

## **ABSTRACT**

This research work was carried out in order to find out if actually there is any impact which taxation has on Nigerian economy and the survey for this study is based on Enugu state. This research work also became necessary in order to bring to the proper understanding of the enquirer the best way to solve such problems connected with tax especially: what is taxable, which system of tax is acceptable, the rate of tax evasion and tax avoidance, the assessment of Nigeria tax system and which of the impacts of taxation is the most essential. The primary function of every government is to make provision of this enormous work cannot be carried out adequately by the government due to its limited resources therefore, there is imposition of tax on all citizens, companies to augment government financial position. Government have always enacted various tax laws and reformed to stand the test of time.

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### **CHAPTER ONE**

### **INTRODUCTION**

## **1.1 BACKGROUND OF THE STUDY**

One of the major functions of the government especially developing countries such as Nigeria is the provision of infrastructural services such as electricity, schools, hospitals, pipe-borne water, good roads and as well as ensure a rise in per-capita income, poverty alleviation to mention a few.

For these services to be adequately provided, government should have enough revenue to finance them. The task of financing these enormous responsibilities is one of the major problems facing the government. Based on the limited resources of government, there is need to carry the citizens (governed) along hence the imposition of tax on all taxable individuals and companies/organizations to augment government financial position is essential.

To this end, government have always enacted various tax laws and reformed existing ones to stand the test of time. These laws include: Income Tax Management Act (ITMA), Companies Income Tax Decree (CITD) etc.

All these are aimed at ensuring adherence to tax payment and discouraging tax evasion and avoidance. For the purpose of this study, the researchers would be concerned with the impact of taxation on Nigeria economy.

## **1.2 STATEMENT OF THE PROBLEM**

The first need of any modern government is to generate enough revenue which is indeed "the breath of its nostrils". Thus, taxation is by far one of the most significant source of revenue for the government. Nigerians regard payment of tax as a means through which government raises revenue on herself at the expense of their sweat.

It is good to note that no taxation succeeds without the tax payers' co-operation. Here, we can ask some thought – provoking questions such as:

- What makes taxation such a difficult issue?
- Why do people feel cheated when it comes to tax?
- Is government making judicious use of taxpayers' money?

In view of the above questions, this study is going to be carried out to offer solutions to them.

We shall also look at the following issues and offer recommendations:

- i. Problems affecting the successful operation of tax system in Nigeria.
- ii. How to determine the assessable income.
- iii. Process of tax administration in Nigeria.

### **1.3 OBJECTIVES OF THE STUDY**

The general objective of the study is to assess the effect that taxation has towards the development/growth of Nigerian economy.

However, the specific objective of the study includes:

- i. To examine the extent government has been using revenue generated by tax.
- ii. To determine the reaction of people towards tax payment.
- iii. To find out if tax revenue is the most effective source of government revenue.
- iv. To examine how tax rate affects the rate of inflation, unemployment and Gross National Product (GNP).
- v. To find out the most significant effect of taxation.

Generally, this work is done to find out if tax constitutes the bulk of government revenue and to erase the erroneous that it is an exploitation by government for their selfish interest.

### **1.4 RESEARCH QUESTION**

- i. To what extent has government been using tax generated revenue?
- ii. How do people react towards tax payment?
- iii. Is tax the most effective source of revenue to the government?
- iv. Does tax revenue have any significant impact on GDP, inflation and unemployment?
- v. Which of the effects of taxation is the most significant?

### **1.5 SIGNIFICANCE OF THE STUDY**

One of the most frequently discussed issues in Nigeria is how to solve the economic hardship in the country and how to create an industrial base that can guarantee self-sustaining economic development. Also one wonders why a country which is richly endowed with the necessary human and material resources and which the people pay tax has been turned a heavily indebted country.

The study will afford us the opportunity to:

- i. Know the roles taxation play in the Nigerian economy.
- ii. Ascertain how government has been using tax generated revenue.
- iii. The study will also reveal if there are other better sources of government funding.

### **1.6 SCOPE OF THE STUDY**

The scope of this study covers critical examinations on the impact of taxation on Nigerian economy. It will also analyze other related issues such as structure and administrative machinery of tax in Nigeria and their associated problems. The essence of this digression is to possibly find out the obstacles if any, that hinder

the effective collection and administration of tax in the country.

The reference period for this study is 2000 – 2011. Inability of the researcher to procure current data forced the researcher to utilize only available ones. Data for this study were collected from Board of Internal Revenue and National Bureau of Statistics, Enugu.

## **B. LIMITATIONS OF THE STUDY**

It is obvious that a research work like this cannot be carried out without some hindrances. There are constraints that limit the work of the researchers amongst which are:

- i. Inadequate time: The time available is very limited, as a result of this, the researchers are restricted to some places for interviews and questioning during the collection of data.
- ii. Insufficient fund: The fund available to the researchers to carry out this work is not sufficient. As a result of high economic hardship as well as high cost of transportation.
- iii. There were also scarcity of current textbooks on taxation because tax laws are constantly changed and so many textbooks were obsolete for the study.
- iv. The inability of some government officials to disclose certain reliable information which they considered confidential also constitute a limitation to this study.

Finally, the academic workload on the campus is one of the limiting factors on this research work. Despite all these constraints, the researchers were able to carry out a fair and effective study on this topic.

## **1.7 ASSUMPTIONS OF THE STUDY**

The researchers in carrying out this study, will make the following assumptions:

- i. That the data that will be used are true and fair figures actually collected by the Federal Government each year of assessment.
- ii. That the data will be authentic and can be relied on for further research work on the topic.
- iii. That the data is going to form the basis of the research work.

## **1.8 FORMULATION OF HYPOTHESIS**

To enable the researcher test if there is any impact taxation has on the Nigeria Economy; some statistical model will be used based on the responses from oral interview carried out and the questionnaires distributed and also statistical data generated from the appropriate sources. The data generated from all these will be used to test the following hypothetical statements:

### **Hypothesis 1:**

The null hypothesis ( $H_0$ ): Revenue generated from tax does not make any positive impact on the economic

development of the nation.

The alternative hypothesis ( $H_1$ ): Revenue generated from tax has a positive impact on the economic development of the nation.

### **Hypothesis 2:**

The null hypothesis ( $H_0$ ): Taxation has no significant impact on GDP, Inflation and Unemployment.

The alternative hypothesis ( $H_1$ ): Taxation has a significant impact on GDP, Inflation and Unemployment.

### **Hypothesis 3:**

The null hypothesis ( $H_0$ ): That revenue generated from tax is so meager compared to revenue from other sources as such, government can do without tax.

The alternative hypothesis ( $H_1$ ): That is a major source of government revenue and as such government cannot do without tax.

## **1.9 DEFINITION OF TERMS**

**Tax:** A compulsory levy by the government on its citizens for the provision of public goods and services.

**Tax Base:** The object which is taxed for instance personal income, company profit.

**Tax incidence:** This is the effect and where the burden of taxation is finally rested.

**FIRS:** (Federal Board of Inland Revenue Services): It is an operational arm of Federal Board of Inland Revenue which is responsible for the Federal Tax Matters.

**CITA:** (Company Income Tax Act) It is a Federal Law operated by the FIRS, which deals with the taxation of all limited liability companies in Nigeria with the exception of those engaged in petroleum operations.

**JTB:** (Joint Tax Board) Is established under section 85 (2) of Decree of 104 of 1993 to arbitrate on tax disputes between one state tax authority and another.

**VAT:** (Value Added Tax) is a multistage tax levied and collected on transactions at all stages of sales and distribution.

**CGTA:** (Capital Gain Tax Act) is an act that stipulates that all capital gains arising on disposal of assets of individuals, partnership and limited companies should be taxed.

**PPTA:** (Petroleum Profit Tax Act) is an act that regulates the petroleum profit tax and also specifies how profit from petroleum will be taxed.

**Withholding Tax:** This is tax charged on investment income namely: rents, interest, royalties and dividends.

Presently it is charged as the tax offset.

**Progressive Tax:** This is a tax incidence that increases as the size of income increases.

**Regressive Tax:** A tax is regressive when its tax rate decreases as the income increases.

**Excise Duties:** They are taxes levied on some goods manufactured within a country.

**Persons:** It includes all taxable persons be it individual or corporate bodies.

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