An Empirical Assessment of the Impact of Corporate Tax on Private Sector Investment and Economic Development in Nigeria

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Abstract: This paper is set out to examine the impact of corporate tax on private sector investment and economic development in Nigeria from 1980-2017. The ordinary least square method of multiple regression analysis was used to analyze the data. The annual data were sourced from the central bank of Nigeria statistical bulletin. The result of the analysis showed in conformity to our aprior theoretical expectation because the parameter estimates of company income tax (CIT) and value added tax appears with negative signs, this means that an inverse relationship exist between corporate income tax and private sector investment. The economic implication of the result is that a one percent (1%) increase in CIT and VAT will result in decrease in the level of private sector investment and economic development in Nigeria. We also observed that corporate income tax and value added tax statistically are significant factors influencing private sector investment and economic development in Nigeria. Based on the result of our findings, it is recommended that attention should be given to the reduction of corporate income tax and value added tax in Nigeria to attract more resources for investment.

Key words: Corporate tax, Private Sector Investment, Economic Development

INTRODUCTION
Tax payment is a compulsory contribution imposed by the government on personal income earners, companies, investors, exporters, importers etc. revenue realized from taxation is a major source of revenue to the Government of Nigeria, and as such is an important tool used in the development of Nigeria and her economy. A country's tax policies and systems are greatly related with business ventures in that country. An economy that enacts

favorable and progressive tax laws and policies will definitely breed successful and finance-healthy business organizations. Once businesses flourish, the economy flourishes as well, as there is no quicker way of stirring the affairs of an economy without the help of organizations that move services, goods, money and investments from those with surplus to those with deficit; those with marketable ideas/output to those who need these ideas and products. In essence, businesses and tax policies greatly depend on one another for survival. If one is greatly affected, the other follows suite.

Adebayo (2008) notes that many governments have find it more convenient to generate income from tax than other sources. The relative importance of tax has sometimes pushed some government into overstressing its role, to the point where its use becomes counterproductive. A more general philosophy is that a tax regime should not discourage the creation of wealth but should act as a precursor for investment and economic growth.

It is worthwhile to say at this juncture, that, from the days of the early economists down to the present day economists, the role taxation plays as one of the major fiscal policy instruments, in economic growth and development cannot be overemphasized. It's role (in the case of boosting investments, regulating the economy, encouraging savings capacity. checking/regulating inflation etc), has always been a topic of intense debate. This is why an empirical appraisal of the impact of corporate tax on private sector investment in relation to Nigeria's economic development is being reviewed and researched on.

Statement of Problem

The effect of fiscal policy instruments on growth and development with taxation playing a central role is perhaps the oldest, most studied, and most controversial topic in economics. The effect of corporate taxes on private sector investment is one of the central questions in both public finance and development. This is premised on economists concern as regards how changes in tax policy and feedback behavior affect economic activity. As a result, a pool of divergent theories, opinions and empirical studies on taxation, constitute a significant portion of economic literature.

Azubuike (2009), is of the view that tax is a major player in every society of the world. The tax system is an opportunity for government to collect additional revenue needed in discharging its pressing obligations. Tax is a major sources of government revenue all over the world. Government use tax proceeds to render their traditional functions, such as provisions of infrastructure such as good roads, water supply, electricity, maintenance of law and order, defense against external aggression, regulation of trade and business to ensure social and economic maintenance. Infact, the need for government in the affairs of man is the basis for taxation. However, tax burden is a major problem in Nigeria as many business organizations are not favored by the tax systems and policies in place. Some businesses are already collapsing; while majority are still struggling to meet up with high tax rates to ensure their businesses still exist. According to a study conducted by Bateman (2002), it was reported in a survey that 90% of business owners admitted that taxes were a huge constraints to their businesses, as they claim taxes are high and do not allow new businesses to cover up initial cost. According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) Nigeria, 80% of SMALL BUSINESSES die before their 5th anniversary. Among the factors responsible for these untimely close-ups are tax related issues, ranging from multiple taxations to enormous tax burdens etc.

The challenge taxation faces in a complex economy like that of Nigeria will remain daunting for a while. Whereas the government sees taxation as a way of improving prosperity, the citizens see it as a means of impoverishing them the more. For instance, Ajakaiye (2013) opines that government may be happy about the high and growing VAT revenues in Nigeria, but there are increasing complaints from the organized private sector about the effects of VAT on their operating costs and the prices of their products. The complaints about the adverse effects of Nigeria's VAT suggest that there is a problem with the way taxable organizations are treating their liabilities, especially the VAT they pay on their inputs.

Many scholars have written on this subject matter and based on their understanding, they used gross domestic product (GDP) as proxy for economic development. But the right determinant is human development index (HDI). This indeed is a research gap. It is an effort to correct the above identified gaps that motivated this study.

Research Questions
This study is aimed at finding answers to the following research questions
1. To what extent has company income tax impacted on private sector investment level in Nigerian economy over time?
2. Is there any significant impact between value added tax (VAT) and private sector investment in Nigeria?
3. Does company income tax predict to economic development in Nigeria?
4. Is there any significant long run relationship between the identified independent variables and economic development in Nigeria?

Objectives of the Study
The broad objective of the study is to determine the relationship between taxation and economic development in Nigeria. Specifically, the study will:-
1. Evaluate if company income tax significantly predicts private sector investment in Nigeria
2. Determine if value added tax VAT predict private sector investment in Nigeria.
3. Examine to what extent company income tax have explained economic development in Nigeria
4. Establish the existence or not if any significant causal relationship exist between the identified independent variables and economic development in Nigeria.

Research Hypotheses
For the proper analysis of this research work, the following hypotheses have been posited
1. **Ho$_1$:** Company income tax does not significantly predict private sector investment in Nigeria.
2. **Ho$_2$:** Value added tax (VAT) does not significantly predict private sector investment in Nigeria
3. **Ho$_3$:** Corporate tax does not significantly explain economic development in Nigeria
4. **Ho$_4$:** Causality does not significantly run from the identified independent variables to economic development in Nigeria.

REVIEW OF RELATED LITERATURE

THE NATURE AND SCOPE OF TAXATION

Taxation is a compulsory but non-penal levy by the government through its agent on the profits, income, or consumption of its subjects or citizens. It is also viewed as a compulsory and obligatory contribution made by individuals and organization towards defraying the expenditure of government (Dandago and Alabede 2001). Kotler (1975), posits that it is a charge levied by the government on the income or wealth of a person or corporate organization for the common benefit of all. The term does not include specific charges made against a particular person or properties for current or permanent benefits and privileges accruing only to those paying such charges. Similarly, Ogundele (1999) defines taxation as the transfer of real economic resources from private sector to the public sector to finance public sector activities. It may be inferred from the foregoing that taxation is the transfer of financial resources from private economic agents like households and corporate bodies, to the public sector to finance the development of the society. Going by the definition of taxation, Nzotta (2007) identified four key issues which must be understood for taxation to play its functions in any society. First, a tax is a compulsory contribution made by the citizens to the government and this contribution is for general common use. Secondly, a tax imposes a general obligation on the tax payer. Thirdly, there is a presumption that the contribution to the public revenue made by the tax payer may not be equivalent to the benefits received. Finally, a tax is not imposed on a citizen by the government because it has rendered specific services to him or his family. Thus, it is evident that a good tax structure plays a multiple role in the process of economic development of any nation which Nigeria is not an exception (Appah, 2010).

THEORIES OF TAXATION

This study reviewed three theories of taxation: the cost of service theory, the benefit theory and the socio-political theories of taxation. According to the cost of service theory, the cost incurred by government in providing certain services to the people must collectively be met by the people who are the ultimate receivers of the service (Jhingan, 2009). This theory believes that tax is similar to price. So if a person does not utilize the service of a state, he should not be charged any tax. Some criticisms have been leveled against this theory.

According to Jhingan (2009), the cost of service theory imposes some restrictions on government services. The objective of government is to provide welfare to the poor. If the theory is applied, the state will not undertake welfare activities like medical care, education, social amenities, etc. furthermore, it will be very difficult to compute the cost per head of the various services provided by the state, again, the theory has violated the correct definition and tenets of tax, finally the basis of taxation as propounded by the theory is misleading.

The limitations inherent in the cost of service theory led to the modernization of the theory. This modification gave birth to the benefit received theory of taxation.

According to the benefit theory, citizens should be asked to pay taxes in proportion to the benefits they receive from the services rendered by the government. The theory assumes that there is exchange relationship or quid pro quo between tax payers and government. The government confers some benefits on tax payers by providing social goods which the tax payers pay a consideration in the form of taxes for using such goods.

The inability to measure the benefits received by an individual from the services rendered by the government has rendered this theory inapplicable (Ahuja, 2012).

The socio-political theory of taxation states that social and political objectives should be the major factors in selecting taxes. The theory advocated that a tax system should not be designed to serve individuals, but should be used to cure the ills of society as a whole (Bhartia, 2009). This study is therefore anchored on this theory.

Empirical Literature

Gwa, D.P and Kase, J (2018), examined the contribution of tax revenue on the economic growth of Nigeria. The study predominantly used secondary source of data. These data were time series. The study covers the period from 1997 to 2016. Ordinary least square of multiple regression models was used to ascertain the contribution of independent variables on dependent variable. The finding revealed that there is a significant contribution of Company Income Tax (CIT) and Value Added Tax (VAT) on the economic growth of Nigeria. The finding also revealed that there is no significant contribution of Petroleum Profit Tax (PPT) on the growth of the Nigeria economy. It was recommended that the regulatory authorities charged with the sole responsibility of collecting tax should further be strengthened to enforce compliance by taxpayers so as to raise more revenue for the government to carry out its responsibilities.

Nwadialor and Ekezie (2016) concentrated on the effect of tax policy on Economic Growth in Nigeria. The study uses annual time serial data of 20 years (1994-2013) collected from the published report of the FIRS of various years, OLS regression analysis was use to investigate the relationship that exist between the dependent and independent variables. The findings revealed that tax have a significant effect on the Economic growth in Nigeria.

Ojong, Ogar and Arikpo (2016) undertook a study on the impact of tax revenue on economic growth: evidence from Nigeria. Data were sourced from Central Bank Statistical Bulletin and extracted through desk survey method. Ordinary least square of multiple regression models was used to establish the relationship between dependent and independent variables. The findings revealed that there was a significant relationship between petroleum profit tax and the growth of the Nigeria economy. It showed that there is a significant relationship between non-oil revenue and the growth of the Nigeria economy. The finding also revealed that there is no significant relationship between company income tax and the growth of the Nigeria economy. It was recommended that government should endeavour to provide social amenities to all nooks and crannies of the country.

Edame and Okoi, (2014), examined the impact of taxation on investment and economic growth in Nigeria from 1980-2010. The ordinary least square method of multiple regression analysis was used to analyze the data. The annual data were sourced from the central Bank of Nigeria statistical bulletin and NBS. The result of the analysis showed the parameter estimates of corporate income tax (CIT) and personal income tax (PIT) appears with negative signs, this means that an inverse relationship exist between taxation and investment. The economic implication of the result is that a one percent (1%) increase in CIT will result in decrease in the level of investment in Nigeria. Consequently, an increase in PIT will result in decrease in the level of investment. Finally, the result therefore showed that taxation is negatively related to the level of investment and the output of goods and

services (GDP) and is positively related to government expenditure in Nigeria. They also observed that taxation is statistically significant factor influencing investment, GDP and government expenditure in Nigeria. Based on the result of our findings, the study recommended that the government of Nigeria should use taxation to achieve its set target that will enhance economic growth and development.

Afuberoh and Okoye (2014) carried out a study on the impact of taxation on revenue generation in Nigeria: A study of federal capital territory and selected states. In achieving the objective of the study, the researcher adopted primary sources of data for the study. The testing of the hypotheses of the study was done using regression analysis computed with the aid of SPSS version 17.0. The study discovered among others that, taxation has a significant contribution to revenue generation and taxation has a significant contribution on Gross Domestic Product (GDP).

Similarly, Ogbonna and Appah (2012) focused on Impact of Tax Reforms and Economic Growth of Nigeria: A Time Series Analysis. Data were collected from the Central Bank of Nigeria (CBN) Statistical Bulletin, Federal Inland Revenue Service (FIRS) and Office of the Accountant General of the Federation. The data collected were analyzed using relevant descriptive statistics and econometric models such as White test, Ramsey RESET test, Breusch Godfrey test, Jacque Berra test, Augmented Dickey Fuller test, Johansen test, and Granger Causality test. The results from the various test shows that tax reforms is positively and significantly related to economic growth and that tax reforms granger cause economic growth.

Adegbie and Fakile (2011) concentrated on the Company Income Tax and Nigeria Economic Development relationship, they used Chi-square and Multiple Linear Regression analysis in analyzing the primary and secondary data respectively and concluded that there is a significant relationship between company income tax and Nigerian economic development. They also affirm that tax evasion and avoidance are major hindrances to revenue generation.

METHODOLOGY
This study adopted the multiple regression analysis with Ordinary Least Square (OLS) econometric technique for data analysis. This technique possesses the unique property of Best Linear Unbiased Estimator (BLUE) as well as the desirable qualities of consistency and efficiency.

The Ex-post-facto research Design was used. This design type is relevant in explaining a consequence based on antecedent conditions, as well as determining the influence of one variable on another variable. Besides, Ex-post-facto research design is described as empirical inquiry in which the scientist does not have direct control of variables. Inferences about relationships among variables are made from any determined variations between the studied variables

The data will be annual data covering from 1980 – 2017 for all variables used for the empirical estimation

Model Specification
The models that are used in the study include the following;

1. INVESTMENT MODEL
This model shows the relationship that exist between corporate income tax and private sector investment in Nigeria. It is stated in linear form, thus,

$$INV = \beta_0 + \beta_1 CIT_t + \beta_2 VAT_t + \varepsilon_{1t} \qquad (1)$$
Where;
$\qquad$ INV = Private Sector Investment
$\qquad$ CIT = Corporate or Company Income Tax
$\qquad$ VAT = Value Added Tax
$\qquad$ $\beta_0 - \beta_2$ refers to the parameters to be estimated
$\qquad$ ε_t = omitted variable
A priori expectation: $(\beta_1 - \beta_2 < 0)$

2. ECONOMIC DEVELOPMENT MODEL
This model shows the relationships that exist between taxation and economic development in Nigeria for the period under review. It is stated in linear form as follows

$$HDI = \alpha_0 + \alpha_1 CIT + \alpha_2 VAT + \mu_{2t} \qquad (2)$$
Where;
$\qquad$ HDI = Human Development Index proxy for Economic Development
$\qquad$ CIT = Corporate or Company Income Tax
$\qquad$ VAT = Value Added Tax
$\qquad$ μ_{2t} = omitted variable
$\qquad$ $\alpha_0 - \alpha_2$ = parameters estimated.
It is expected that
$\alpha_0, > 0 , \alpha_1 < 0, \alpha_2 < 0, .$

PRESENTATION OF RESULTS
The augmented Dickey-Fuller unit root tests are applied to determine whether the series are stationary. Table 1 below summarizes the results for all the variables. The results show that all the variables are non-stationary at levels since the calculated tau values are less in absolute terms than the critical values. The variables are found to be stationary only when tested at first difference. Thus, they are integrated of order one I(1). Each of these variables becomes stationary if it is differenced once.

Table 1

Variables	*Level/ first/second difference*	*Calculated tau*	*ADF critical (5%)*	*Stationarity*
INV	*Level*	-2.351353	-3.937942	*Non-stationary*
	First difference	*-4.928640*	*-3.939987*	*Stationary*
HDI	Level	-2.768885	-3.937942	*Non-stationary*
	First difference	*-5.864416*	*-3.939987*	*Stationary*

CIT	Level	-3.898071	-3.937942	*Non-stationary*
	First difference	-5.390623	-3.939987	*Stationary*
VAT	Level	-2.336121	-3.937942	*Non-stationary*
	First difference	-4.272636	-3.939987	*Stationary*

Source: Author`s computation using Eview 9.5 computer software

The stationarities of all the series in the same order was thus a motivation to run for co-integration tests. This is aimed at finding the presence or absent of any long run relationship among the series. This corroborates with the submission by Woodridge (2002) and Grene (1997) that when more than one variable is not stationary at levels, there is every need to run a co-integration test in order to verify if the series have any long run equilibrium relationship.

In view of the above therefore, since the variables are stationary at difference orders, there was the need for a test for co- integration test using the Johansen (1991) co-integration technique. The result is presented in table 4.2 as shown below:

Table 2
Date: 11/15/18 Time: 14:15
Sample (adjusted): 1982 2017
Included observations: 36 after adjustments
Trend assumption: Linear deterministic trend
Series: INV CIT VAT
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None*	0.370261	22.85188	21.79707	0.0253
At most 1*	0.103176	19.20371	15.49471	0.0571
At most 2	0.061460	2.283483	3.841466	0.1308

Trace test indicates 1 cointegration at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None*	0.370261	26.64817	21.13162	0.1893
At most 1*	0.103176	19.92022	14.26460	0.0468
At most 2	0.061460	2.283483	3.841466	0.1308

Max-eigenvalue test indicates 1 cointegration at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Source: Author`s computation using Eview 9.5 computer software

Table 2 above indicated the presence of (1) co-integrating equation for trace statistics and 1 cointegrating equation for maximum Eigen value at 1% and 5% level of significance. Co-integration exists at those ranks where the value of the trace statistic exceeds the 1% and 5% critical value. Again, the eigenvalues all lie below 1, indicating the presence of co-integration.

Table 3
REGRESSION RESULT
Dependent Variable: INV
Method: Least Squares
Date: 11/08/18   Time: 14:44
Sample: 1980 2017
Included observations: 38

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CIT	-0.678145	0.219154	-3.094377	0.0051
VAT	-0.217166	0.102259	-0.648363	0.0521
C	10.93181	4.766827	2.293310	0.0494

R-squared	0.529649	Mean dependent var		4.664025
Adjusted R-squared	0.485629	S.D. dependent var		10.76557
S.E. of regression	9.715119	Akaike info criterion		7.460900
Sum squared resid	3303.423	Schwarz criterion		7.590183
Log likelihood	-138.7571	Hannan-Quinn criter.		7.506898
F-statistic	5.216914	Durbin-Watson stat		1.000725
Prob(F-statistic)	0.010400			

Table 4
Dependent Variable: HDI
Method: Least Squares
Date: 11/08/18   Time: 15:56
Sample: 1980 2017
Included observations: 38

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CIT	-0.722187	0.191539	-3.770444	0.0351
VAT	-0.443256	0.152259	-2.911197	0.0452
C	0.113819	0.766827	0.148429	0.5649

R-squared	0.631489	Mean dependent var		3.687904
Adjusted R-squared	0.498766	S.D. dependent var		9.896548

S.E. of regression	8.675439	Akaike info criterion	5.609003
Sum squared resid	2467.347	Schwarz criterion	7.590183
Log likelihood	-31.66876	Hannan-Quinn criter.	6.876982
F-statistic	3.112314	Durbin-Watson stat	1.123504
Prob(F-statistic)	0.234568		

Source: Author`s computation using Eview 9.5 computer software

Table 5. Granger causality

Null hypothesis	F-Statistic	Probability	Reject/Do not Reject hypothesis
INV does not Granger cause CIT	0.85798	0.42649	Do not reject
CIT does not Granger cause INV	2.51170	0.07487	Do not reject
INV does not Granger cause VAT	3.50708	0.02544	Reject
VAT does not Granger cause INV	1.99779	0.13188	Do not reject
HDI does not Granger cause CIT	3.03343	0.04218	Reject
CIT does not Granger cause HDI	5.08894	0.00586	Reject
HDI does not Granger cause VAT	1.24223	0.35655	Do not reject

Source: Author`s computation using Eview 9.5 computer software

Granger causality tests

Table 5 above shows the results of the Granger causality tests conducted for the respective variables of the model. The Granger causality tests found no evidence of a causal relationship between investment and corporate income tax. Furthermore, the tests found that private sector investment does indeed (Granger) cause value added tax (VAT). Nevertheless, no causal relationship between value added tax and investment runs from the former to the latter. It is evident, therefore, that the direction of causality runs from investment to value added tax (VAT). Hence, causality here is unidirectional.

A bidirectional causality was found between the economic development and corporate income tax. Furthermore, there was no causal relationship found between t economic development and value added tax (VAT).

Interpretation of Empirical Results

From the estimated investment model (Table 3), we noticed that 53 percent change in private domestic investment is caused by changes in corporate income tax and value added tax (R^2). The remaining 47 percent is caused by variable that are not included in the model which is accounted for by the random term. The result also conforms to our aprior expectation because the parameter estimates of corporate income tax (CIT) and value added tax (VAT) appears with negative signs, this means that an inverse relationship exist between corporate tax and private sector investment. The economic implication of the result is that a one (1) percent increase in CIT will result in 67 percent decrease in the level of private domestic investment in Nigeria. Consequently, a 1 percent increase in VAT will result in 21 percent decrease in private sector investment. The t-test shows that the parameter estimates of CIT and VAT are statistically significant. We thereby concluded by rejecting the null hypothesis and accepting the alternative hypothesis which states that

there is a significant relationship between corporate income tax and private sector investment in Nigeria.

The estimated Economic Development Index model result (Table 4) shows that 63 percent changes in economic development is influenced by changed in corporate income tax and value added tax given the estimated value of the R^2. The remaining 37 percent is caused by variables that are not included in the model, which is accounted for by the stochastic term. This result also conforms to our prior expectations because the parameter estimates of CIT and VAT appears with negative signs. The economic implication is that a decrease in CIT and VAT will stimulate aggregate demand as will be more money in the hands of both corporate organization and individual to carry out economic activities. Since the t-statistics shows that the parameter estimates of CIT and VAT are statically significant, we conclude by rejecting the null hypothesis which states that there is a significant relationship between corporate tax and economic development in Nigeria.

Findings

This study has reviewed and elaborated on the empirical issues pertaining to private sector investment and economic development and the influence of key corporate tax variables on the Nigerian economy; thus modeling private sector investment and economic development against corporate income tax, and value added tax. From our analysis, it is evident from the results obtained that all the variables have significant impact on private sector investment and economic development in Nigeria.

CONCLUSION

This study examined the impact of company income tax and value-added tax on private sector investment and economic development in Nigeria. The study adopted Private Sector Investment and Human Development Index as proxy for economic development as the dependent variable, while company income tax and value- added tax were independent variables. Data on the variables for the period 1980 –2017 was collected from the Central Bank of Nigeria Statistical Bulletin.

The study concludes that low corporate tax and VAT will have significant impact on private sector investment and economic development.

RECOMMENDATIONS

Base on the general findings of the study the following recommendations were however made:

i. Greater attention should be paid on the reduction of' corporate tax. This will help in the development of our industries and the economy as a macro unit. On the other hand, value added tax should be kept relatively low in order boost investment and translate to economic development

ii. Since taxation is an inevitable source of government revenue, the problem of double taxation should be avoided, tax incentives in the form of tax cut should be provided to tax payers.

iii. Government through the monetary authority should implement taxation laws that stimulate the aggregate level of investment in Nigeria.

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