taxation:

i. Revenue generation: The main aim of the tax system is to raise revenue required to meet government expenditure such as the provision of goods and services which members of the public cannot afford. Others include security, maintenance of laws and order, health services, education etc.

ii. Income Redistribution: In modern days, the great emphasis was placed on the redistribution of income. This can be classified into two distinct forms. Firstly, the doctrine that taxation should be based on ability to pay and is summarised by the saying that “the greatest burdens should be borne by the broadest backs.” The second form presumed that the present distribution is unjust and concludes that this should therefore be undone. This second principle sees confiscation as a legitimate objective of taxation.

iii. Price stability: One of the motives of the government for taxing its citizens is to provide a reasonable degree of price stability in the country (Summerfield, 1980). Most spending by the public and private sectors without taxes generate high demand, which



leads to inflation. In such a situation, the main role of taxation is to reduce private expenditure in order to increase government's spending without causing inflation. Thus, taxation is basically a deflationary measure. On the other hand, when aggregate demand is lower than the deserved level, the government has two options which are to increase government spending with increasing taxes or to reduce taxes while leaving government spending stable.

iv. Economic growth and development: The sole management of the economy rests on the federal government in which taxation plays an important role. To maintain reasonable price stability, governments are determined to promote the near-full employment of all the resources of the country (including human resources) and ensure a satisfactory rate of economic growth. Economic growth and development programs are geared towards raising the standard of living of the masses in the country through improvement of their economic and social conditions. Taxation discourages, postpones or reduces consumption and encourages saving for private investments which is only possible when the basic necessities of life including security, law and order, education and communication are provided by the government, hence, the plans of developing countries are considered to be important.

Challenges of Tax Administration In Nigeria

Some of the challenges of Nigerian tax administration as highlighted by McPherson (2004) are; paucity of tax statistics, unethical practices (corruption), non-prioritization of tax efforts, poor administrative processes, multiplicity of taxes, economic structural problems which hinders effective implementation of taxes and the challenge of underground economy. The revenue accruing to the federal government of Nigeria from taxation over the years has remained grossly insufficient to meet the expanding social and public spending requirements in the country. In the opinion of Ayuba (1996), the tax system is grossly inefficient as it is characterised by tax evasion, avoidance and record falsifications, which have led to consistent low tax revenue inflow. Gross inefficiency and leakages have hampered the amount of revenue realised from tax sources over the years, which has been affecting the economy negatively. The inability of the Federal Inland Revenue Service Board to ensure total compliance with tax rules by companies and bring all operational companies into the tax net has significantly limited the contribution of tax revenue to economic growth.

In the views of James and Moses (2012), the prevalence of tax evasion in the Nigerian tax system, has curtailed the amount of revenue collected from tax income, this in no doubt has an effect on the government expenditure and inflation in the economy. Moreover, the



revenue generation capacity of the nation's present tax administrative system is hampered by challenges such as paucity of data, inefficient monitoring and enforcement system, and corrupt practices (Leyira, Chukwuma, and Asian, 2012). These challenges have impeded the economic growth in Nigeria and accentuated by the resultant effect of companies closing down, hence, reducing the tax revenue of the Government. Likewise, the problem associated with corruption and corrupt practices have eaten deep into this nation; therefore, the Nigerian tax justice system is tainted with lack of transparency, unaccountability and inefficient administrative system, which on the other hand has a negative effect on the economic growth. Globally, a tax contribution of 20% to a nation's GDP is acceptable; however in Nigeria, tax contribution to GDP is about 0.7% (Iweala, 2013).

Soyode and Kajola (2006), identified the challenges facing tax administration in Nigeria as follows:

Tax Evasion: Tax evasion is a deliberate and willful practice of not disclosing full taxable income so as to payless tax. In other words, it is a contravention of tax laws whereby a taxable person neglects to pay the tax due or reduces tax liability by making fraudulent or untrue claims on the income tax form, (Samuel and Tyokoso, 2014). Tax is evaded through different methods such as refusing to register with the relevant tax authority, failure to furnish a return, statement or information or record keeping required, making an incorrect return by omitting or understating an income liable to tax refusing or neglecting to pay tax; overstating of expenses so as to reduce taxable profit or income, which will also lead to payment of less tax than otherwise have been paid; A taxpayer hides away totally without making any tax return at all and entering into artificial transactions.

Tax Avoidance: This can be described as the arrangement of taxpayers' affairs using the tax shelters in the tax law, and avoiding tax traps in the tax laws, so as to pay less tax than he or she would otherwise pay. That is, a person pays less tax than he ought to pay by taking advantage of loopholes in a tax levy (Samuel and Tyokoso, 2014). Tax avoidance can arise in various ways: incorporating the tax payer's sole proprietor or partnership into a limited liability company; the ability to claim allowances and reliefs that are available in tax laws in order to reduce the amount of income or profit to be charged as tax.

Objectives of the national tax policy 2017

The Policy is expected to achieve the following specific objectives, among others:

- (a) Guide the operation and review of the tax system;



- (b) Provide the basis for future tax legislation and administration;
- (c) Serve as a point of reference for all stakeholders on taxation;
- (d) Provide benchmark on which stakeholders shall be held accountable; and
- (e) Provide clarity on the roles and responsibilities of stakeholders in the tax system.

Public Expenditure

The concept of public expenditures arises from the thinking that expenditures undertaken by the government are public (Oni, Aninkan and Akinsanya, 2014). Government expenditure is otherwise known as government spending or public sector spending or government purchases. It is the expenses incurred by Central, State and Local governments of a country. Samira (2016) views government expenditure as spending incurred by government authorities like central, state and local governments to satisfy the collective social needs of the citizens and is otherwise known as public expenditure.

Modebe et al. (2012) posit that public expenditure can be for the acquisition of goods and services for current use to directly satisfy personal or collective needs of the members of the society or it can be for provision and production of goods and services intended to create future benefits such as infrastructure investment and the spending can symbolise transfers of funds, such as salaries and administration expenses. According to Modebe et al (2012), capital expenditure has an everlasting effect on the nation and helps in the provision of a more efficient and productive economy unlike current expenditure. Public expenditure could be capital or recurrent. Oziengbe (2013) defined capital expenditure as spending that attracts future needs, as there could be some gap between when it is incurred and when it takes effect on the economy. Oni, Aninkan and Akinsanya (2014) described capital expenditure as expenditure on the creation or acquisition of fixed assets (new or second-hand). Capital expenditure is spending on assets. It is the purchase of items that will last and will be used time and time again in the provision of a good or service. For instance, the building of a new hospital, the acquisition of new computer equipment or ICT infrastructure networks, construction of new roads and among others. Recurrent expenditure refers to spending on goods and services acquired such as office stationeries and operational cost associated with it, wages and salaries as well as transfer payments (usually classified as current grants and subsidies). Current expenditure is spending on items that are consumed and only last a short period of time i.e. cost of an item used up in the provision of goods or services. In the case of the government, current expenditure would include wages and salaries and expenditure on consumables - stationery, drugs for health service, bandages and so on.



Ukwueze (2014) identified the determinants of public expenditure which are stated below:

i. Growth in Per Capita Income: Rises in the national income of economies has been found to be responsible for the increasing spate of public expenditure. This stems from Wagner's law of increasing state activities. As the national income rises the government spends more in order to meet up with the demands of the people. The rise in per capita income, seen in historical context, records the development of the economy from an agricultural and low-income state to an industrial and high income state. As the economy grows and income rises, the demand for goods, including public goods will rise, which as a consequence pushes the public expenditure (government purchases) up. With increase in per capita income, inflation also escalates. A smaller share of consumers' income is spent on certain goods, such as food or work, clothing, and a larger share on others. As average income increases, similar changes in the consumption pattern for the economy as a whole may be expected to occur. The relationship is more observable with regard to public provision for capital goods.

ii. Technical Change: Technological changes can significantly affect the share of social good in an efficient product mix. Technological change in particular has a major bearing on the development of the expenditure share. As technology changes, so do the processes of production and the product mix which is efficient to produce. These changes in technology may be such that they increase or decrease the relative importance of goods whose benefits are largely external, and which must therefore be provided by the government.

iii. Relative Costs of Public Services: Inflation: Public services will become more costly, but it does not follow that the share of public expenditure for GNP must rise. As the relative price of public goods rises, consumers will substitute private goods. The outcome will depend on the elasticity of demand for public and private goods. Only if demand is inelastic can we predict that the public share will increase.

iv. Population Change: Population changes may also be a major determinant of the public expenditure share. Changes in the rate of population growth generate changes in age distribution, and this trend is reflected in expenditures for education as well as care for the aged. The growth of population has frequently been cited as a factor that contributes to the growth of public expenditures. Changes in the general population might affect some services, such as defence, police protection or fire protection, whereas in other cases it is a specific section of the population that is of importance to the provision of the service, for example the school-age population in the case of education. Population size



and other population characteristics such as age structure and population density can be thought of as a subset of the environmental variables influencing the size of public expenditure. Intuitively, it would be expected that as population increases, then the level of activity produced by the public sector would have to expand in order to serve the larger population.

3.0 THEORETICAL REVIEW

Public Finance Management Theory

This theory was proposed by (Musgrave, 1959). It has to do with the effective use of funds collected and spent by the government. It encompasses all government activities to include its sources and uses of funds. This theory assumes that all aspects of financial resources, mobilisation and expenditure should be well managed in government for the benefit of the citizens. It includes resources mobilisation, prioritisation of programmes, the budgetary process, efficient management of resources and exercising control to guide against threat.

The Law of Increasing State Activities

A German Economist known as Adolph Wagner in 1890 postulated this theory. According to him, there are inherent tendencies for the activities of government to grow both intensively and extensively. That there exists a functional relationship between the growth of an economy and the growth of government activities and that the governmental sector grows faster than the economy. All kinds of governments irrespective of their level intentions and sizes had exhibited the same kind of tendencies of increased expenditure (Adams, 2013).

Benefit Received Theory

The benefit theory is a theory of tax fairness that was developed by Wicksell in 1896 and Lindahl in 1919 and is based on the idea that there should be some equivalence between what the individual pays as tax and the benefit he subsequently receives from the government expenditure activity. According to this principle, those who receive great fairness from the government either directly or indirectly should pay the most taxes in the principal fairness. In analysing the benefit principle approach Bowen model and Lindahl model have been used. Blume and Varian (1986), Comes et. al (1966) the Lindahl solution on a simple equity problem is the most common approach of the benefit theory. Following its classical implication, everyone should pay for public goods informed of taxes according to his willingness to pay. According to the benefit principle taxes should be used as payments by the state for services rendered to the citizens. People should pay for what



they get whether it is in the public sector or the private sector. The appropriate tax formula based on the ability they pay should depend upon the preference pattern and therefore price elasticity and income elasticity on the demand for public goods. The appropriate tax structure should therefore be progressive, regressive, proportional or digressive. The major limitation of this theory is that it requires the benefit derived by a citizen from the consumption of a social good be known but due to indivisibility of public provided goods, the benefits cannot be known. The benefit approach to taxation allows individuals to enjoy the benefits of public provided goods independent of whether they pay for them or not. According to Nguluu (2017) if a state maintains tax payment based on equivalence between services it confers and the benefits an individual receives, then it will be against the principle of tax as a compulsory payment made to the government to provide public goods and therefore taxes will not have any advantage to the economy. The relevance of this theory to our research study is that it helps us appreciate the different approaches the government can employ to collect taxes with the incidence falling on a specific kind of people and how this can differently influence different sectors of the economy.

According to this theory, citizens should be asked to pay taxes in proportion to the benefits they receive from the services rendered by the government. The theory assumes that there is an exchange relationship or quid pro quo between taxpayers and government. The government confers some benefits on tax payers by providing social goods which the tax payers pay a consideration in the form of taxes for using such goods. The inability to measure the benefits received by an individual from the services rendered by the government has rendered this theory inapplicable (Ahuja, 2012).

The Socio-Political Theory

The socio-political theory of taxation states that social and political objectives should be the major factors in selecting taxes. The theory advocated that a tax system should not be designed to serve individuals, but should be used to cure the ills of society as a whole (Bhartia, 2009). This study is therefore anchored on this theory.

EMPIRICAL REVIEW.

The direction of causal relationship that exists between government revenue and expenditure is yet to be empirically resolved. Many researchers have established various relationships as summarised below; Rasheed (2017), evaluates the causality between government expenditure and government revenue in Nigeria over the period of 1986 to 2015. The study applied co-integration statistical methods and vector autoregressive techniques comprising an Error Correction Model (ECM) and Augmented Dickey Fuller



as the methods of analyses. The findings showed that there is spend-revenue practice in Nigeria in line with the theory of Barro (1974); Peacock and Wiseman (1974) indicating that changes in government expenditure triggered changes in government revenue. Adejare and Akande (2017) studied the influence of personal income tax on government expenditure in Nigeria, especially in regards to Oyo state. The study employed the Pearson product moment correlation and multiple regressions. It was discovered that Personal income tax has a positive significant and statistical impact on Government expenditure in Oyo State.

Ogbonna (2010) is one of the authors who are of the opinion that government expenditures at all levels should be financed primarily by revenue from tax collectible from various entities and economic units on whom it is binding to pay tax. Data obtained through interviews and administration of questionnaires were analysed by simple percentage analysis to examine tax administration in Nigeria. The areas covered by the study include tax administration, constraints besetting tax payers, general principles of taxation, as well as its purposes, uses, classifications and effects. The results of the study agrees with the stark reality which characterised Nigeria tax exercises, namely, that poor infrastructure, use of unqualified tax personnel, public resistance to pay tax due to lack of awareness, unconventional means of tax administration, greed and sharp practices on the part of tax officials and tax payers all stand in the way of effective revenue generation through tax in the country. The problem is even more compounded at the third and lowest tier of government.

In Aslam (2016), the relationship between tax revenue and government expenditure in Sri Lanka over the period of 1950 to 2013 were investigated. The study employs the co-integration test and error correction mechanism. It was discovered that there exists a long run relationship between both economic phenomena and tax revenue has sustained a positive relationship with government expenditure. Ullah (2016) evaluated the relationship between the revenue and the expenditure in Malaysia over the period of 2002 to 2013. The study dwells on the descriptive and analytical technique. The study finds out that although the majority of the government revenue is from direct tax, the government spending only varies due to change in indirect tax revenue and non-tax revenue.

The study of Lojanica (2015) evaluated the causality between government expenditure and government revenue in Serbia over the first month of 2003 to the eleventh month of 2014. The study employs the Unit root test, the ARDL cointegration test, the Vector error correction model and the impulse response test. The findings show that in the long run



there is a unidirectional causality from government expenditures towards government revenues.

Mainoma and Aruwa (2015) in their study using Vector Error Correction Model based causality test for the periods 1979 to 2008. Their findings showed that causality runs from revenue to public expenditure in Nigeria, their causality test and impulse response analysis confirm that government revenue has a significant impact on public expenditure in Nigeria.

The research conducted by Ogujiuba and Abraham (2012) examined the revenue-spending hypothesis for Nigeria using macro data from 1970 to 2011. Applying correlation analysis, granger causality test, regression analysis, lag regression model, vector error correction model and impulse response analysis, they report that revenue and expenditure are highly correlated and that causality runs from revenue to expenditure in Nigeria. The vector error correction model also proves that there is a significant long run relationship between revenue and expenditure.

Aisha and Khatoon (2009), studied the relationship between government expenditure and revenue in Pakistan over the period of 1972 to 2007. The study employs the causality and cointegration test and discovers that the results support the Barro hypothesis that government expenditure causes revenues.

Maynard and Guy (2009) evaluated the interrelationship between total government expenditure and total tax revenue in Barbados over the period of 1985 to 2008 applying Granger Causality on both bivariate and multivariate co-integrating models. The result of the multivariate error correction model suggests that a unidirectional causality exists from tax revenue to government expenditure. Eita and Mbazima (2008), investigated the same causal relation in Namibia (from 1977–2007) using the Granger causality. According to their results, the causality is unidirectional, from government revenues to government expenditures. Mclure and Martinez (2000), evaluate the fiscal relationship between revenue and expenditure in 20 European nations over the period of 1995 to 2008. The study employs the stationarity test, simple regression and the cointegration test. The study discovers no relationship between revenues sources and expenditure in the long run

RESEARCH DESIGN

This study adopts a quasi-experimental design and the Ex-Post Facto method was used. Ex-post facto method was adopted on the basis that the study used a time-series data information which does not provide the study/researcher an opportunity to control the variables mainly because they had already occurred and cannot be manipulated.



Secondary data were used for analysis in this study and they were from the Central Bank of Nigeria Statistical Bulletin and the Federal Inland Revenue Services. Other sources of information used by the researcher are published journals, internet articles and books.

Methods of Data Analysis

This section is divided into descriptive analysis where tables and graphs were used to present the data and Test of hypotheses which were presented in the other part. The study used a multiple regression analysis technique to identify relationships among the variables studied. The significance level of 0.05 and confidence level of 0.095 were adopted. The significance of the variables under the study on the regression model were tested using the P-value approach while the relationships were determined by a multiple regression model. Information on these sources are reliable as they all passed content validity before publication.

Model Specification

To investigate the effect of Tax Revenue on Public Expenditure, the researcher developed and adopted the following regression model:

$$Y = f(X_1, X_2, X_3, \dots, X_n)$$

Where;

Y represents dependent variables and X_1, X_2, X_3 are explanatory variables (independent variables).

In econometric terms:

$$TREV = f(PPTREV, CITREV, CGTREV, VATREV, SDREV)$$

$$PUBEX = f(CAPEX, RECEX)$$

$$PUBEX = \beta_0 + \beta_{pptrev} + \beta_{citrev} + \beta_{cgtrev} + \beta_{vatrev} + \beta_{sdrev} + \mu$$

Where:

TREV = Total Tax Revenue

PPTREV = Petroleum Profit Tax Revenue

CITREV = Companies Income Tax Revenue

CGTREV = Capital Gains Tax Revenue

VATREV = Value-Added Tax Revenue

SDREV = Stamp Duty Revenue

PUBEX = Public Expenditure



CAPEX =Capital Expenditure

RECEX = Recurrent Expenditure

β_0 = Constant Term

$\beta_1 - \beta_5$ = Coefficient of explanatory variables

A Priori expectation

$\beta_1 - \beta_5 > 0$

The economic expectations of all explanatory variables such as petroleum profit tax revenue, capital gains tax revenue, value-added tax revenue, company income tax revenue and stamp duty revenue are expected to be positive; greater than zero which indicate positive impact on public expenditure in Nigeria.

Data Analysis

The data for this study consisted of secondary data information obtained from the Central Bank of Nigeria Statistical Database and CBN Statistical Bulletin, federal Inland Revenue Services. Data comprise information on Tax Revenue Generated by the Federal Government (REV), Public Expenditure. The data are presented in the following tables.

TABLE 1: DATA SHOWING PPT, CIT, CGT, VAT, SD, PUBLIC EXPENDITURE, CAPITAL EXPENDITURE, RECURRENT EXPENDITURE AND TOTAL TAX REVENUE (BILLION NAIRA)

YEAR	PPT	CIT	CGT	VAT	SD	PUBEX	RECEX	CAPEX	TTREV
2011	3,070.59	654.44	9.30	659.15	6.46	4,712.1	3,314.5	918.5	4,628.47
2012	3,201.32	820.57	8.92	710.56	7.38	4,605.3	3,325.2	874.7	5,007.65
2013	2,666.36	963.45	19.66	802.68	7.60	5,185.3	3,689.1	1,108.4	4,805.64
2014	2,453.95	1,173.49	2.65	802.96	10.94	4,587.4	3,426.9	783.1	4,714.56
2015	1,289.96	1,268.98	16.80	767.33	7.08	4,988.9	3,831.9	818.4	3,741.46
2016	1,157.81	933.54	99.40	828.20	5.93	5,858.6	4,160.1	653.6	3,307.46



2017	1,520.4 8	1,215.05	3.18	972.34	8.93	6,456.7	4,780.0	1,242.3	4,027.95
2018	2,467.5 8	1,340.3 2	12.59	1,108.0 4	15.80	13,786.9	9,277.2	3,215.2	5,320.89
2019	2,114.2 6	1,604.6 9	5.97	1,189.98	18.19	15,535.5	10,512.7	3,781.2	5,261.92
2020	1,516.99	1,275.38	3.52	1,531.17	120.16	17,557.4	12,819.10	3,265.4	4,952.22
2021	2,008. 45	1,747.9 9	17.50	2,072.8 5	33.94	19,965.0	13,563.80	4,712.8	6,402.71
2022	4,209. 02	2,649.1 9	45.57	2,511.52	53.53	24,431.21	15,553.55	6,335.58	10,179.35

SOURCES: CBN statistical Bulletin and Federal Inland Revenue Services

The data above are secondary data generated from the Central Bank of Nigeria Statistical Bulletin and Federal Inland Revenue Services through their websites. These data were analysed below using Statistical Package for Social Sciences (SPSS) Version 26.0.

SUMMARY OF SPSS PRINTOUT

HYPOTHESIS	R	R SQUARE	ADJUSTED R	F CHANGE	F SIG
Ho1	.271	.074	-.019	,794	.394
Ho2	.862	.744	.718	29.022	.000
Ho3	.032	.001	-.099	.010	.922
Ho4	.947	.897	.886	86.700	.000
Ho5	.657	.431	.374	7.582	.020
Ho6			.969		.000
Ho7	0.794	.630	.593	17.046	.002

SOURCE: Researcher (SPSS PRINTOUT)

The analyses of the relationship between the study variables, using the statistical tools adopted prompted the following revelations.

From the analysis of hypothesis one, on the relationship between Petroleum Profit Tax Revenue (PPTREV) and Public Expenditure (PUBEX) (with coefficient R = .271 and



P-value = .394) indicate a positive correlation but insignificant relationship between PPTREV and PUBEX in Nigeria. The positive coefficient of .271 suggests that both variables move in the same direction, meaning that when PPTREV is increasing, PUBEX has the tendency to increase in Nigeria by 27.1% and vice versa. The P-value of .394 suggests that there is no significant relationship between the variables.

Also, data from the study shows that there is a positive and significant relationship between Company Income Tax Revenue (CITREV) and PUBEX. From the result of analysis of hypothesis two on the significant relationship between CITREV and PUBEX (where coefficient (R) = .862 and P-value = .000), indicate that a significant and positive relationship exists between the variables. The implication is that any increase in CITREV will encourage more government spending by about 86.2%.

On the other hand, with reference to hypothesis three, Capital Gains Tax Revenue (CGTREV) has no significant relationship with PUBEX (where the correlation coefficient $R = .032$ and $p\text{-value} = .922$). With the above correlation coefficient, it shows that a positive relationship between the variables exist. This implies that any increase in CGTREV will bring about a 3.2% increase in PUBEX. While the $p\text{-value}$ Of .922 which is greater than 0.05 establishes an insignificant relationship among the studied variables.

Furthermore, the result of analysis of hypothesis four on the significant influence of Value Added Tax Revenue (VATREV) and PUBEX (where correlation coefficient = .947 and P-value = .000), indicate a positive correlation and a significant effect of VATREV on PUBEX in Nigeria. The positive correlation of .947 suggests that both variables move in the same direction, meaning that when VATREV increases, PUBEX in Nigeria will increase by 94.7% and vice versa.

The study also, ex-rated that Stamp Duty Revenue (SDREV) have a positive correlation with PUBEX with a correlation coefficient of .657 or 65.7%. This implies that considering other influences, the PUBEX is impacted positively by 65.7% of any increase in SDREV and this impact is significant at 95% confidence level or 5% level of significance since $p\text{-value}$ of .020 is less than the level of significance.

Hypothesis six viewed the difference between Capital Expenditure (CAPEX) and Recurrent Expenditure (RECEX). The analysis shows a correlation coefficient of .969 or 96.9%. Considering the $p\text{-value}$ of .000 which is less than the level of significance, it signifies that a significant difference exists on public spending on CAPEX and RECEX.

Conclusively, the study investigated the relationship between Total Tax Revenue and Public Expenditure (PUBEX). The result of the correlation coefficient R of .0794, R^2 of



.630 depicts a positive relationship and the relationship is significant at 5% level of significance since p-value of .002 is less than .05.

Summary of Findings

The study findings depict the followings:

1. There is a positive but not significant relationship between Petroleum Profit Tax Revenue and Public Expenditure in Nigeria.
2. There is a positive and significant relationship between Companies Income Tax Revenue and Public Expenditure in Nigeria.
3. Capital gain tax (CGT) revenue has a positive but no significant relationship with the Public Expenditure in Nigeria.
4. There is a positive and significant relationship between VAT revenue and Public Expenditure in Nigeria.
5. Stamp Duty Revenue contributes positively and significantly to Public Expenditure in Nigeria.
6. There is a significant difference in Capital Expenditure and Recurrent Expenditure in Nigeria.
7. Total Tax Revenue contributes positively and significantly to Public Expenditure in Nigeria.

Conclusion

It is of the researcher view that tax revenue is imperative in a developing economy such as Nigeria as such it is irreplaceable. Some experts in the field of taxation are of a strong view that tax revenue remains the most powerful socio-political and economic (fiscal policy) tools for the economic advancement and achievement for national prosperity. Though issues of tax leakages such as tax evasion, tax avoidance, corrupt practices among tax administrators and operators which are eminent in the Nigeria space as also globally, tax revenue is the most viable and reliable source of income which helps to improve public expenditure. The positive impact of Stamp Duty Tax Revenue, Company Income Tax Revenue, Value Added Tax Revenue on the public expenditure is an indicator that Nigeria economy at large is a beneficiary of taxes, as revenue derived from taxes are used among other things to provide social amenities and to sponsor other government revenue. Hence, tax revenue is a vital instrument to propel the advancement of the economy of Nigeria.

Recommendations



Based on the objective of this study and its findings, the following recommendations were made by the researcher:

1. The study shows that Value Added Tax (VAT) revenue, Company Income Tax (CIT) revenue and Stamp Duty (SD) revenue have more propensity than any other tax to propel public expenditure, hence government should garner more effort to see that the collection and remittance of these taxes are not compromise in any way. Proper assessment of company's income should be promptly made and all revenue accruable should be collected and remitted to government coffers.
2. Tax objective should be clearly defined by the government so that the tax system should work towards actualization of these objectives. This will give tax administrators and other stakeholder a sense of direction and taxpayer will develop consciousness on the reasons to pay their taxes as at when due.
3. Tax evasion and avoidance should be discouraged in all terms and strict penalties should be imposed on people/companies who avoid or evade tax payment in order to minimise the incidences of tax evasion and avoidance.
4. Diversification of the economy through the proceeds of taxes will help the economy grow faster. The researcher, therefore, recommends that the government should use revenue derived from taxes to invest in other sectors of the economy such as manufacturing, agriculture, mining, etc., in order to expand the revenue base of the economy.
5. Revenue generated from taxes should be used judiciously to provide infrastructure and basic social amenities such as portable water supply, roads, security, electricity, etc., as this will encourage taxpayers to support the system.
6. Value Added Tax law should be repealed to exempt some more basic items which give a high tax burden to ordinary citizens through double taxation. A situation where the personal income of a civil servant is taxed under the Personal Income Tax (PIT), and the same income is also subjected to tax (VAT) when he buys some basic household items from a supermarket should be discouraged through tax legislation.
7. The upward review of the rate of VAT from 5% to 7.5% is a welcome development. But the researcher is of the opinion that this rate should not be applied universally to all products. Hence, the researcher is of the opinion that only goods of affluence such as champagne and the likes should be subjected to that rate or even a higher one, possibly 10%.



8. Regular training and retraining is highly recommended for tax administrators in Nigeria. Also, periodic orientation and tax enlightenment is suggested for other stakeholders. This will ensure professionalism and capacity building among administrators and tax awareness among other stakeholders respectively.
9. The new Finance Act, Finance Act 2020, has a lot of prospects for the economy. The research recommends that the full implementation of the Finance Act 2020 should be encouraged to grow the economy.

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