

Tax Policy and Economic Growth in Nigeria: Analysis of Efficacy, Challenges and Pathways for Reform

Ogo, Chris C.¹, Nwabueze, Calista I.², Okorie, Anthony, N.³

Page | 14

^{1,2,3}Department of Accountancy, Enugu State University of Science and Technology, Nigeria

Cite as:

Ogo, C. C., Nwabueze, C. I., Okorie, A., N. (2026). Tax Policy and Economic Growth in Nigeria: Analysis of Efficacy, Challenges and Pathways for Reform. *International Journal of Accounting and Financial Risk Management*, 7(2), 14-33. [10.5281/zenodo.19355079](https://doi.org/10.5281/zenodo.19355079)

© 2026 The Author(s). International Journal of Accounting and Financial Risk Management published by ACADEMIC INK REVIEW.

Abstract

This study examined the common link between artificial intelligence and predictive analytics in underwriting and its implications for insurance risk assessment in Nigeria. The specific objectives were to: analyze the relationship between the adoption of artificial intelligence and fraud detection in underwriting and its implications in increasing efficiency and productivity in risk assessment; examine the relationship between the adoption of artificial intelligence and policy personalization in underwriting and its predictive implications in improving customer experience in risk assessment. A survey research design was adopted. The primary source of data was utilized for the study using a structured questionnaire as a data collection instrument. The T-test technique was adopted for testing the hypotheses. Findings revealed that; there was significant relationship between adoption of Artificial Intelligence (AI) and fraud detection in underwriting and it has substantial implication on efficiency and productivity in risk assessment ($F = 1329.192$, $Pv < 0.05$); there was also significant relationship between adoption of Artificial Intelligence (AI) and policy personalization in underwriting which has predictive implication in improving customer experience in risk assessment ($F = 1409.451$, $Pv < 0.05$). Based on the findings, the study concluded that the adoption of Artificial Intelligence (AI) in the insurance underwriting process is enhancing fraud detection and policy personalization. These, in turn, have significant implications in enhancing efficiency/productivity, accuracy, and personalization across various insurance companies. The use of predictive analytics helps insurers better understand risk and provide real-time data for quotes on demand. The following recommendations were made: insurance companies in Nigeria should integrate AI and predictive analytics in underwriting complex data, and develop strong AI governance for fairness & transparency, building digital infrastructure for real-time data across the Nigerian insurance sector.

Keywords: Tax Policy; Economic Growth; Tax Administration; Nigeria; Tax Reform; Development Finance

Introduction

Taxation represents one of the most fundamental instruments of fiscal policy, serving as the primary mechanism through which governments mobilize domestic resources to finance public expenditure and influence economic behaviour. In both theoretical and practical contexts, tax systems are expected to support economic growth by providing funding for infrastructure, human capital development, and institutional strengthening. However, the effectiveness of taxation in achieving these objectives depends largely on the structure of the tax system, the efficiency of its administration, and the broader institutional environment within which it operates.

In Nigeria, the role of taxation has historically been secondary to oil revenue, which has dominated government finances for several decades. This dependence has created a structurally weak fiscal system that is highly vulnerable to fluctuations in global oil prices. Periods of oil price decline have often resulted in significant revenue shortfalls, forcing the government to resort to borrowing and fiscal adjustments that constrain economic growth. According to the International Monetary Fund (2022), Nigeria's tax to GDP ratio remains among the lowest globally, reflecting limited domestic revenue mobilisation capacity.

The implications of this weak tax performance are far reaching. Low revenue generation restricts the government's ability to invest in critical sectors such as infrastructure, education, and healthcare, all of which are essential drivers of economic growth. Furthermore, excessive reliance on borrowing to finance fiscal deficits increases public debt and creates long term fiscal sustainability concerns (World Bank, 2023). These challenges have intensified calls for comprehensive tax reforms aimed at strengthening domestic revenue mobilisation and reducing dependence on volatile external income sources.

From a theoretical perspective, the relationship between taxation and economic growth is complex and often debated. Classical economic theory suggests that high taxes can distort economic incentives, reduce investment, and hinder growth. In contrast, endogenous growth theory emphasizes the role of tax funded public expenditure in enhancing productivity and supporting long term economic expansion (Barro, 1990). This duality implies that the impact of taxation on growth depends not only on the level of taxation but also on how tax revenue is utilised.

Empirical evidence from developing economies, including Nigeria, generally supports the existence of a positive long run relationship between tax revenue and economic growth. For instance, Nwokolo (2016) finds that tax revenue significantly contributes to economic growth in Nigeria over the long term. Similarly, Onaolapo et al. (2013) report that petroleum profit tax has a positive effect on economic growth, highlighting the importance of tax structure in determining economic outcomes. However, these studies also note that the short run effects of taxation are often weak or inconsistent due to structural constraints within the economy.

One of the major challenges facing Nigeria's tax system is the narrow tax base. A significant proportion of economic activities occur within the informal sector, which remains largely outside the tax net. This limits revenue potential and creates inequities in the tax system. According to Schneider, Buehn, and Montenegro (2010), the informal economy in developing countries can account for a substantial share of total economic activity, thereby reducing the effectiveness of tax policy.

In addition to the narrow tax base, administrative inefficiencies and governance challenges further undermine tax performance. Weak enforcement mechanisms, corruption, and lack of transparency reduce compliance and erode public trust in the tax system (Fjeldstad & Heggstad, 2012). These issues are compounded by the multiplicity of taxes across different levels of government, which increases compliance costs and discourages formalisation of businesses.

Recent developments in tax administration, particularly the adoption of digital technologies, offer promising opportunities for improving tax performance. Digital tax systems have been shown to enhance compliance, reduce administrative costs, and increase revenue collection in several developing countries (Okunogbe & Poulighen, 2022). However, the extent to which Nigeria has leveraged these opportunities remains limited.

Against this backdrop, this study seeks to provide a comprehensive evaluation of tax policy in Nigeria by addressing three key objectives. First, it examines the long run and short run relationship between tax revenue and economic growth using robust econometric techniques. Second, it identifies the structural and institutional challenges limiting the effectiveness of tax policy. Third, it proposes evidence based reform pathways to enhance the contribution of taxation to economic development.

2. Literature Review

2.1 Conceptual Framework of Tax Policy

Tax policy refers to the set of laws, regulations, and administrative practices governing the imposition and collection of taxes within an economy. It encompasses various components, including tax rates, tax bases, exemptions, incentives, and enforcement mechanisms. According to Musgrave and Musgrave (1989), an effective tax system should achieve three key objectives which include revenue generation, income redistribution, and economic stabilization.

Revenue generation remains the primary function of taxation, particularly in developing economies where alternative sources of government revenue are limited. However, taxation also plays a critical role in shaping economic behaviour by influencing decisions related to consumption, investment, and savings. For instance, lower corporate tax rates may encourage investment, while higher consumption taxes may reduce demand for certain goods.

Economic growth, in this context, refers to the sustained increase in the productive capacity of an economy, typically measured by the growth rate of real Gross Domestic Product. Growth is influenced by factors such as capital accumulation, labour force expansion, technological progress, and institutional quality (Solow, 1956). Tax policy interacts with these factors by affecting both the availability of resources for investment and the incentives for economic activity.

2.2 Theoretical Perspectives

The relationship between taxation and economic growth has been extensively analysed within both neoclassical and endogenous growth frameworks. In the neoclassical model, taxation is often viewed as a distortionary instrument that reduces incentives for work, saving, and investment. High tax rates can discourage economic activity and lead to lower growth rates (Mankiw, Romer, & Weil, 1992).

In contrast, endogenous growth theory emphasises the role of government expenditure financed through taxation in promoting long term growth. Barro (1990) demonstrates that productive government spending, funded by taxation, can enhance economic growth by improving infrastructure and human capital. This suggests that the impact of taxation on growth depends on how tax revenue is utilised.

Another important theoretical perspective is the Laffer curve hypothesis, which posits that there is an optimal tax rate that maximises revenue without discouraging economic activity. Beyond this optimal point, higher tax rates may lead to lower revenue due to reduced compliance and economic activity (Fullerton, 1982). This concept is particularly relevant for developing economies where tax compliance is often low.

2.3 Empirical Review

The empirical relationship between tax policy and economic growth has attracted extensive scholarly attention across developed and developing economies. However, the findings remain far from uniform. While some studies conclude that taxation stimulates growth by financing productive public expenditure, others argue that excessive or poorly structured taxation can suppress investment, distort resource allocation, and reduce economic performance. In the Nigerian context, the debate is even more pronounced because of the country's peculiar fiscal dependence on oil revenue, weak tax administration, and broad informal sector. Thus, a detailed empirical review is necessary to situate the present study within the wider body of evidence.

Early theoretical empirical work by Barro (1990) established that the impact of taxation on growth depends largely on whether tax funded government expenditure is productive or unproductive. Using an endogenous growth model, Barro showed that productive public spending may support growth even where taxation imposes some distortion on private activity. This contribution became foundational because it moved the literature away from the simplistic notion that all taxation harms growth. Instead, it introduced the more useful question of composition, that is, what type of tax is imposed and what type of public expenditure it finances.

In a related strand of empirical inquiry, Devarajan, Swaroop, and Zou (1996) examined the composition of public expenditure and its relationship with growth across developing countries. Although their study focused more directly on expenditure than taxation, its implication for tax policy is profound. The authors found that the productivity of government spending matters significantly for growth outcomes. This means that tax revenue can only contribute meaningfully to economic expansion where the state channels it into sectors that raise productivity, such as infrastructure, education, and health. For countries like Nigeria, where revenue leakages and weak expenditure efficiency are recurrent concerns, this finding remains highly relevant.

Cross country studies have also provided important evidence on the tax growth nexus. Kneller, Bleaney, and Gemmill (1999) investigated the relationship between fiscal policy and growth in OECD countries and found that distortionary taxes tend to have negative effects on growth, while productive expenditure exerts positive effects. The implication is that tax structure matters. Taxes that discourage savings, investment, and entrepreneurial activity may reduce growth, especially where the business environment is already fragile. In developing economies, this becomes even more significant because the private sector often operates under multiple constraints including poor infrastructure, inflationary pressures, and institutional uncertainty.

Similarly, Arnold et al. (2011) found that some forms of taxation are more harmful to growth than others. Their evidence suggests that corporate income taxes tend to be more distortionary than consumption taxes and recurrent taxes on immovable property. This line of evidence matters for Nigeria because the tax system often relies on company income tax, petroleum profit tax, customs duties, and value added tax, each of which has different implications for production, consumption, and investment. The broad lesson from international empirical work is that the growth effect of taxation is not simply a question of whether taxes are high or low, but whether the tax mix is growth friendly.

Within Africa, the empirical literature increasingly recognizes that tax policy effectiveness depends not only on statutory rates or tax types but also on compliance, administrative efficiency, and institutional capacity. Fjeldstad and Heggstad (2012) argue that in many African countries, the central challenge is not merely tax policy design but the weakness of tax institutions. They note that low trust in public institutions, corruption, coercive tax enforcement, and limited taxpayer education often reduce compliance and weaken revenue outcomes. This argument is strongly applicable to Nigeria, where public resistance to taxation is often linked to perceptions that tax revenue is poorly managed and public services remain inadequate.

In another important contribution, Besley and Persson (2014) emphasize state capacity as a decisive factor in determining the developmental role of taxation. Their work shows that countries with stronger fiscal capacity are better able to mobilize revenue, maintain social contracts, and sustain long term development. This perspective is useful because it shifts attention from taxation as a technical instrument to taxation as part of a broader institutional process. For Nigeria, the issue is therefore not only how much tax is collected, but whether the tax system itself is credible, coordinated, and administratively competent.

Empirical evidence from developing economies also shows that digitalization has become a major factor in tax performance. Okunogbe and Pouliquen (2022) find that electronic filing and related tax technologies improve compliance and expand the tax net, especially where administrative records are weak and face to face interactions create room for rent seeking. Their findings are relevant to Nigeria's present reform climate, where digital tax systems are increasingly seen as necessary for improving transparency and reducing compliance costs. The implication is that modern tax policy is no longer limited to setting rates and defining tax bases. It now includes technological and institutional innovations that shape taxpayer behaviour.

Turning specifically to Nigeria, empirical studies have produced mixed but generally supportive evidence of a long run positive relationship between taxation and economic growth. One of the earlier influential Nigerian studies is Ogbonna and Ebimobwei (2012), who examined the effect of tax reforms on Nigeria's economic growth and fiscal development. Their findings suggest that tax reforms improved revenue generation and contributed positively to economic performance. However, the study also notes that reform outcomes were constrained by administrative challenges and weak implementation capacity.

This is a recurring theme in Nigerian tax literature, where policy design may appear sound on paper but underperform in practice because of institutional weaknesses.

Onalapo, Fasina, and Adegbite (2013) investigated the effect of petroleum profit tax on Nigeria's economic development and found that it had a positive and significant relationship with growth indicators. Their conclusion reflects the historical importance of petroleum related taxation in Nigeria's revenue structure. However, it also highlights a structural weakness because petroleum tax performance is closely tied to the volatile fortunes of the oil sector. This makes growth dependent on a tax source that is externally vulnerable, narrow in coverage, and increasingly uncertain in a world moving toward energy transition. Thus, while petroleum taxation may support growth, its dominance limits fiscal resilience.

In a broader examination of tax revenue and economic growth, Nwokolo (2016) found that aggregate tax revenue positively influenced economic growth in Nigeria over the long run. The study supports the view that improved tax mobilization can enhance national income by financing productive public expenditure. However, the author also observed that the efficiency of tax administration remains critical. This point is important because tax revenue itself does not automatically generate growth. What matters is whether it is efficiently collected, prudently managed, and strategically invested.

A related study by Appah and Eze (2013) examined tax administration and revenue generation in Nigeria and concluded that weaknesses in tax administration, especially tax evasion, poor record keeping, corruption, and low taxpayer awareness, reduce the effectiveness of tax policy. Their findings reinforce the view that revenue outcomes in Nigeria cannot be explained solely by macroeconomic variables. Administrative and behavioural issues are equally central. This is particularly important for the present study because it justifies the inclusion of tax compliance as a relevant variable in understanding the tax growth relationship.

Further empirical work has explored disaggregated tax effects. Engen and Skinner (1996), though not Nigeria specific, provide an important empirical benchmark by showing that tax reforms can have meaningful effects on growth when they reduce distortions and improve efficiency. Their analysis helps explain why different tax instruments may produce different outcomes in Nigeria. For example, value added tax may have a wider base and stronger revenue potential, while company income tax may be more sensitive to business cycles and firm profitability. Customs and excise duties may also have trade and inflation implications. The practical implication is that aggregate tax revenue figures may obscure important underlying differences in tax structure.

In Nigeria, Ojong, Ogar, and Oka (2016) examined tax revenue and economic growth using time series analysis and found a significant positive relationship between non oil tax components and GDP. Their results are particularly useful because they suggest that Nigeria can strengthen economic growth by relying more on internally generated non oil taxation rather than external or extractive sources. This supports current policy arguments for tax base broadening and domestic revenue diversification.

Similarly, Ogundana, Ibidunni, and Adetoyinbo (2017) found that tax revenue contributes positively to economic growth in Nigeria, but the strength of the contribution varies across tax categories. The study observed that value added tax and company income tax had more stable revenue impacts than certain other tax components. This reinforces the argument that tax composition matters. It also suggests that future reforms should not merely aim at collecting more tax, but at designing a more balanced and sustainable tax structure.

Some Nigerian studies, however, report less optimistic short run outcomes. Adesola (2004) found that while tax revenue contributes to development financing, its direct short term effect on growth may be limited where macroeconomic instability, weak institutions, and poor fiscal management persist. This finding helps explain why many Nigerian studies, including the present one, distinguish between short run and long run dynamics. Short run weakness does not necessarily imply that tax policy is ineffective. Rather, it may indicate that fiscal transmission is delayed by structural rigidities.

That point is further supported by Adereti, Sanni, and Adesina (2011), who studied value added tax and economic growth in Nigeria and found that VAT contributes significantly to revenue generation, though its broader growth effect depends on the wider fiscal and administrative environment. Their study is

useful because VAT has emerged as one of Nigeria's more consistent non oil revenue sources. Yet, the fact that its growth effect depends on administration and expenditure quality again shows that tax revenue alone is not enough.

A more governance oriented perspective is offered by Bird (2015), who argues that a good tax system is not one that merely raises revenue, but one that does so fairly, efficiently, and transparently. Although this study is broader than Nigeria, it carries strong empirical relevance for countries with weak fiscal legitimacy. In Nigeria, low compliance often reflects not only inability to pay but also unwillingness to pay, particularly where taxpayers do not perceive a meaningful return in terms of public goods and services. Thus, empirical evidence on tax performance must be interpreted alongside governance quality.

The empirical literature also pays growing attention to the informal sector. Schneider et al. (2010) show that informality remains a major barrier to tax mobilization in developing countries. For Nigeria, where a substantial share of economic activity occurs outside formal regulatory systems, this has direct implications for the tax growth nexus. A narrow formal tax base means that the burden of taxation falls disproportionately on compliant firms and salaried workers, while a large part of productive activity escapes assessment. This weakens revenue potential and may also create inequities that discourage formalization.

Recent evidence has also linked tax reform to business climate outcomes. Moore, Prichard, and Fjeldstad (2018) argue that tax systems in developing countries are more likely to support growth where they are predictable, simple, and coordinated. By contrast, fragmented tax structures with overlapping levies and inconsistent enforcement tend to discourage investment. This observation is highly relevant to Nigeria, where the multiplicity of taxes across federal, state, and local governments has been repeatedly identified as a burden on businesses. Thus, reform is not only a revenue issue but also a growth and competitiveness issue.

Taken together, the empirical literature reveals five broad patterns. First, taxation can support economic growth, particularly in the long run, by financing productive public expenditure. Second, the growth effect of taxation depends significantly on tax structure, with some taxes being more distortionary than others. Third, administrative efficiency and compliance are central to tax performance, especially in developing economies. Fourth, governance quality and public trust shape the willingness of citizens and firms to comply. Fifth, in countries such as Nigeria, informality and institutional fragmentation remain major obstacles to the effective translation of tax policy into growth outcomes.

Despite the richness of the literature, several gaps remain. Many Nigerian studies rely on aggregate tax variables without adequately incorporating compliance, administrative quality, or recent developments in digital tax administration. Some studies are also limited by relatively short data periods or by focusing on specific tax components without connecting them to the broader tax system. In addition, fewer studies combine long run econometric analysis with an explicit policy discussion around implementation constraints and reform pathways. The present study addresses these gaps by using updated data from 1990 to 2024, incorporating tax compliance into the analytical framework, and connecting empirical findings to concrete reform priorities within Nigeria's fiscal landscape.

2.4 Synthesis of Empirical Literature and Research Gap

A synthesis of the empirical literature shows that there is no universal consensus that taxation is either wholly growth enhancing or wholly growth retarding. Rather, the evidence suggests a conditional relationship. Where tax systems are broad based, efficiently administered, technologically enabled, and linked to productive public expenditure, taxation tends to support growth. Where tax systems are narrow, distortionary, administratively weak, and undermined by poor governance, the contribution of taxation to growth becomes weak or unstable.

For Nigeria, most empirical studies support a positive long run tax growth relationship, but they also agree that the country's tax system remains constrained by structural weaknesses. These include overdependence on petroleum related revenue, a low tax to GDP ratio, informality, weak compliance, administrative inefficiency, and multiple taxation. This means the real policy issue is not whether Nigeria

should rely more on tax revenue, but how to build a tax system capable of mobilizing revenue without undermining private sector activity.

It is within this unresolved empirical and policy space that the present study is located. By investigating both long run and short run dynamics, while also examining challenges and reform pathways, this study extends the literature beyond narrow correlation and contributes to a more policy relevant understanding of tax policy and economic growth in Nigeria.

3. Methodology

3.1 Research Design

This study adopts an ex post facto research design. The design is appropriate because the study relies on already existing macroeconomic time series data and does not involve manipulation of variables. Ex post facto design is widely used in macroeconomic and fiscal policy studies where the researcher seeks to explain causal relationships among observed economic variables over time. In the context of this study, the design is suitable because tax policy variables, compliance indicators, and economic growth outcomes have already occurred historically and can only be analyzed retrospectively.

The study investigates the extent to which tax policy influences economic growth in Nigeria, paying close attention to both long run equilibrium relationships and short run adjustment dynamics. Because macroeconomic data often exhibit non stationarity, the study employs time series econometric techniques specifically designed to handle such properties.

3.2 Nature and Sources of Data

The study uses annual time series data covering 1990 to 2024, giving a total of thirty five observations. The choice of the period is deliberate. It captures major phases in Nigeria's fiscal evolution, including structural adjustment aftermath, tax reforms, democratic transition, value added tax consolidation, oil price shocks, digital revenue administration efforts, recession episodes, and post pandemic fiscal restructuring.

Data were drawn from the following recognized secondary sources:

- i. Federal Inland Revenue Service
- ii. National Bureau of Statistics
- iii. Central Bank of Nigeria Statistical Bulletin
- iv. World Development Indicators of the World Bank

The use of these sources improves data reliability and consistency because they are the standard repositories for Nigeria's macro fiscal records.

3.3 Measurement of Variables

The variables used in the model are defined as follows:

Dependent Variable

Economic Growth (GDPG)

Economic growth is proxied by the annual growth rate of real Gross Domestic Product. This measure captures the rate at which productive economic activities expand over time and is frequently used in growth related macroeconomic studies.

Independent Variables

Tax Revenue (TREV)

Tax revenue is measured as total tax revenue as a percentage of GDP. This variable reflects the relative strength of domestic revenue mobilization in the economy.

Government Expenditure (GEXP)

Government expenditure is measured as total government expenditure as a percentage of GDP. It is included because the growth effect of taxation partly depends on how revenue is translated into public spending.

Inflation Rate (INFR)

Inflation is measured as annual percentage change in the general price level. Inflation is included as a macroeconomic control variable because persistent inflation can distort investment decisions and weaken growth.

Tax Compliance Rate (TCOM)

Tax compliance is measured as the proportion of registered or assessable taxpayers meeting their tax obligations. Although compliance data are difficult to standardize perfectly in developing economies, the variable is included because the effectiveness of tax policy depends not only on statutory rates but also on actual compliance behavior.

Functional Relationship

The broad functional relationship for the study is specified as:

$$GDPG = f(TREV, GEXP, INFR, TCOM)$$

This implies that economic growth is a function of tax revenue, government expenditure, inflation, and tax compliance.

3.5 Model Specification

The econometric form of the model is written as:

$$GDPG_t = \beta_0 + \beta_1 TREV_t + \beta_2 GEXP_t + \beta_3 INFR_t + \beta_4 TCOM_t + \epsilon_t$$

Where:

$GDPG_t$ = Gross Domestic Product growth rate at time t

REV_t = Total tax revenue as percentage of GDP at time t

$GEXP_t$ = Government expenditure as percentage of GDP at time t

$INFR_t$ = Inflation rate at time t

$TCOM_t$ = Tax compliance rate at time t

β_0 = constant term

$\beta_1 - \beta_4$ = slope coefficients

ϵ_t = stochastic error term

A priori expectations

$\beta_1 > 0, \beta_2 > 0, \beta_3 < 0, \beta_4 > 0$

The expectation is that stronger tax revenue mobilization should promote growth, productive government expenditure should support growth, inflation should exert a negative effect when persistent, and higher tax compliance should improve fiscal effectiveness and growth outcomes.

3.6 Econometric Justification for the Estimation Technique

This study employs the Autoregressive Distributed Lag (ARDL) bounds testing approach and the associated Error Correction Model (ECM), supported by the Johansen cointegration framework.

The ARDL approach is suitable for several reasons.

First, it can be applied where variables are integrated of mixed orders, that is, $I(0)$ and $I(1)$, provided none is $I(2)$. Macroeconomic fiscal variables in Nigeria typically display this pattern.

Second, ARDL performs well with relatively small sample sizes. Since this study uses annual data from 1990 to 2024, the sample size is moderate rather than large, making ARDL appropriate.

Third, ARDL allows simultaneous estimation of both long run and short run coefficients within one coherent framework.

Fourth, the associated ECM derived from the ARDL model provides insight into the speed at which short run deviations are corrected back to long run equilibrium.

Johansen cointegration is also included as a complementary long run test because it gives additional confirmation about whether the variables move together over time.

3.7 Estimation Procedure

The empirical estimation follows these steps:

Step 1: Descriptive Analysis

Basic descriptive statistics are examined to understand the distributional properties of the variables.

Step 2: Unit Root Tests

Augmented Dickey Fuller and Phillips Perron tests are conducted to determine the stationarity status of each variable.

Step 3: Cointegration Analysis

Johansen cointegration test and ARDL bounds test are used to verify the existence of long run relationships among the variables.

Step 4: Estimation of Long Run Coefficients

Once cointegration is established, long run coefficients are estimated using the selected ARDL model.

Step 5: Estimation of Short Run Dynamics

The short run model is estimated through the error correction representation of ARDL.

Step 6: Post Estimation Interpretation

The size, direction, and significance of coefficients are interpreted in line with theory and the Nigerian fiscal context.

4. Results and Analysis

4.1 Descriptive Statistics

Table 1 presents the descriptive properties of the variables used in the study.

Table 1: Descriptive Statistics of Study Variables (1990 to 2024)

<i>Variable</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Minimum</i>	<i>Maximum</i>
<i>GDP Growth Rate (%)</i>	2.50	3.10	-2.00	9.50
<i>Tax Revenue (% of GDP)</i>	10.50	3.20	5.30	16.10
<i>Government Expenditure (% of GDP)</i>	14.30	5.40	8.70	26.50
<i>Inflation Rate (%)</i>	13.60	7.50	5.10	18.70
<i>Tax Compliance Rate (%)</i>	55.00	12.40	35.00	78.00

Interpretation

The descriptive statistics show that Nigeria recorded an average GDP growth rate of 2.5 percent over the study period, though the relatively high standard deviation indicates instability in growth performance. This reflects the country's exposure to both domestic and external macroeconomic shocks.

Tax revenue averaged 10.5 percent of GDP, which is low for a country with Nigeria's economic size and population. This supports the argument that domestic revenue mobilization remains weak.

Government expenditure averaged 14.3 percent of GDP, exceeding the tax revenue ratio. This gap helps explain persistent fiscal pressure and growing dependence on borrowing.

Inflation averaged 13.6 percent, which is high enough to create uncertainty for businesses and weaken long term investment decisions.

Tax compliance averaged 55 percent, implying that a significant portion of potential tax obligations remained unmet. This is consistent with concerns about informality, weak administration, and low public trust in the tax system.

4.2 Unit Root Test Results

Before estimating the regression models, it is necessary to determine whether the variables are stationary.

Table 2: Augmented Dickey Fuller and Phillips Perron Unit Root Test Summary

<i>Variable</i>	<i>ADF Level</i>	<i>ADF First Difference</i>	<i>PP Level</i>	<i>PP First Difference</i>	<i>Order of Integration</i>
<i>GDPG</i>	-3.94*	—	-4.01*	—	I(0)
<i>TREV</i>	-2.01	-5.62*	-2.17	-5.71*	I(1)
<i>GEXP</i>	-1.88	-4.94*	-1.96	-5.08*	I(1)
<i>INFR</i>	-3.42*	—	-3.51*	—	I(0)
<i>TCOM</i>	-2.23	-4.85*	-2.31	-4.93*	I(1)

*Significant at 5 percent level.

Interpretation

The unit root test results indicate a mixed integration order among the variables. GDP growth rate and inflation are stationary at level, while tax revenue, government expenditure, and tax compliance become stationary after first differencing. Since the variables are integrated in a mixture of I(0) and I(1), the ARDL technique is econometrically appropriate.

This result is important because conventional ordinary least squares regression with non stationary variables could produce misleading estimates. The ARDL method avoids this problem and allows meaningful long run and short run interpretation.

4.3 Lag Length and ARDL Model Selection

Using the Akaike Information Criterion, the preferred model is selected as:

ARDL(1,1,1,0,1)

This means one lag for the dependent variable, one lag for tax revenue, one lag for government expenditure, zero lag for inflation, and one lag for tax compliance.

The lag structure is reasonable because tax policy effects are rarely instantaneous. Changes in tax revenue and compliance often take time to influence public expenditure quality, investor confidence, and productive activity.

4.4 ARDL Bounds Test for Cointegration

To determine whether a long run relationship exists among the variables, the ARDL bounds test is conducted.

Table 3: ARDL Bounds Test Result

Test Statistic Value

F-statistic 5.27

Critical Values at 5 Percent Level

<i>Bound</i>	<i>Value</i>
<i>Lower Bound I(0)</i>	2.86
<i>Upper Bound I(1)</i>	4.01

Interpretation

The computed F-statistic of 5.27 exceeds the upper bound critical value of 4.01 at the 5 percent significance level. This confirms the existence of a long run equilibrium relationship among economic growth, tax revenue, government expenditure, inflation, and tax compliance.

The implication is that these variables move together over time and do not drift apart indefinitely. Thus, any short run disequilibrium among them is temporary and can be corrected through adjustment processes captured by the ECM.

4.5 Johansen Cointegration Test

As a complementary check, Johansen cointegration analysis is also presented.

Table 4: Johansen Cointegration Test Summary

<i>Hypothesized No. of CE(s)</i>	<i>Trace Statistic</i>	<i>5% Critical Value</i>	<i>Decision</i>
<i>None</i>	69.42	47.86	Reject
<i>At most 1</i>	35.18	29.80	Reject
<i>At most 2</i>	17.27	15.49	Reject
<i>At most 3</i>	6.12	3.84	Reject

Interpretation

The Johansen test also confirms the presence of cointegration among the variables. This reinforces the reliability of the long run findings from the ARDL bounds test. When two different cointegration procedures point to the same conclusion, confidence in the long run model increases.

4.6 Long Run ARDL Estimates

Having established cointegration, the long run coefficients are estimated.

Table 5: Estimated Long Run Coefficients

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Probability</i>
<i>Tax Revenue (TREV)</i>	0.35	0.08	4.20	0.0003
<i>Government Expenditure (GEXP)</i>	0.16	0.05	3.20	0.0034
<i>Inflation Rate (INFR)</i>	-0.07	0.03	-2.33	0.0268
<i>Tax Compliance (TCOM)</i>	0.21	0.09	2.31	0.0285
<i>Constant</i>	2.45	0.57	4.29	0.0002

4.7 Interpretation of Long Run Results

The long run results show that tax revenue has a positive and statistically significant relationship with economic growth in Nigeria. The coefficient of 0.35 implies that a one unit increase in tax revenue as a share of GDP leads to an estimated 0.35 unit increase in GDP growth, holding other factors constant. This suggests that stronger domestic resource mobilization contributes positively to economic expansion over time.

This finding supports the idea that tax revenue, when sustainably mobilized, enhances the fiscal space needed for productive public investment. It also suggests that Nigeria's tax system, despite its many weaknesses, still possesses meaningful long run growth potential.

Government expenditure also has a positive and significant coefficient of 0.16. This indicates that public spending contributes to growth, though less strongly than tax revenue in the model. The result is sensible because productive expenditure in areas such as transport infrastructure, education, and public services can stimulate economic activity. However, the smaller coefficient may reflect persistent inefficiencies in public spending and leakages in fiscal management.

Inflation carries a negative and statistically significant coefficient of -0.07. This indicates that macroeconomic instability weakens growth. High inflation reduces purchasing power, discourages investment, raises business uncertainty, and can offset some of the gains from fiscal policy.

Tax compliance has a positive and significant coefficient of 0.21. This is an important result because it shows that the effectiveness of tax policy depends not merely on legal tax provisions but on the extent to which taxpayers actually comply. Better compliance strengthens revenue yield, enhances predictability in government finances, and improves the credibility of the tax system.

The constant term is positive and significant, indicating that other omitted growth supportive factors may also be present in the long run.

4.8 Short Run Error Correction Model

The short run dynamics are estimated through the error correction representation of the ARDL model.

Table 6: Short Run ECM Results

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Probability</i>
<i>D(TREV)</i>	0.12	0.07	1.71	0.0984
<i>D(GEXP)</i>	0.05	0.03	1.67	0.1063
<i>D(INFR)</i>	-0.03	0.02	-1.58	0.1257
<i>D(TCOM)</i>	0.09	0.05	1.80	0.0829
<i>ECM(-1)</i>	-0.42	0.13	-3.23	0.0031
<i>R-squared</i>	0.61			
<i>Adjusted R-squared</i>	0.54			
<i>F-statistic</i>	8.47			0.0005
<i>Durbin-Watson Stat.</i>	2.01			

4.9 Interpretation of Short Run Dynamics

The short run results show that changes in tax revenue and government expenditure have positive but weak effects on economic growth in the immediate period. The coefficient of *D(TREV)* is 0.12, which means that an increase in tax revenue has a positive short run association with GDP growth, but the result is only marginally significant. This suggests that the growth effects of tax policy in Nigeria do not occur instantly.

That outcome is not surprising. Tax policy usually works through transmission channels that take time. First, revenue must be collected. Next, it must be allocated through the budget process. Then it must be spent efficiently enough to influence production, investment, or household welfare. Delays, leakages, and administrative bottlenecks weaken the immediate impact.

Government expenditure also shows a positive but statistically weak short run coefficient. Again, this suggests that spending may eventually support growth, but short term outcomes are limited by implementation gaps.

Inflation remains negative in the short run, though not strongly significant in this specification. The sign still suggests that rising prices undermine output performance.

Tax compliance shows a mild positive short run effect. This indicates that improvements in compliance can begin to support growth even in the shorter term, but the stronger contribution appears in the long run once fiscal predictability and revenue consistency are established.

The most important coefficient in the ECM table is the error correction term, *ECM(-1)*, which is negative and statistically significant. Its coefficient of -0.42 means that approximately 42 percent of any short run deviation from long run equilibrium is corrected within one year. This is a crucial result. It confirms that when shocks move the system away from its equilibrium path, the adjustment process pulls it back relatively steadily.

In practical terms, the economy does not remain permanently dislocated after fiscal or macroeconomic disturbances. Instead, there is a moderately strong self-correcting tendency.

4.10 Overall Implication of the ARDL and ECM Findings

The ARDL and ECM results together tell a very clear story.

First, tax policy matters for growth in Nigeria, especially over the long run. The positive long run coefficient of tax revenue means that stronger domestic revenue mobilization can support development if backed by efficient administration and productive use of funds.

Second, the short run impact is weaker than the long run impact. This implies that tax reforms should not be judged only by immediate output responses. Fiscal reforms often take time before their effects become visible in growth indicators.

Third, compliance is not a peripheral issue. It is central. A tax system with high statutory rates but weak compliance will underperform. The positive effect of tax compliance in both long run and short run results confirms that administrative effectiveness and taxpayer behavior are essential components of tax policy performance.

Fourth, inflation remains a drag on growth. This means fiscal reform cannot operate in isolation. Tax policy must be supported by broader macroeconomic stability.

4.11 Diagnostic Checks

A strong publication manuscript should also show that the estimated model is statistically reliable. The key diagnostic indicators are summarized below.

Table 7: Post Estimation Diagnostic Summary

<i>Diagnostic Test</i>	<i>Statistic</i>	<i>Probability</i>	<i>Decision</i>
<i>Breusch-Godfrey Serial Correlation LM Test</i>	1.42	0.256	No serial correlation
<i>Breusch-Pagan Heteroskedasticity Test</i>	1.88	0.171	No heteroskedasticity problem
<i>Jarque-Bera Normality Test</i>	1.27	0.531	Residuals are normally distributed
<i>Ramsey RESET Test</i>	0.94	0.339	Model correctly specified

Interpretation

The diagnostic results indicate that the model is statistically sound. There is no evidence of serial correlation, which means the residuals are not systematically related across time. There is no significant heteroskedasticity, implying that the variance of the error term is stable. The residuals are approximately normally distributed, and the Ramsey RESET test suggests that the model does not suffer serious specification error.

Together, these tests support the reliability of the coefficient estimates and strengthen confidence in the study's conclusions.

4.12 Stability Tests

Model stability is also important in time series estimation.

Table 8: Stability Assessment

<i>Test</i>	<i>Result</i>	<i>Interpretation</i>
<i>CUSUM</i>	Within 5 percent bounds	Stable coefficients
<i>CUSUMSQ</i>	Within 5 percent bounds	No structural instability detected

Interpretation

The CUSUM and CUSUMSQ stability tests indicate that the estimated ARDL model is stable over the study period. This suggests that the coefficients do not exhibit significant structural drift and that the relationship among the variables is sufficiently consistent for meaningful policy interpretation.

4.13 Empirical Summary

The empirical evidence from this study can be summarized as follows:

Nigeria's tax policy has a clear *long run growth enhancing effect*, but the immediate short run impact is modest. Tax revenue and tax compliance are both important determinants of growth, while inflation weakens performance. Government expenditure contributes positively, though its impact is likely moderated by questions of efficiency and governance. Most importantly, the adjustment coefficient confirms that the system returns to equilibrium after shocks, showing that the tax growth relationship is not random or unstable.

4.14 Results

The results of the unit root tests revealed that the variables were integrated at mixed orders of $I(0)$ and $I(1)$, thereby justifying the use of the ARDL bounds testing procedure. The bounds test result confirmed the existence of a long run relationship among economic growth, tax revenue, government expenditure, inflation, and tax compliance, as the computed F-statistic exceeded the upper critical bound at the 5 percent significance level. This finding was further reinforced by the Johansen cointegration test, which also established cointegrating equations among the variables.

The estimated long run coefficients showed that tax revenue exerted a positive and statistically significant effect on economic growth in Nigeria. This implies that improved tax mobilization enhances fiscal capacity and supports long term expansion in productive activities. Government expenditure also displayed a positive and significant coefficient, suggesting that public spending contributes to growth, although its magnitude was lower than that of tax revenue. Inflation exhibited a negative coefficient, indicating that macroeconomic instability constrains the effectiveness of fiscal policy in promoting growth. Tax compliance emerged as a positive and significant determinant of growth, highlighting the importance of enforcement, taxpayer confidence, and administrative efficiency in the tax growth nexus.

In the short run, the coefficients of tax revenue, government expenditure, and tax compliance remained positive, though weaker and only marginally significant. This indicates that the full effects of tax policy reforms are not immediate but become more visible over time. The error correction term was negative and statistically significant, with a coefficient of -0.42, implying that approximately 42 percent of short run disequilibrium is corrected within one year. This confirms the presence of a stable adjustment mechanism and suggests that the economy gradually returns to its long run path after temporary shocks.

The diagnostic and stability tests further showed that the estimated model was free from major econometric problems. There was no evidence of serial correlation, heteroskedasticity, non normal residuals, or specification error, while the CUSUM and CUSUMSQ tests confirmed coefficient stability over the study period.

5. Discussion of Findings

The core objective of this study was to examine whether tax policy contributes meaningfully to economic growth in Nigeria and to determine the conditions under which such contribution becomes effective. The empirical results show that tax revenue has a positive and statistically significant long run effect on economic growth, while its short run effect remains weak. This outcome is important because it clarifies a recurring issue in Nigerian fiscal literature. Taxation is not irrelevant to growth, but its contribution is gradual, conditioned by institutional quality, compliance, macroeconomic stability, and the efficiency with which revenue is translated into public goods.

The long run positive coefficient of tax revenue suggests that stronger domestic revenue mobilisation can support economic growth over time. This finding is consistent with the logic of endogenous growth theory, which argues that when government mobilizes resources and allocates them toward productive expenditure, such expenditure can raise the economy's long term productive capacity (Barro, 1990). In practical terms, tax revenue can finance infrastructure, public education, health systems, transport networks, energy access, and institutional capacity, all of which improve productivity and support private sector expansion. The result also supports the argument that for developing economies like Nigeria, taxation is not merely a fiscal tool for balancing the budget, but a developmental tool for building a more resilient economy.

This finding aligns with earlier empirical studies that report a positive association between taxation and economic performance in Nigeria. Nwokolo (2016) found that tax revenue significantly contributes to economic growth, particularly over the long run. Ogbonna and Ebimobowei (2012) similarly concluded that tax reforms had a positive influence on revenue generation and economic development in Nigeria. In a broader comparative sense, the finding is also consistent with evidence that countries with stronger domestic revenue mobilisation are better positioned to finance development priorities and maintain fiscal sustainability (Besley & Persson, 2014; Moore et al., 2018).

At the same time, the result should not be interpreted to mean that any increase in taxation will automatically generate growth. The sign and significance of tax revenue in the long run must be understood in relation to how tax revenue is collected and used. If tax increases are poorly designed, arbitrary, or concentrated on already burdened formal sector actors, they may discourage investment and weaken productivity. This is why the positive long run relationship observed in this study should be read together with the structural weaknesses identified in the Nigerian tax environment. The evidence suggests that taxation can promote growth, but only when embedded in a system that is administratively effective, predictable, and credible.

Government expenditure was also found to have a positive and significant long run effect on economic growth. This result complements the tax revenue finding because tax revenue achieves developmental value largely through the expenditure channel. In effect, the results imply that the growth role of taxation in Nigeria is mediated partly by public spending. This is consistent with Devarajan et al. (1996), who found that the composition and productivity of public expenditure significantly shape growth outcomes in developing economies. A tax system may raise substantial revenue, but if expenditure is inefficient, misallocated, or weakened by corruption, the growth impact will be diminished. The positive sign of government expenditure in this study suggests that public spending still contributes to growth, though the magnitude is smaller than that of tax revenue, which may reflect inefficiencies in expenditure management.

Inflation was found to exert a negative effect on economic growth in both the long run and the short run, though the short run result was weaker. This finding is economically intuitive and consistent with macroeconomic theory. Persistent inflation distorts price signals, weakens savings, discourages long term investment, and increases uncertainty for firms and households. In Nigeria, inflation has often interacted with exchange rate instability, energy price pressures, and fiscal imbalances, thereby compounding the challenges of growth. The negative sign in this study indicates that even where tax policy is well designed, macroeconomic instability can blunt its effectiveness. In other words, tax reform alone cannot deliver strong growth in the presence of persistent inflationary conditions.

The positive and significant long run coefficient of tax compliance is one of the most important findings of this study. It shows that the performance of tax policy does not depend solely on statutory rates, tax laws, or declared reform frameworks. It depends substantially on whether taxpayers comply in practice. This finding strengthens the view that tax administration and taxpayer behaviour are central components of the tax growth relationship. Where compliance is low, even a well structured tax system will underperform. Where compliance improves, the state gains greater revenue certainty, reduced enforcement costs, and stronger fiscal capacity. This is particularly important in Nigeria, where the informal sector remains large and many economically active individuals and enterprises are either partially compliant or outside the effective tax net.

The compliance result is strongly supported by the literature on tax administration and fiscal capacity. Fjeldstad and Heggstad (2012) argue that the effectiveness of taxation in developing countries depends heavily on the quality of tax administration, taxpayer trust, and institutional legitimacy. Besley and Persson (2014) also show that state capacity is central to successful revenue mobilisation and development. More recent evidence on digital tax systems reinforces this point. Okunogbe and Pouliquen (2022) found that electronic tax filing can reduce compliance costs, improve payment behaviour, and curb corrupt interactions in tax administration. For Nigeria, this suggests that the growth effect of tax policy is not simply a matter of increasing rates or expanding legal obligations. It is also a matter of building systems that make compliance simpler, fairer, and more transparent.

The short run results deserve careful interpretation. While tax revenue, government expenditure, and tax compliance all showed positive coefficients in the short run, their effects were weaker and only marginally significant. This indicates that the immediate growth response to tax policy changes in Nigeria is limited. There are several reasons for this. First, tax policy transmission is inherently delayed. Revenue must be assessed, collected, allocated through the budget, released, and spent before it can affect output. Second, Nigeria's public finance system is often slowed by administrative bottlenecks, procurement delays, leakages, and coordination failures. Third, private sector responses to tax reform may not be immediate, especially where firms face uncertainty about policy consistency or future tax burdens.

This weak short run effect is consistent with prior Nigerian evidence. Several studies have noted that while taxation may support growth over the long term, short run results are often weak due to institutional rigidities and implementation gaps (Adesola, 2004; Adereti et al., 2011). The implication is that tax reforms in Nigeria should not be evaluated only on the basis of immediate GDP responses. Some reforms, especially those involving compliance systems, digital administration, or tax base broadening, require time before their full macroeconomic benefits become visible.

The error correction term is negative and significant, indicating that deviations from long run equilibrium are corrected over time. The coefficient suggests that about 42 percent of disequilibrium is corrected within one year. This is a meaningful speed of adjustment. It implies that although short term shocks may disrupt the tax growth relationship, the system tends to return toward equilibrium with moderate speed. In policy terms, this means that Nigeria's fiscal and growth dynamics are not random or permanently unstable. There is an underlying long run structure linking tax mobilisation, expenditure, compliance, and growth. However, the fact that adjustment is not instantaneous also means that persistent policy inconsistency can prolong disequilibrium and reduce the effectiveness of reforms.

The broader interpretation of these findings is that Nigeria's tax system has latent developmental potential, but this potential remains constrained by structural weaknesses. The study's descriptive and qualitative findings point clearly to these weaknesses. The tax base remains narrow because a large share of economic activity occurs in the informal sector. Multiple taxation across federal, state, and local levels raises compliance costs and discourages business formalisation. Administrative inefficiencies weaken assessment and collection. Public distrust in government reduces tax morale. Revenue leakages and governance failures undermine the legitimacy of taxation. All these factors help explain why tax revenue in Nigeria remains low relative to the size of the economy and why short run growth effects are muted.

This broader picture is supported by recent international evidence. The IMF noted that Nigeria's general government revenue has remained exceptionally low by international standards, underscoring the country's weak domestic revenue base and vulnerability to shocks (International Monetary Fund [IMF], 2023). Recent reporting on IMF data also showed Nigeria's tax to GDP ratio remained among the lowest

globally in 2023, at around 9.4 percent, further illustrating the scale of the challenge (TheCable, 2024). These figures provide context for the study's empirical results. The issue is not that taxation lacks growth potential. The issue is that Nigeria has not yet built a tax system capable of mobilizing revenue at the scale, consistency, and legitimacy required for development.

The comparative lesson from other African countries is especially instructive. Countries such as Kenya and South Africa have achieved relatively stronger revenue mobilisation partly through broader tax bases, greater administrative coordination, and more advanced use of digital systems. This supports the argument made by Moore et al. (2018) that tax systems contribute more effectively to development when they are simple, predictable, and institutionally coherent. For Nigeria, this means that tax reform must move beyond narrow revenue targets and address the deeper architecture of the tax system.

Overall, the findings of this study suggest that tax policy in Nigeria is growth enhancing in the long run but institutionally constrained in the short run. This dual result is important. It means that tax policy should not be dismissed as ineffective simply because short term outcomes appear weak. Rather, the evidence calls for a more patient and structural approach to reform, one that recognizes taxation as a long term state building and development tool rather than a quick fiscal fix.

6. Policy Implications and Reform Pathways

The findings of this study carry major policy implications for Nigeria's fiscal future. The evidence that tax revenue supports growth over the long run means that Nigeria must deepen domestic revenue mobilisation if it seeks sustainable development and reduced dependence on oil revenue and debt. However, the evidence also shows that merely increasing tax rates or intensifying collection pressure will not be enough. What Nigeria needs is a smarter, broader, and more credible tax system.

The first reform priority is tax base broadening. Nigeria cannot continue relying on a relatively small number of formal firms and salaried workers while a large share of economic activity remains outside effective taxation. Broadening the tax base does not necessarily mean punitive taxation of small or vulnerable informal operators. It means developing simplified and fair mechanisms, including presumptive tax systems, better taxpayer registration, and improved data integration, so that more economic actors contribute in proportionate and administratively feasible ways. Base broadening is preferable to simply raising rates on existing taxpayers because it distributes the burden more evenly and reduces distortion.

The second reform priority is digital transformation of tax administration. Digital systems can improve record keeping, reduce face to face rent seeking, simplify filing and payment, and support risk based compliance monitoring. The evidence from Okunogbe and Pouliquen (2022) shows that electronic filing can improve compliance and reduce corruption. Nigeria has already taken some steps in this direction, but progress remains uneven. A fully integrated digital tax architecture linking taxpayer identification, payment platforms, business registration data, customs information, and financial reporting systems would strengthen compliance and reduce leakages.

The third reform priority is institutional harmonisation. Multiplicity of taxes and overlapping revenue claims across levels of government remain a major barrier to compliance and investment. Businesses often face fragmented levies, inconsistent enforcement, and unclear jurisdictional authority. Reform must therefore focus on rationalizing taxes, clarifying taxing powers, and improving coordination among federal, state, and local tax authorities. A simpler and more coherent tax environment would reduce compliance costs and support formal sector growth.

The fourth reform priority is strengthening tax administration capacity. Revenue institutions require better staffing, continuous training, stronger audit capacity, data analytics skills, and improved taxpayer service functions. Enforcement matters, but so does service delivery. Taxpayers are more likely to comply where the system is understandable, accessible, and professionally managed.

The fifth reform priority is governance and trust building. Tax systems function better where citizens perceive that revenue is used responsibly and that the burden is shared fairly. This means tax reform must be linked to broader public financial management reforms, transparency in revenue use, visible service

delivery, and strong anti corruption mechanisms. Tax morale is not built by coercion alone. It is built when taxpayers see a social contract at work.

The sixth reform priority is protecting growth while raising revenue. Since the literature shows that tax structure matters, Nigeria should prioritize growth friendly taxes while minimizing excessive burdens on productive investment. Broad based consumption taxes, property related taxes where administratively feasible, and better designed income taxation may offer more sustainable options than narrow or distortionary levies. Incentives should also be reviewed carefully. Tax incentives that fail to generate measurable investment or employment outcomes should be rationalized.

7. Conclusion

This study examined the relationship between tax policy and economic growth in Nigeria over the period 1990 to 2024 using an econometric framework built around unit root testing, cointegration analysis, ARDL estimation, and error correction dynamics. The findings show clearly that tax revenue contributes positively to economic growth in the long run, while the short run effect remains weak. Government expenditure also supports growth, inflation constrains it, and tax compliance strengthens the effectiveness of the tax system.

The study therefore concludes that tax policy has real developmental value in Nigeria, but that value is not fully realized because of persistent structural and institutional constraints. The low tax base, widespread informality, weak compliance, administrative inefficiency, multiplicity of taxes, and governance weaknesses continue to limit the tax system's contribution to growth. In effect, the problem is not the absence of tax potential, but the incomplete translation of that potential into effective fiscal capacity.

The evidence further suggests that meaningful tax reform in Nigeria must move beyond narrow revenue expansion goals. It must focus on building a tax system that is broad based, digitally enabled, administratively competent, transparent, and growth supportive. Such a system would not only improve revenue mobilisation but also strengthen the fiscal foundation for sustainable development.

In a period where oil revenues are increasingly uncertain and public debt pressures remain significant, taxation must assume a more central place in Nigeria's development strategy. A well reformed tax system can help finance infrastructure, support human capital formation, strengthen macroeconomic resilience, and deepen the state's developmental capacity. The long run message of this study is therefore clear. Tax policy can drive economic growth in Nigeria, but only if reform is systematic, credible, and institutionally grounded.

References

- Adesola, S. M. (2004). Income tax law and administration in Nigeria. *The Nigerian Accountant*, 37(1), 44–51.
- Adereti, S. A., Sanni, M. R., & Adesina, J. A. (2011). Value added tax and economic growth of Nigeria. *European Journal of Humanities and Social Sciences*, 10(1), 455–471.
- Appah, E., & Eze, G. P. (2013). A causality analysis between tax audit and tax compliance in Nigeria. *European Journal of Business and Management*, 5(2), 107–120.
- Arnold, J. M., Brys, B., Heady, C., Johansson, Å., Schwellnus, C., & Vartia, L. (2011). Tax policy for economic recovery and growth. *The Economic Journal*, 121(550), F59–F80. <https://doi.org/10.1111/j.1468-0297.2010.02415.x>
- Barro, R. J. (1990). Government spending in a simple model of endogenous growth. *Journal of Political Economy*, 98(5, Part 2), S103–S125. <https://doi.org/10.1086/261726>
- Besley, T., & Persson, T. (2014). Why do developing countries tax so little? *Journal of Economic Perspectives*, 28(4), 99–120. <https://doi.org/10.1257/jep.28.4.99>

- Bird, R. M. (2015). Improving tax administration in developing countries. *Journal of Tax Administration*, 1(1), 23–45.
- Devarajan, S., Swaroop, V., & Zou, H. F. (1996). The composition of public expenditure and economic growth. *Journal of Monetary Economics*, 37(2), 313–344. [https://doi.org/10.1016/S0304-3932\(96\)90039-2](https://doi.org/10.1016/S0304-3932(96)90039-2)
- Engen, E. M., & Skinner, J. (1996). Taxation and economic growth. *National Tax Journal*, 49(4), 617–642.
- Fjeldstad, O. H., & Heggstad, K. K. (2012). Local government revenue mobilisation in Anglophone Africa. *ICTD Working Paper 7*. International Centre for Tax and Development.
- International Monetary Fund. (2023). *Lessons from successful revenue reform episodes: Nigeria*. IMF Selected Issues Papers. <https://www.imf.org>
- Kneller, R., Bleaney, M. F., & Gemmell, N. (1999). Fiscal policy and growth: Evidence from OECD countries. *Journal of Public Economics*, 74(2), 171–190. [https://doi.org/10.1016/S0047-2727\(99\)00022-5](https://doi.org/10.1016/S0047-2727(99)00022-5)
- Mankiw, N. G., Romer, D., & Weil, D. N. (1992). A contribution to the empirics of economic growth. *The Quarterly Journal of Economics*, 107(2), 407–437. <https://doi.org/10.2307/2118477>
- Moore, M., Prichard, W., & Fjeldstad, O. H. (2018). *Taxing Africa: Coercion, reform and development*. Zed Books.
- Musgrave, R. A., & Musgrave, P. B. (1989). *Public finance in theory and practice* (5th ed.). McGraw-Hill.
- Nwokolo, V. U. (2016). Tax revenue and economic growth in Nigeria: An empirical investigation. *International Journal of Economics and Financial Issues*, 6(1), 314–320.
- Ogbonna, G. N., & Ebimobowei, A. (2012). Impact of tax reforms and economic growth of Nigeria: A time series analysis. *Current Research Journal of Social Sciences*, 4(1), 62–68.
- Ojong, C. M., Ogar, A., & Oka, P. I. (2016). The impact of tax revenue on economic growth: Evidence from Nigeria. *IOSR Journal of Economics and Finance*, 7(1), 32–38.
- Okunogbe, O., & Pouliquen, V. (2022). Technology, taxation, and corruption: Evidence from the introduction of electronic tax filing. *American Economic Journal: Economic Policy*, 14(1), 341–372. <https://doi.org/10.1257/pol.20200123>
- Onaolapo, A. A., Fasina, H. T., & Adegbite, T. A. (2013). The analysis of the effect of petroleum profit tax on Nigerian economy. *Asian Journal of Humanities and Social Sciences*, 1(1), 25–36.
- Schneider, F., Buehn, A., & Montenegro, C. E. (2010). Shadow economies all over the world: New estimates for 162 countries from 1999 to 2007. *World Bank Policy Research Working Paper No. 5356*. World Bank. <https://doi.org/10.1596/1813-9450-5356>
- Solow, R. M. (1956). A contribution to the theory of economic growth. *The Quarterly Journal of Economics*, 70(1), 65–94. <https://doi.org/10.2307/1884513>
- TheCable. (2024, May 10). IMF: At 9.4% in 2023, Nigeria's tax revenue-to-GDP ratio among lowest in the world. *TheCable*.
- World Bank. (2023). *Nigeria development update: Seizing the opportunity*. World Bank.