CHAPTER ONE

INTRODUCTION

1.1BACKGROUND TO THE STUDY

One of the most commonly discussed issues ineconomics is on how taxes as means of fiscal policy at stabilizing the generaleconomy relate to economic growth of developing countries such as Nigeria. Alot of studies have tend to yield an audience of the relationship betweentaxation and economic. Some of the studies have rather yielded results thathave established negative effects of taxes on economic growth. Taxes as meansof fiscal policy raises the cost or lower the return to the taxed activity(Juliana, Mustaffa and Zulkifli, 2012). Income taxes create a disincentive toearning taxable income. Individuals and firm have an incentive to engage inactivities that minimize their tax burden. As they substitute activities thatare taxes at a cover rate for activities taxed at a higher rate, individualsand firms will engage in less productive activity, leading to lower rates ofeconomic growth (Juliana Mustaffa and Zlukifli, 2012).

Economic growth is the basis of increasedprosperity. Investments in new capital such as (human and physical) theimplementation of new production techniques and the introduction of newproducts are the fundamentals of the growth process. Though its effect on thereturn to investment or the expected profitability of research and development,taxation can affect what choices are made and ultimately the rate of growth.Taxation is necessary simply because it would neither be feasible nor desirableto finance government solely by charges on services (Mwima-Swaya, 1995).Basically, taxation refers to a system used by the government through levyingassessments to obtain money from people, industries and organizations. It isnot only relatively paramount but also compulsory and does not guarantee adirect relationship between the amount contributed by a citizen and the extentof government services provided to him/her. A tax is an involuntary fee paid byindividuals or business to the government for the sole purpose of answeringresources to society and economically beneficial use, to stabilize the economyand to redistribute wealth between the rich and the poor (Mwima-Swaya, 1995).

Moreover, the relationship between taxationand economic growth has of recent times become one of the most importanteconomic issues. This is particularly due to the poor fiscal performance in anumber of developing countries such as Nigeria. The relationship to a largeextent empirical and forces one to employ methods of scientific investigationthat do not yield aprioristic conclusions and external truths, but onlystatements of validity limited by the character of the model used or bysignificance of evidence provided (Dalibor, 2005). While it could be clear thattaxation might affect the level of GDP, Early growth models presumed that thelangram growth depends on exogenous technical change such that it may be hardto access the effect of fiscal policy on the rate of capital accumulation ormore generally, Economic activity (Myles, 2000). Some prior studies establisheda positive linkage between taxation and economic growth; others have howeversubmitted mixed findings. It is against this backdrop, this study is undertaken to evaluate the impact of taxation on the Economic growth of Nigeria withspecific attention on direct taxation such as PPT, CIT and Tax

1.2STATEMENT OF THE RESEARCH PROBLEM

The achievement of Macro Economic objectiveof full employment, stability of price level, high and sustainable Economicgrowth from time immemorial has been a policy priority of every economy such asNigeria given the susceptibility variables to fluctuations in the economy. Theachievement of this very goal is influenced by the employment of fiscal policyinstrument such as taxation. A lot of revenues derived by the Nigeriangovernment through taxation has not yielded economic growth and full employmentstability (Chigbu, Akujuobi and Ebunohowei, 2002). In the light of the aboveexisting gaps, the following specific research questions are raised: Doespetroleum profit tax enhance the economic growth of Nigeria? What is therelationship between economic growth and the company income tax in Nigeria? Isthere a relationship between value added tax and the growth of the Nigeriaeconomy? What is the relationship between personal income tax and economicgrowth?

1.3OBJECTIVES OF THE STUDY

The general objective is to examine theimpact of taxation on the growth of the Nigerian economy. But the specificobjectives are as follows:

To examine how petroleum profit taxcontribute to the economic growth of Nigeria.

To find out the relationship between companyincome tax and the Nigerian economic growth.

To ascertain if there is a significant linearrelationship between value added tax and the economic growth of Nigeria.

To ascertain the relationship between companyincome tax and economic growth.

1.4 RESEARCHHYPOTHESES

The research hypotheses to establish therelationship between taxation and the economic growth of Nigeria are put in analternative form as follows:

Ho: No significant relationship betweenpetroleum profit tax and economic growth.

Ho: No significant relationship betweencompany income tax and economic growth.

Ho: No significant relationship between valueadded tax and economic growth.

Ho: No significant relationship betweenpersonal income tax and economic growth.

1.5 SCOPE OFTHE STUDY

This study examined the impact of taxation onthe economic growth of Nigeria. This study covers the time between 1995-2011.In terms of the samples size, such taxes as petroleum profit tax, companyincome tax, value added tax and personal income tax are critically examinedunder this study within the Nigeria economy with a geographical bias or restriction.

1.6SIGNIFICANCE OF THE STUDY

Researchers on the impact of revenue fromtaxation collected by the Nigerian government in the economy have been ongoing. In this regard, it is necessary to state the usefulness of this study inlight of the present day Nigerian economy. Firstly, the Federal Government ofNigeria will find this study useful in terms of policy formulation especiallyfiscally policy to help achieve stability of the economy. It will further guidethem to know the extents with which these varying forms of tax revenue havecontributed to the economic growth of Nigeria and how to sustain it.

1.7LIMITATIONS OF THE STUDY

There are still scanty literature reviews onthe impact of taxation over the Nigerian economy. Most of the study done thusfar on taxation and economic growth has mainly been peculiar to advancedcountries of the world. Data serve as another limitation of the study. Mosttimes, the accuracy and reliability of the data extracted from the secondarysource are unreliable, such that the outcome of this study might be very validand the problem of generalizing the outcome of the study.

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