Indirect Taxes and Economic Development in Nigeria

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Abstract
Indirect taxes and economic development in Nigeria are the subjects of this study. The Human Development Index (HDI) was employed as a measure of economic development to specifically assess if indirect taxes, such as Value Added Tax (VAT) and Customs and Excise (CED), influence economic development in Nigeria. The study employed an ex post facto research design with secondary data from the Federal Inland Revenue Service, the Nigerian Customs Service, and the Central Bank of Nigeria for the pertinent years 2001-2021). To investigate the correlation between the variables, the ARDL regression econometric analytic approach was applied. This study discovered that while there is a definite positive association between Value Added Tax (VAT) and Nigerian economic progress, the relationship between Customs and Excise Tax (CED) and that development is negative and inconsequential. This study generally concludes that indirect taxes and economic development in Nigeria are significantly related. The study thus urges political decision-makers to work toward further indirect tax reforms, as these significantly impact Nigeria's economic progress.
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JEL Classification Codes: O1, F63, F62

1.   Introduction

The importance of economic development in generating tax income among the many world countries has grown over time. Human capital development and raising living conditions have traditionally been considered a top priority for nations. However, the world's advanced economies were far ahead and had time to adequately foresee the difficulties of economic progress (Schultz, 2021). According to Desislava (2018), the United States devotes an average of 45% of its annual budget to the development of its workforce and human resources. The structure of economic development is critical as the optimal design for raising the gross

domestic product per capita of countries, according to the International Monetary Fund (2016). According to Desislava (2018), a few European Union countries influence peoples' living standards in different ways. Each nation's economic growth strategy reflects its political objectives, including its aim to raise enough money to provide social services and raise residents' living conditions (Al-tarawih, Khataybeh, & Alkhawaldeh, 2020; Baiardi, Profeta, Puglisi, & Scabrosetti, 2019).

The government's inability to invest in infrastructure, social inclusion, job creation, youth empowerment, and enhancing the human resource foundation of the economy has been cited as one of the causes of economic underdevelopment in Nigeria (Babalola & Aminu, 2020). Governments, according to their argument, have never taken coordinated action or had real intentions to invest in infrastructure, enhance the business climate, or boost human capital, all of which are vital for economic success. According to Folayan and Adeniyi (2018), Nigeria has not improved as much as it should have in the world rankings of developing nations because of the macroeconomic environment's instability, the country's poor agricultural performance, the persistence of food insecurity, problems with energy sufficiency, the inadequate improvement of transportation infrastructure, and the inability to advance industrialization, which prioritizes small and medium-sized enterprises.

Any nation's tax system must accomplish a few objectives, including protecting domestic and emerging industries as well as generating revenue for the government, and redistributing income as a means of stimulating social and economic development. The administrative framework and the priorities of central and regional governance determine how well these tasks are carried out and whether taxation is practical as a stabilization tool. Taxation, which is a part of the fiscal policy framework in economic theory, thereby affects the rate of economic growth as well as other micro- and macroeconomic factors. The relationship between taxes and economic growth has received a lot of attention in the literature on accounting, finance, and economics. For instance, the United Nations [UN], (2005), contends that to attain the Millennium Development Goals, poor countries must increase their domestic income through taxation (MDGs). Several empirical studies, such as those conducted by the [UN], (2005); Popoola (2019); Onefeiwu (2012); and Ogbanna and Appah (2016), among others, have attempted to link taxation and economic growth.

Professionals and even regular citizens in Nigeria continue to dispute the impact of taxes on the economy because it is thought that taxes in Nigeria do not function as effectively as they do in other nations across the world. The argument's premise, which highlights the nation's severe

economic distortions, the dismal state of national infrastructure, and the level of poverty, is compelling. The ineffective administrative infrastructure and corruption among tax authorities are also documented in other places, which hinders the effectiveness of the nation's tax administration. As a result, policy directives must be established to increase consistent revenue flows to the government given the fiscal imbalances that characterize Nigeria's public sector and the ever-increasing requirements of the populace (Etim & Nweze, 2015). Therefore, a broad premise can be that the government uses tax income wisely to fund social security and infrastructure and that economic growth and development are supported when tax laws foster a favorable business climate.

Nigeria's poor economic development over the years can be attributed to the country's crumbling infrastructure. These have significant and detrimental effects on the nation's economic growth (Alade & Tule, 2021; Asaolu, Jayeola, & Oladele, 2018). The study by Olaoye and Aguguom (2018) showed that issues with economic development were made worse by difficulties in the oil industry, such as the sabotage of oil export terminals in the Niger Delta, which hurt export revenues and the government's ability to balance the budget and stop the economy from contracting. Lack of fiscal buffers to absorb shocks, the phase-out of public funds due to corruption, poor corporate governance, leaders' unpatriotic attitudes, and inefficient use of the resources available to have effective economic development in Nigeria have all placed restrictions on the capacity of government spending (Nedozie, Obasanmi, & Ighata, 2014; Ogbuagu, Ubi, & Effion, 2014).

Since the year 2000, the primary source of funding for public spending at all levels of government (Federal, state, and local) in Nigeria has been the proceeds from the sale of crude oil, which has displaced taxes as the main source of governmental revenue. Crude oil prices, on the other hand, have lately dropped due to the collapse of the world oil market and the ensuing impact of -the Coronavirus disease COVID-19 on the prospective revenue streams for nations. This calls for a review of the country's revenue structure with a focus on taxation. In this study, the Human Development Index (HDI), rather than the Gross Domestic Product (GDP) or the Real Gross Domestic Product (RGDP), was employed as a gauge of economic development. Therefore, the purpose of this study is to investigate how indirect taxes affect economic development in Nigeria.

2.   Literature Review
2.1   Conceptual Clarifications

2.1.1   Concept of Indirect Taxes

Indirect taxes are levied on people or groups who are not supposed to absorb the cost, but instead transfer it to other people. They are typically imposed on goods or services where the consumers and last payers are directly impacted, rather than the producer or first payer. In other words, consumers typically pay all or a portion of the indirect taxes imposed on a market. In rich nations like the US, most of the government revenue often comes from direct taxes, whereas in underdeveloped nations like Nigeria, most of the government revenue mostly comes from indirect taxes (Igweonyia, 2011). Value Added Tax (VAT) and Customs and Excise duties have been chosen as the indirect taxes for this study.

A sort of tax charged by intermediaries that remit taxes to the government and carry out tasks associated with filing tax returns is an indirect tax, often known as an expense tax. Customers are ultimately responsible for paying the taxes. Because of this, these taxes play a significant role in the final cost. The government imposes indirect taxes on producers, but depending on the product's price elasticity of supply and demand, the tax burden may be transferred to consumers. As a result, consumers typically pay all or a portion of the indirect taxes imposed on a market. The passenger tax per flight for domestic airlines is an illustration of this. When the final price is announced and the customer pays the entire weight, many airlines give this information directly to the customer. It is impossible to emphasize how significantly indirect taxes affect a country's ability to develop. Since then, indirect taxes have drawn more attention from developing nations looking to simplify their tax systems. Nigeria, Senegal, Côte d'Ivoire, Morocco, Tunisia, and other countries are among them. Indirect taxes are imposed on practically all business transactions in more than 130 nations since they are meant to be neutral for the company. Taxes, levies, fees, fines, special assessments, as well as income from state-owned businesses and natural resources, are the main sources of funding for the government.

2.1.2   Concept of Economic Development

Over time, underdevelopment deteriorated, leading to low capital literacy, subpar living conditions, and increased levels of poverty in Nigeria. Economic development, according to Owusu-Gyimah (2015), is a rise in national production and modifications to the institutional and technical frameworks that produce it. A movement in the labour force from agriculture to contemporary manufacturing and service sectors as well as self-sustaining output growth are referred to as structural changes in the study. These changes in institutional and technological variables are what drive this

transition. Economic development is defined as structural change plus economic growth. Thaci and Gerxhaliu (2018) emphasized the relationship between economic growth and economic development further by pointing out that, while economic growth measures an increase in the real gross domestic product (real output), economic development takes into account more statistics than just GDP per capita. They continue by saying that the total amount of products and services produced in a year serves as a measure of economic growth. Therefore, development is concerned with how people's living standards are impacted.

In its broadest definition, economic development is the transformation of a nation from a low-income economy to a high-income one, lifting the poor out of poverty. The rate of economic development rises as the level of living in the area rises. It is a process by which the people of a country make use of the resources at their disposal to increase the country's per capita income. This means that via increasing output, higher rates of literacy, and better public education, individuals in a country will become wealthier, healthier, and have a longer average life expectancy.

Economic development is gauged using the Human Development Index (HDI), which is a composite indicator of long-term improvement in three key areas of human development; access to a safe and healthy life, access to education, and a reasonable standard of living. According to the United Nations Development Program [UNDP], (2014), It is a procedure by which a country enhances the social, political, and economic well-being of its citizens. The HDI is an index that gauges important aspects of human development, such as life expectancy and a reasonable standard of living as determined by gross national income per capita adjusted for the local currency.

2.2   Empirical Literature

Ikeokwu and Leyira (2021) looked at how indirect taxes affected Nigeria's economic expansion. From the FIRS and CBN Statistical Bulletin databases, secondary data were taken. To test the gathered data, multiple regression using Ordinary Least Square (OLS) was used. According to ʺthe study, Nigeria's economic expansion is significantly impacted by indirect taxes. It is therefore recommended that the government should develop more strategies for the collection of indirect taxes in Nigeria to expand its revenue base.

In Kenya between 1973 and 2010, Owino (2021) did an empirical study on the relationship between VAT and economic growth. The model was represented econometrically, and its estimation was carried out using the ordinary least squares approach. According to the study, there is a slight

but favorable correlation between Kenya's VAT and economic growth. It, therefore, recommended that the government should reform the VAT system to engineer a system that would have a significant impact on economic growth.

Egbuhuzor and Tomquin (2021) examined the effect of indirect taxes on economic growth in Nigeria from 2003 to 2018. The ex-post facto research design was adopted for this study while secondary data were extracted from the Central Bank of Nigeria Statistical bulletin from 2003 to 2018. Descriptive statistics and multiple regression were used to test the postulated null hypotheses with the aid of EViews10 statistical software. Value-added tax and custom and excise duties were measures of Indirect taxes while gross domestic product and human development index were the measures of economic growth. The study revealed a negative and insignificant effect of value-added tax on gross domestic product. It also revealed a positive and significant effect of value-added tax on human development index. Also, it revealed a positive and insignificant effect of customs and excise duties on gross domestic product. Finally, the study revealed a positive and insignificant effect of custom and excise duties on the human development index. The study therefore recommended that the government should put in place a mechanism to close up the loopholes in the VAT collection system since its effect on gross domestic product is negative and insignificant.

Ezu and Jeff (2021) examined the effect of indirect taxation on the economic development of Nigeria. The specific objectives were to; evaluate the effect of petroleum profit tax on the real gross domestic product of Nigeria, examine the impact of company income tax on the gross domestic product of Nigeria, and determine the impact of value-added tax on the real gross domestic product of Nigeria. The study adopted an ex post facto research design. The study made use of secondary data obtained from the Central Bank of Nigeria Statistical Bulletins for the relevant years. The hypotheses were tested using the Granger causality statistical tool. The following findings were made for this study: Petroleum profit tax has no significant effect on the gross domestic product of Nigeria. Company income tax has a significant effect on the gross domestic product of Nigeria and value-added tax has a significant effect on the gross domestic product of Nigeria. The study concluded that; about 96% of changes in the dependent variable are explained by the independent variable. The study recommends that the Government should make more non-interest loans available to farmers as a way of diversifying the economy from its dependency on the oil sector and those strict penalties should be meted to people who avoid and

evade tax payments to minimize the incidence of tax evasion and tax avoidance.

In 2020, Babalola and Aminu looked at the empirical connection between Pakistan's economic development and indirect taxes. The study used annual time series data from 1974 to 2010. Checks for stationarity of the variables were performed using the Philips Perron and ADF unit root tests. Testing with Auto Regressive Distributed Lag (ARDL) helped to assess the long-term and short-term association between variables, and a co-integration approach was used. The study's findings revealed that while indirect taxes had a negligible short-term influence on economic growth, they had a large negative long-term impact. If economic growth needs to be increased, the study suggested lowering indirect taxes and raising direct taxes.

Ukpabi (2019) examined the influence of indirect taxation and economic growth as a viable strategy for revenue diversification in Nigeria. The study employed dynamic econometric analysis. The study revealed that VAT had a positive effect on economic development. On the other hand, customs and excise duties had a negative link that was evaluated and determined to be minor. However, the link between indirect tax sources and economic growth was discovered to be considerable in general. The study recommended among others that the number of goods on the VAT list should be increased and the burden of customs duties should be lessened on infant industries, all aimed at boosting indirect tax revenue accruing to the country and ultimately stimulating economic growth.

An empirical analysis of the effect of indirect taxes on Nigeria's economic performance from 1994 to 2017 was done by Nmesirionye, Jones, and Onuche in the year 2019. The National Bureau of Statistics and the Central Bank of Nigeria's Statistical Bulletin were used to gather secondary data. On the acquired data, OLS multiple regression techniques were applied. The analysis discovered that whereas tariffs and excise taxes have a positive and considerable influence on Nigeria's actual gross domestic product, VAT has a favorable but negligible impact. It was recommended that the Federal Government should emphasize the rule of law in curbing corruption inherent in our tax system. Besides, there is an urgent need to put in place measures to effectively and efficiently collect all forms of indirect tax revenue to enhance economic development and growth in the country.

Ebiringa and Emeh (2019) used time series data from 1994 to 2012 to evaluate how the VAT affected Nigeria's economic growth. The study employed ex post facto and retrieved data from several central banks' Statistical Bulletin for Nigeria, including VAT and real gross domestic product. The data was analyzed using the Engle-Granger General Error

Correction Model (ECM) technique, and it was determined that the VAT has a negative significant relationship with the gross domestic product under both short- and long-term equilibrium conditions, leading to the conclusion that the VAT has a significant impact on economic growth in Nigeria. The study therefore recommended that the company income tax system should be generally restructured to bring about more yielded revenue results capable of contributing more significantly to the Nigerian economy as it is done in the advanced countries of the world

Ibadin and Oladipupo (2015) examined the impact of indirect taxes on the economic growth of Nigeria. The study employed a time series of data spanning a thirty-four-year period, from 1981 to 2014. The unit root test and the Error Correction Model were utilized in the study. The study revealed a positive and significant impact of VAT and PPT on the RGDP. The study therefore recommended that the government through its agency Nigerian Custom Service should computerize all its tax collection processes with an adequate internal control system to boost revenue generated from customs and excise duties.

In addition, Ariyo (2007) using time series data from 1970 to 1990 and applying Ordinary Least Square (OLS) to evaluate the productivity of the Nigerian tax system has given the negative impact of persistent unsustainable fiscal deficits on the Nigerian economy for the period 1970-1990 to devise a reasonably accurate estimation of Nigeria's sustainable revenue profile. The results of his study showed a satisfactory level of productivity in the Nigerian tax system. The study therefore recommended an urgent need for the improvement of the tax information system to enhance the evaluation of the performance of the Nigerian tax system and facilitate adequate macroeconomic planning and implementation.

3.   Methodology

The ex post facto research design is used in this study. The major source of information for this study is secondary data. For the relevant years (2001–2021), time series data for the human development index, value-added tax, and customs and excise were collected from the Central Bank of Nigeria Statistical Bulletin, Federal Inland Revenue Service (FIRS), and Nigerian Customs Service. " The Nigerian economy is the sole subject of this study. This study employed both descriptive and inferential analysis. The study used ARDL regression econometric analytic approaches

3.1   Model Specification

The model for the study is gas stated below:

$$HDI = f(VAT)\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots(1)$$

$HDI = f(CED)$...(2)
$HDI = f(VAT, CED)$..…..……(3)
      Equation (3) is explicitly stated below as an econometric model;
$HDI = \beta 0 + \beta 1 VATt + \beta 2 CEDt + \mu t$.…..…..…………………(4)
Where;
HDI_t = Human Development Index in the current period
VAT_t = Value Added Tax in the current period
CED_t = Custom and Excise Duties in the current period
μ = Error term capturing other explanatory variables not explicitly included in the model.
βo = Intercept of the regression.
β_1 and β_2 = Beta coefficients of the independent variables

4.   Results and Discussion
Table 1: Descriptive Statistics

	HDI	VAT	CED
Mean	0.503611	630.5528	439.0444
Median	0.510500	679.8500	435.9500
Maximum	0.540000	1175.900	837.3000
Minimum	0.445000	136.4000	177.7000
Std. Dev.	0.029448	345.4352	208.2124
Skewness	-0.439005	0.018373	0.412666
Kurtosis	1.927349	1.799041	1.970445
Jarque-Bera	1.441110	1.082740	1.305867
Probability	0.486482	0.581951	0.520517
Sum	9.065000	11349.95	7902.800
Sum Sq. Dev.	0.014742	2028533.	736991.0
Observations	21	21	21

Source Author's Computation Using Eviews 12

     Table 1 displays the descriptive statistics for the dependent and independent variables in the model. The Human Development Index (HDI), Value Added Tax (VAT), and Customs and Excise (CED) have median values of 0.503611, 630.5528 billion, and 439.0444 billion, respectively, between 2001 and 2021. The peaks of the HDI, VAT, and CED, which are 0.540000, 1175.900 billion, and 837.3000 billion, respectively, can be compared to these figures. This suggests that save from the HDI, all variables' means are well below their maximum values. The skewness is a metric for the asymmetry of a series' distribution around its mean. All variables, except for the dependent variable (HDI), have skewnesses greater than zero. This demonstrates the positive skewness of the independent variables (VAT and IED). As a result, each independent variable's

observation has a right long-tail distribution. The dependent variable (HDI) is biased against the negative. A normal distribution's kurtosis is 3. Table 1 also demonstrates that the distributions for HDI, VAT, and CED are all platykurtic, with kurtosis values of less than 3. Given that each variable's probability value is more than 0.05, it was demonstrated that all of the variables are regularly distributed.

Table 2: Summary of the Augmented Dickey-Fuller Unit Root Test

Variable	ADF Stats	5% Critical Level	Remarks
HDI	-2.041800	-3.710482	Non Stationary
VAT	-4.352273	-3.733200	Stationary
CED	-3.082906	-3.710482	Non Stationary
D(HDI)	-5.041521	-3.733200	Stationary
D(CED)	-4.602265	-3.759743	Stationary

Source: Author's Computation Using Eviews 12

In determining the characteristics of time series variables, a preliminary analysis is to test if the series are stationary or not. In other words, this preliminary analysis is conducted to test for the presence of a unit root in the series. The Augmented Dickey-Fuller (ADF) unit root test was applied and the results are shown in Table 2. The empirical results of the Augmented Dickey-Fuller (ADF) unit root test at 5 percent critical levels in Table 2 indicate that Human Development Index (HDI) and Customs and Excise Duties (CED) were stationary after first differencing while Value Added Tax (VAT) was stationary at levels. Hence, the variables have a mixed order of integration of zero and one. This conclusion is based on a comparison of the Augmented Dickey-Fuller statistics and the critical values provided by Mackinnon (1996). Since the variables have different orders of integration, this permits us to conduct the Auto-regressive Distributed Lag (ARDL) Bounds test to know if the variables have a long-run relationship.

Table 3: ARDL Bounds Test

F-Bounds Test		Null Hypothesis: No levels of relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	5.666322	10%	2.63	3.35
K	2	5%	3.1	3.87

| | | 2.5% | 3.55 | 4.38 |
| | | 1% | 4.13 | 5 |

Source: Author's Computation Using Eviews 12

Since the F-statistic of 5.666322 is greater than the critical value of the upper bound of the *I(1)* series in Table 3, we conclude that there is cointegration among the variables. In other words, there is a long-run relationship among the variables.

Table 4: Autoregressive Distributed Lag (ARDL) Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
HDI (-1)	0.371923	0.202913	1.832922	0.0855
VAT	6.98E-05	2.56E-05	2.729454	0.0148
CED	-3.46E-05	3.25E-05	-1.063766	0.3032
C	0.289607	0.090890	3.186349	0.0057
R-squared	0.958471	Mean dependent var		0.499700
Adjusted R-squared	0.950684	S.D. dependent var		0.030349
S.E. of regression	0.006740	Akaike info criterion		-6.984756
Sum squared resid	0.000727	Schwarz criterion		-6.785609
Log-likelihood	73.84756	Hannan-Quinn criteria.		-6.945880
F-statistic	123.0903	Durbin-Watson stat		1.982077
Prob(F-statistic)	0.000000			
*Note that p-values and any subsequent tests do not account for the model selection.				

Source Author's Computation Using Eviews 12

The study's autoregressive distributed lag (ARDL) result is displayed in the regression in Table 4, Value Added Tax (VAT) has a positive coefficient of 0.00698, which is significant with a p-value of 0.0148, according to the findings. When all other factors are held constant, interpretation of the positive VAT coefficients reveals that a one-unit rise in VAT raises Nigeria's Human Development Index (HDI) by about 0.70%. The null hypothesis is now rejected, and we conclude that there is a significant association between VAT and economic development in Nigeria since the probability value of Value Added Tax (VAT), which is 0.0148, is below the significance level of 5%.

Customs and Excise (CED) have a negative coefficient of -0.00346 according to the Autoregressive Distributed Lag (ARDL) results in Table 4, which is negligible given a p-value of 0.3032. The interpretation of the negative IBD coefficients reveals that, when all other factors are held constant, a one-unit rise in IBD causes a 0.346% fall in Nigeria's Human Development Index (HDI). We accept the null hypothesis and conclude that there is no significant association between VAT and economic development

in Nigeria because the Custom and Excise Duty (CED) probability value of 0.3032 is greater than the 5% significance level.

According to the adjusted R-squared value of 0.950684, VAT and IED account for around 95.07% of the systematic fluctuations in the dependent variable (HDI) across the observed years, with 4.93% of the variations being explained by other external determinants of the model. A significant probability value of 0.00000, or less than 0.05, is displayed by the F statistic. This indicates that the independent variables (VAT and CED) did not have a chance impact on the dependent variable (HDI). The absence of autocorrelation is indicated by the Durbin-Watson value of 1.98.

4.1   Discussion of Findings

Value Added Tax (VAT) and Customs and Excise (CE) were considered when evaluating the effect of indirect taxes on economic development in Nigeria. According to the findings of our study, Nigeria's economic growth is positively and significantly impacted by Value Added Tax (VAT). This finding aligns with those of Ebiringa and Emeh (2019), and others who have found a positive and significant correlation between VAT and economic progress in Nigeria. The findings of Owino (2019), whose study suggested a negligible association between VAT and economic progress in Nigeria, are refuted by this one.

Customs and Excise (CED) have been discovered to have a detrimental and negligible effect on Nigeria's economic growth. This finding supports that of Nimenibo *et al.,* (2018), who found that the economic growth of Nigeria is not significantly impacted by excise and customs taxes. The findings of Ebiringa and Emeh (2019), which similarly found a link between customs and excise taxes and economic progress in Nigeria, are disproved by this one

5.   Conclusion and Recommendations

The study was undertaken to ascertain how indirect taxes affect Nigeria's economic growth. The study's primary goal is to determine how Nigeria's Human Development Index (HDI) has been impacted by VAT and CED. The Central Bank of Nigeria's statistical bulletins were the source of the data used in the study. Value-added Added Tax (VAT) has a favorable and considerable impact on economic development in Nigeria, according to the trend analysis's findings. Additionally, it was discovered by this study that Customs and Excise Duties (CED) had a poor and negligible impact on Nigeria's economic growth. The study's findings support the conclusion that Nigeria's economic development and Value Added Tax (VAT) have a substantial relationship. This study generally concludes that indirect taxes

and economic growth in Nigeria are significantly related. The importance of these findings at this point cannot be overemphasized in the face of the over-reliance of the Nigerian government on revenue from sales of crude alone. The study thus urges political decision-makers to work toward further indirect tax reforms, as these have a significant impact on Nigeria's economic progress.

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