CHAPTERONE

1.0Backgroundto the study

Over the years, oneof the main issues developing countries have faced is sustainable economicgrowth. To keep up with the tremendous demand for government need to raiserevenue to carry out its duties. The single most important way government raisefunds to finance its operations is through taxes (Osundina and Olanrewayu 2013:76). Tax is a major player of every nation of the world and tax system put inplace an opportunity for government to collect additional revenue needed indischarging its obligations.

The economic effectsof taxation include micro effects on the distribution of income and efficiencyof resource use, as well as, macro effect on the level of capacity output,prices, employment, and growth. Hence, taxation tends to affect productivity andresources allocation in the economy.

It is important tonote that asides the fact that taxation is an important source of generatingrevenue for the government, it is also an avenue for the redistribution ofwealth and re-adjustment of the economy (Ojo 2008) cited in (Abata 2014: 110).The tax system is one of the most powerful levies available to any governmentto stimulate and guide its economic and social development (Abata 2014: 110).Furthermore, according to Roche (2015: 1), corporate taxation is of greatconcern in investors' decisions and hence with employment and economic growth.

Taxation hasdifferent impacts depending on the form it assumes. Corporate and Shareholdertaxes reduce the capital funds available to make investments and build a generaland more productive structure (Roche 2015:2).

1.1Statementof the problem

Taxation as a sourceof financing economic growth in Nigeria has been a difficult issue primarilybecause of its administration and various girls of resistance such asavoidance, evasion, etc. These activities are considered as sabotaging theeconomy and are presented as part of the reasons for the present state ofunderdevelopment in Nigeria.

It is an importantpart of fiscal policy which can be used effectively by government and developingeconomies. Taxation also affects condition consumption, distribution, price,stability, savings, investment, and economic growth. It is important to notethat despite the policies and measures that are being taken by the governmentin promoting economic growth in Nigeria, the efforts have not really producedresults. Also, many researchers have worked on the economic growth of Nigeriaand have taken a critical look at variables that affect economic growth,however not much empirical studies have been made to examine how taxation hadimpacted economic growth. This study intends to fill the gap in the literatureby carrying out an empirical study of the trend of taxation in Nigeria rightfrom 1980 to 2016 and examine its impact on the economic growth.

1.2ResearchObjective

The main objective ofthis study is to investigate the macroeconomic impact of taxation on economicgrowth of Nigeria. The specific objectives are:

1.) To determine thenature of the relationship between taxation and economic growth in Nigeria.

2.) To examine theimpact of taxation on the Nigerian economic growth.

1.3ResearchQuestions

1.) What is therelationship between taxation and economic growth in Nigeria

2.) To what extenthas taxation contributed to the growth of Gross Domestic Product in Nigeria?
3.) In what ways canNigeria change her tax system in order to boost revenue generation through thissource?

1.4ResearchHypothesis

H_O: Taxation has not contributed significantly on economic growth in Nigeria.
H_1: Taxation has contributed significantly on economic growth in Nigeria.

1.5Scopeof the study

This study covers theGross Domestic Product of Nigeria from 1980-2016 to obtain the extent to whichtaxation has contributed to the GDP and consequently economic growth ofNigeria.

Significance of thestudy

This study will helpto provide a clear insight that would help government to know how to run asmooth and effective tax system and policies. Given the fact that the subjectof taxation is an essential part of a country's investment and growth plan,this study will help to contribute to the efforts of government in promotingeconomic growth by showing how taxation has impacted economic growth from1980-2016. It also coordinator contributes to the empirical literature byfocusing on the effect of each tax indicators on economic growth.

1.6Limitationof the study

The broad scope ofthis study makes it require enough time to carry out empirical studies

1.7Definitionof terms

1.) Tax: this refersto a compulsory levy on the citizens of the country in order to generaterevenue for the government. It could be direct or indirect tax.
2.) Economic growth:this refers to the positive change in the level of goods and services producedby a country.
3.) Gross DomesticProduct: this refers to the output of goods and services of a country. It isused to measure the economic growth of the country.

References

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Macroeconomic Policy, Tax Revenue and Economic Growth in Nigeria

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