

## **CORPORATE INCOME TAX AND ECONOMIC PERFORMANCE IN NIGERIA (2001-2022)**

**Theresa Chidinma Okoro<sup>1\*</sup> & Pauline Uche Ogwo<sup>2</sup>**

<sup>1,2</sup>Department of Accountancy, Alvan Ikoku Federal University of Education, Owerri, Imo State Nigeria.

\*chidinmaekele@gmail.com

**ABSTRACT:** The study examined effect of corporate income tax on Nigerian economic performance for the period 2001 to 2022. What informed the research was perennial challenges in corporate entities resistance to tax compliance through tax evasion, tax avoidance and corrupt practices in collusion with revenue authorities. The study specifically investigated on effect of Education Tax, Company Income Tax and Petroleum Profit Tax on the Nigerian economic performance using the Human Development Index as proxy for economic performance. Ex-post facto research design was employed to examine how the independent variables Company Income Tax (CIT), Education Tax (EDT), Petroleum Profit Tax (PPT) affected the dependent variable Human Development Index. Secondary data were sourced online from the websites of Federal Inland Revenue Service, UNDP statistical update and CBN bulletin. Vector Error Correction Model was employed to analyse the relationship between the dependent variable and the explanatory variables of the study. Results revealed that Tertiary Education Tax and Company Income Tax had significant effect on the Human Development Index while Petroleum Profit Tax did not. The research recommends that tax authorities should revisit their tax administrative policies by devising procedures to capture all registered companies in the tax net and ensure timely collection of their taxes. Also given the dwindling revenue from petroleum related sources, activities of petroleum corporations should be promoted in such a way that its tax incentives will boost its performance on tax revenue for economic performance.

**Keywords:** Company Income Tax, Tertiary Education Tax, Petroleum Profit Tax, Human Development Index.

### **INTRODUCTION**

Nigerian tax system is tasked with the responsibility of providing the government with revenue to finance the country's development. Education is the cornerstone of a prosperous society. In Nigeria, as in many other nations, funding quality education has been a pivotal challenge. To address this issue, Nigeria introduced the Education Tax Fund Act in 1993, which later became the Tertiary Education Trust Fund (TETFund) Act in 2011. This initiative represents a significant stride towards ensuring that education remains accessible and of high quality in the country. The TETFund was established to impose a tax on the assessable profit of companies registered in Nigeria. This tax is meant to provide intervention funds for public tertiary institutions to enhance their infrastructure, teaching, and research capabilities (Adedayo 2023). The Tertiary Education tax rate had undergone some changes in the recent time, the Education Tax payable by Nigerian companies was increased from 2% to 2.5% by the finance Act 2021. Sequent to the Act the Finance Act 2023 (FA2023), which the former Nigerian President Muhammadu Buhari signed into law on 28th May 2023, introduced significant changes to the

existing tax laws and regulatory framework, aiming to foster economic growth, enhance fiscal stability and promote sustainable development. By the amendments to Section 1(2) of the TET Act, the rate of TET was increased from 2.5% to 3% of assessable profits by the Finance Act 2023. The new TET rate of 3% shall take effect for TET becoming due in respect of the accounting period ending on or after 1st September, 2023 (Finance Act 2023).

Petroleum Profits Tax (PPT) is imposed on income of companies in petroleum operations (Upstream). The tax is governed by the Petroleum Profits Tax Act, Cap P13 LFN 2004 (as amended). The primary function of a resilient oil and gas tax system is to raise enough revenue to finance essential government expenditure that will raise the standard of living, promote sustainable firms and create jobs for economic growth (Pibowei & Marei, 2021). Oil is a natural petroleum product from hydrocarbon deposits and other organic materials. As a major source of income for the Nigerian economy, statistics revealed that PPT accounted for 41.34% of total tax revenue in 2022 (FIRS revenue statistics 2022). Education Tax is a deductible expense in computation of assessable profits of petroleum companies (FIRS 2022). Fluctuations in oil prices in the international market has been a serious concern in the oil sector tax revenue performance. For instance, revenue statistics revealed that between the period of 2017 to 2022, Petroleum Profit Tax (PPT) on average accounted for 37.5% of total tax revenue while 62.5% was collected from other taxes (FIRS 2021).

Company Income Tax revenue towards the development of any economy occupies a prominent place in fiscal discussions in most countries and same is applicable in Nigeria. Company Income Tax Act (CITA) aims to generate tax from companies in each state of the federation more effectively. However, the level at which this is achieved depends on tax administration. The Nigerian Finance Act (2019) amended some of the Nigerian tax laws, among which included the Companies Income Tax Act (“CITA 2007”), The Company Income Tax Act (CITA) Cap C21, LFN 2007 (as Amended) changes were implemented by the Nigerian finance Act of 2019, according to the Act, large companies with turnover of N100 million, the rate applicable is 30%. Medium-size companies with turnover of N25 million but less than N100 million has their CIT rate at 20% and small companies with turnover of N25 million has 0% CIT rate.

There has been conflicting preposition as to the extent of corporate income tax contribution to the development of Nigerian economy. Researches in the context have revealed that corporate tax revenue is related to economic performance (Ayeni & Cordelia 2022) justifies the claim.

### **Statement of the Problem**

Corporate taxation as a source of financing development activities in Nigeria have been a difficult task primarily traceable to various forms of corporate entities resistance such as tax evasion, avoidance and corrupt practices. Umar, Ndace and Shettima (2022) observed that companies are known to be evading taxes and also avoiding taxes due the various loop holes in tax laws. Notably, tax evasion, avoidance and corrupt practices are prevalent practices among corporate entities in Nigeria. Asuquo (2012) also observed that paucity of data base contributes to tax avoidance in the country. Nigeria corporate tax payers especially the large ones, both foreign owned and indigenious seem to be engaged in a continuing smart game of trying to out-wit the tax authorities to maximize tax allowable deductions and minimize overall tax liability (Okarfor 2012). This account for low revenue generation for national development and also evident in the Nigerian unchanging low Human Development Index (HDI) category.

According to the UNDP (2022) statistical update, Nigerian HDI values are indexed at 0.539 in 2020, 0.539 in 2021 and 0.535 in 2022 respectively (UNDP 2020).

### **Purpose of the Study**

The purpose of the study is to assess the nexus between corporate tax and Nigerian Human Development Index. Specifically, the study will evaluate:

1. The effect of the tertiary Education Tax (EDT) on the Nigerian Human Development Index.
2. The effect of the Company Income Tax (CIT) on the Nigerian Human Development Index.
3. The effect of Petroleum Profit Tax on the Nigerian Human Development Index

### **Research Questions**

1. To what extent has tertiary Education Tax (EDT) affected the Nigerian Human Development Index.
2. To what extent has Company Income Tax (CIT) affected the Nigerian Human Development Index.
3. How has Petroleum Profit Tax affected the Nigerian Human Development Index

### **Research Hypotheses**

H<sub>01</sub>: Tertiary Education Tax has no significant effect on Human Development Index in Nigeria.

H<sub>02</sub>: Company Income Tax has no significant effect on Human Development Index in Nigeria.

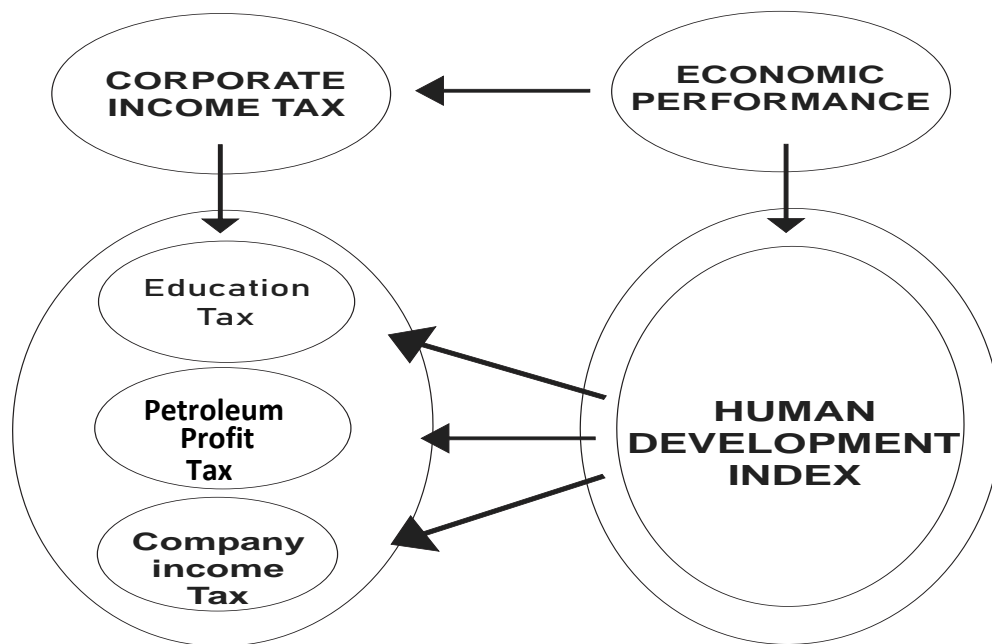
H<sub>03</sub>: Petroleum Profit Tax has no significant effect on the Human Development Index

### **Conceptual Review**

#### **The Concept of Taxation**

Corporate income tax is basically taxes on income of corporate entities within a particular jurisdiction and it include Company Income Tax, Petroleum Profit tax and Education Tax. They are taxes levied directly on taxable profits of corporate entities. Tajundee (2016) observed that government incentives to tax payers generate more tax revenue. In Nigeria, the government has been consistent in its policy of deliberate regime of tax incentives for stimulation of investment in the manufacturing, agriculture and the gas sub-sectors of the economy. The idea being that a conscious tax incentive regime will positively impact on both domestic and foreign investment, which is a critical factor in economic development (Kwaghkehe & Alfred 2020).

**OPERATIONAL DEFINITION OF VARIABLES**



**Source: Author's Framework 2024**

**Company Income Tax Act (CITA) 2007 (as Amended)**

Resident companies are liable to corporate income tax (CIT) on their worldwide income while non-residents are subject to CIT on their Nigeria-source income (pwc 2024). CIT came into existence in Nigeria in 1961, the tax law governing Companies Income Tax Law Act 1961 has however undergone numerous amendments. The Federal Inland Revenue Service is empowered to administer the Company Income Tax in Nigeria. It is a tax paid on the income of incorporated companies and is regulated by the Companies Income Tax Act (CITA). The Company Income Tax Act (CITA) Cap C21, LFN 2007 (as Amended) rate was 30%. Changes were effected by the Nigerian finance Act of 2019, presently, large companies with turnover of ₦100 million, the rate now applicable is 30%. Medium-size companies with turnover of ₦25 million but less than ₦100 million has their CIT rate at 20% and small companies with turnover of ₦25million has 0% CIT rate. (Finance Act 2019). The Finance Act 2023 (FA2023), made amendment on tax incentive on investment through reserved funds in tourism by hotels. By the Act, Section 37 of the Company Income Tax Act which provides for tax exemption of 25% of income in convertible currencies set aside as reserved funds for hotels infrastructural development, has been repealed. However, previously set-aside reserved funds (before the effective date of FA2023) shall continue to enjoy the tax exemption until the funds are fully utilized or for five years, whichever occurs first. This change took effect on tax returns for accounting periods which ended on or after 1st July 2023.. Folaji and Fakile (2011) stated that apart from the revenue function of CIT, it also assists the government to achieve its macro-economic objectives in the area of fiscal and monetary policies. However, Katarzyna, Evgeniya, Petr (2022) documented multinational corporations shift a large share of their foreign profits to tax heavens and due to this corporate tax avoidance, governments worldwide loose a portion of their tax revenue.

### **Tertiary Education Tax Act 2011**

Adedayo (2023) identified some key points about Tertiary Education Tax in Nigeria which include, investment in quality education: expanding access, encouraging research and development, transparency and accountability, contributing to national development: (Adedayo, 2023). Tertiary education tax is imposed on every Nigerian company at the rate of 3% of the assessable profit for each year of assessment. The tax is payable within two months of an assessment notice from the FIRS. In practice, many companies pay the tax on a self-assessment basis along with their CIT. For companies subject to PPT under the PPTA, tertiary education tax is to be treated as an allowable deduction. For other companies, income/profit taxes are not deductible in arriving at taxable income (pwc 2024). Tertiary education tax is not tax deductible for companies subject to income tax under the Petroleum Industry Act 2021. Non-resident companies and unincorporated entities are exempt from tertiary education tax. It is governed by Tertiary Education Trust Fund (Establishment, Etc.) Act 2011. The Act repealed the Education Tax Act Cap. E4 laws of the federation of Nigeria 2004, and the Education Tax Fund (Amendment Act No. 17 2003,) and established the Tertiary Education Trust Fund Act (TETFA) 2011 charged with the responsibility for imposing, managing and disbursing the Education Tax to public tertiary education institutions in Nigeria. Tertiary Education Trust Fund Act (TETFA) 2011, No 16 was enacted by the National Assembly of the federal republic of Nigeria and stipulates that as from the commencement of the Act, there shall be chargeable and payable an annual Tertiary Education Tax which shall be assessed, collected and administered in accordance with the provision of the Act. The Act stipulates the tax rate of 2% on assessable profits of companies registered in Nigeria. By the amendments to Section 1(2) of the TET Act, the rate of TET was changed from 2.5% to 3% of assessable profits by The Finance Act 2023. Funds derived from the tax are used for rehabilitation, restoration and consolidation of tertiary education in Nigeria by the Tertiary Education Trust Fund (TETFund) and the amount in the Fund is distributed between Universities, Polytechnics and Colleges of Education in the ratio 2:1:1 respectively (Tertiary Education Tax firs.gov.ng). Oladosu (2022) observed that the failure of registered companies in meeting their Educational Tax obligations appears to be constraining TETFund to fulfill this mandate. It is worrisome to note that in 2021 total EDT collected was 189.54 billion naira, out of the 323.29 billion naira annual target of the year. However in 2022 the revenue performance improved out of 306 billion annual target total annual tax collection was 328.674 billion naira. The most important index that measures the performance of service is revenue collection. It is widely accepted that education creates improved citizens and helps to upgrade the general standard of living in a society.

### **Petroleum Profit Tax (PPT)**

PPT is a tax on the income of companies engaged in upstream petroleum operations in lieu of CIT. According to Khadijat and Taophic (2018) Petroleum taxation is the instrument of choice for sharing wealth between host governments and international oil companies. The PPT rates vary as follows: 50% for petroleum operations under production sharing contracts (PSC) with the Nigerian National Petroleum Corporation (NNPC). 65.75% for non-PSC operations, including joint ventures (JVs), in the first five years during which the company has not fully amortized all pre-production capitalized expenditure. 85% for non-PSC operations after the first five years. 30% for upstream gas profits (PWC, 2024).

Following the enactment of the Petroleum Industry Act 2021, holders of a Petroleum Prospecting License and Petroleum Mining Lease will be subject to both CIT at 30%, and

Hydrocarbon Tax (HCT). HCT rates are as follows: 30% for converted/renewed onshore and shallow offshore Petroleum Mining Lease. 15% for onshore and shallow onshore Prospecting Petroleum Licence and Marginal Fields. Deep offshore is exempt from HCT.

This means that the highest headline tax rate for companies in the upstream oil and gas industry will be 60%. Current Oil Mining Licence and Oil Prospecting Licence holders will continue to be taxed in line with the Petroleum Profits Tax Act (PPTA) unless a conversion contract is executed in line with the provisions of the Petroleum Industry Act 2021 (PWC, 2024). According to Pibowei and Marei, (2021) the primary function of a resilient oil and gas tax system is to raise enough revenue to finance essential government expenditure that will raise the standard of living, promote sustainable firms and create jobs of the future for economic growth. Sustainability of economic growth and development which remains the true essence of governance is threatened in Nigeria due to insufficient fund caused by declining petroleum revenue upon which the country relies for development Khadijat and Taophic (2018).

### **Human Development Index (HDI)**

According to Woodruff (2018), as a country develops the nature of its internal structure, finances and population changes. Development of any economy encompasses increase in the growth rate measured by GDP, increased in per capita income, reduction in poverty level as well as transformation in other economic, social and institutional mechanism required for improvement of the entire well-being of the society. There are some indicators of economic development, however in this research work, the indicator of economic development captured is the Human development index (HDI). Human development index is a composite index measuring achievement in three basic dimensions of human development, a long and healthy life, knowledge and decent standard of living. The index is equally based on three weighted components:

- Longevity, measured by life expectancy at birth.
  - Knowledge, measured by adult literacy and number of years children enrolled at school.
  - Standard of living, measured by real GDP per capita at purchasing power parity.
- The Index ranges from 1-0, the index of 1 indicates most developed while 0 index indicate no development (UNDP 2022).
- An index of 0 – 0.49 means low development.
  - An index of 0.5 – 0.69 means medium development.
  - An index of 0.7 to 0.79 means high development.
  - Above 0.8 means very high development.

The UNDP 2022 statistical update presents the HDI values and ranks for 189 countries in the United Nations recognized territories. Nigeria ranks 163 out of 189 countries in the territory within the range of five years. The trend of the index for the range 2017 to 2021 is further detailed, in 2017 the Nigerian HDI was 0.526, 2018 , it was 0.531, 2019 it was 0.538, 2020 it was 0.535 and 2021 it was indexed at 0.535 (UNDP 2022). The trend showed that in average of five years, Nigeria maintained HDI index was on an average of 0.533 which posit Nigerian HDI in medium development range. (0.5-0.69).

## **THEORETICAL REVIEW**

### **Laffer Curve Theory**

The theory was propounded by professor Arthur Laffer created in 1974, it visually shows the relationship tax rates and the amount of tax revenue collected by the government. The theory explained the relationship between government revenue raised by taxation and all possible rates of taxation. Theory of Laffer Curve considers the amount of tax revenue raised at the extreme tax rate of 0% and 100%. The theory advocates that a 100% tax rate raises no revenue in the way that a 0% rate raises revenue stating that at 100% rate there is no longer incentive for a rational taxpayer to earn any more income, thus the revenue raised will be 100% of nothing while at the extreme end of 0% no tax revenue is generated to the government. It follows that there must be at least one rate in between where a tax revenue would be at maximum. The theory postulates that increasing tax rate beyond a certain point will become counter-productive for raising further tax revenue. Theory of Laffer Curve is very relevant to the current research work. At a 100% tax rate, government revenue increases but there is no longer incentive for a rational corporate entity to earn any more income. This theory is intended to guide the revenue authorities in tax.

### **Endogenous Growth Theory**

Endogenous growth theory as adapted from Tejvan (2019) is developed by, Paul Romer and Robert Lucas placed greater emphasis on the concept of human capital. The theory explained how workers with greater knowledge, education and training can help to increase rates of technological advancement. It placed greater importance on the need for government to actively encourage technological innovation. The advocates of the theory argue that in the free market, firms may have no incentive to invest in new technologies because they will struggle to benefit in competitive markets. The theory places emphasis on increasing both capital and labour productivity stating that increasing labour productivity does not have diminishing returns but may have increasing returns. The theory relates to the current study, development of any economy is a function of education and technological advancement. It suggests that government should invest more on education and technology to boast economic development.

### **Empirical Review**

Caroline and Oliver (2016) in their study investigated on the effect of Company Income Tax and Tertiary Education Tax on Nigeria Gross Domestic Product (GDP). The tool employed for test of hypotheses was the Simple regression technique. Relationship between the model variables (including the dependent variables) was tested using correlation analysis. Findings showed that Company Income Tax and Tertiary Education Tax significantly affects Nigeria Gross Domestic Product.

Lyndon and Paymaster (2016) in their study examined the impact of Companies' Income Tax, Value-Added Tax on economic growth (proxy by gross domestic product) in Nigeria. The study employed Ordinary Least Squares (OLS). The results of the analysis showed that both Company Income Tax and Value-Added Tax have significant and positive impact on economic growth.

Osho, Omotayo, and Ayorinde, (2018) in their study examined empirically the impact of Company Income Tax on gross domestic products in Nigeria. Findings revealed that Company Income Tax revenue has a positive and significant effect on gross domestic products in Nigeria. The study concluded that Company Income Tax revenue plays a crucial role in the economy activity and making funds available for the government to pursue massive projects to the benefit of the citizens.

Ordu and Nkwoji (2019) examined the impact of Education Tax revenue on economic development of Nigeria within the period of 2006-2017. Regression analysis and thematic analysis were employed for the analysis of the data. Findings indicated that Education Tax has positive and strong relationship with economic development when measured on the Gross Domestic Product as well as Human Development Index.

Peter, Musa and Emmanuel (2019) in their study examined the impact of Company Income Tax on economic growth in Nigeria for an eleven-year period (2007-2017). The study employed multiple regression analysis techniques based on the SPSS 20 version. The findings indicated that Company Income Tax has significant influence over economic growth in Nigeria.

Pibowei and Marei, (2021). investigated on impact of Petroleum Profit Tax on economic growth in Nigeria from 1981 to 2020 using an expo-facto research design. The study found that Petroleum Profit Tax has no significant relationship on per capita income and the employment rate for economic growth, with a correlation of less than 10%.

Miftahu and Habiba (2022) examined the effects of taxation on economic growth in Nigeria. Specifically, the study investigated the effect of Petroleum Profit Tax, Company Income Tax, and Custom and Excise duty on the real gross domestic product in Nigeria. The study revealed that significant relationship exists between Petroleum Profit Tax and gross domestic product. The finding further showed that the positive relationship between Petroleum Profit Tax and gross domestic product is not that significant compared to other tax variables under study.

### **Gap in Reviewed Literature**

The present study is anchored on empirical studies of Caroline and Oliver (2016), Lyndon and Paymaster (2016), Osho, Omotayo, and Ayorinde, (2018), Ordu and Nkwoji (2019), Peter, Musa and Emmanuel (2019) Pibowei and Marei, (2021) Miftahu and Habiba (2022) in the context with a view to establish gap in literature so as to fill the identified gap. The reviewed studies carried out researches on taxes revenue and economic performance but measured economic performance with GDP as the dependent variable, the present study will fill the identified gaps in literature by using two corporate taxes CIT and EDT and assess their effect on economic performance, the study will therefor measure economic performance with Human Development Index (HDI) which also serves as the dependent variable.

### **METHODOLOGY**

The study adopted the ex-post facto research design. It examined how the independent variables Company Income Tax (CIT), Education Tax (EDT), Petroleum Profit Tax (PPT) affected the dependent variable Human Development Index, for the period 2000 -2022. Secondary data which employed in analysis were obtained from the FIRS website, CBH bulletin and the



United Nation Development Programme (UNDP) statistical online publications update from 2000 to 2022. The independent variable comprised of CIT, EDT and PPT revenue. The scope of the study covers three forms of corporate taxes as indicated.

### Method of Data Presentation and Analysis

To ensure that the data set employed in analysis is stationary, unit root test was carried out through Augmented Dickey Fuller (ADF) test statistics. The stationarity test was carried out so as to avoid spurious relationship. The Vector Error Correction Model was the analytical technique employed in this research study. VECM is used to calculate the speed at which short disequilibrium converge into long-run equilibrium relationship.

### Model Specification

Multiple regression analytical technique was adopted to examine the relationship between the independent variables, Company Income Tax, Education Tax Petroleum Profit Tax and the dependent variable Human Development Index. The model is specified thus:

Linear specification:  $HDI = f(CIT, EDT, PPT)$ ,

From the above linear specification, the statistical model was derived

$$HDI = \beta_0 + \beta_1CIT + \beta_2EDT + \beta_3PPT + \mu_t$$

Where : HDI = Human Development Index, CIT = Company Income Tax revenue, EDT = Tertiary Education Tax revenue. PPT = Petroleum Profit Tax  $\alpha$  is a constant

$\beta_1, \beta_2, \beta_3$  are the coefficients of the parameter estimate and  $\mu$  is the error term

### DATA PRESENTATION AND ANALYSIS

This section deals with the analysis and presentation of data as well as the interpretation of results.

#### Unit Root Test

**Table 4: 1 Augmented Dickey Fuller (ADF) Test**

Variable	ADF STAT	Critical value at 5%	Order of integration	Probability	Remark
CIT	-5.204275	-3.020686	1(1)	0.0005	Stationary
PPT	-4.197403	-3.144920	1(1)	0.0005	Stationary
EDT	-5.414391	-3.081002	1(1)	0.0007	Stationary
HDI	-4.582089	-3.886751	1(1)	0.0025	Stationary

ADF unit root test results of the model presented in the table above showed that the variables CIT, EDT, PPT HDI were integrated at order one, 1(1). The conclusion was drawn by considering the ADF statistics probability values at first difference which are less than 0.05: Company Income Tax 0.0005, Education Tax Petroleum Profit Tax 0.0007 Human Development Index 0.0025. The order of integration therefor necessitated the model for long run analysis, Vector Error Correction Model was employed.

**Table 4.2 Vector Error Correction Estimates**

Error Correction:	D(HDI)	D(CIT)	D(EDT)	D(PPT)
CointEq1	-0.112835 (0.04178) [-2.70086]	7.455758 (3.47671) [ 2.14448]	3.253597 (3.02128) [ 1.07689]	1.705023 (1.90573) [ 0.89468]

The VECM result of the model in table 4.2 showed that the error correction from the Human Development Index is appropriately signed with a negative coefficient value of -0.112835. This showed that about 11.28% disequilibrium in the short run is adjusted every year by changes in the explanatory variables of the model.

### F-Statistics

**Table 4.3 Summary of the F-Statistics in the VECM**

Variables	Coefficient	F- statistics	F-critical	Decision
CIT	-0.006340	4.771064	2.530	Significant
EDT	-0.013729	2.721464	2.530	Significant
PPT	-0.006564	0.806676	2.530	Insignificant

Table 4.3 above showed the summary of the F- test of for each the variable in the model. The test examines the impact of the explanatory variables on the Human Development Index. If the F-statistics is greater than the F-critical value of 2.530 at 5% level of significance, we reject the null hypothesis ( $H_0$ ) and conclude that the variables in the equation have impact on the dependent variable.

Results of table 4.3 showed that Company Income Tax in the model has an F-statistics value of 4.771064 which is greater than F-critical value of 2.530 at 5% level of significance. (F-stat: 4.771064 > F-critical: 2.530). We reject the null hypothesis ( $H_0$ ) and conclude that there is a significant effect of Company Income Tax on Human Development Index for the period in view.

Education Tax in the model has an F-statistics value of 2.721464. Analysis revealed that it is higher than F-critical value of 2.530 (F-stat 2.721464 > F-critical of 2.530). We therefor reject the null hypothesis two and conclude that there exists a significant effect of Tertiary Education Tax on the Human Development Index for the period in view.

Results of the table 4.3 showed that Petroleum Profit Tax in the model has an F-statistics value of 0.806676 which is lower than F-critical value of 2.530 at 5% level of significance. (F-stat: 0.806676 < F-critical: 2.530). We accept the null hypothesis three ( $H_3$ ) and conclude

that there is an insignificant effect of Petroleum Profit Tax on Human Development Index for the period in view

### **Diagnostics Test**

**Table 4.4 VEC Serial correlation LM Test Table**

Equation	F-stat	Prob.	Remark
HDI= f (CIT, TEDT PPT),	1.309193	0.3414	Accept null hypothesis

Null hypothesis: No serial correlation

Results of the diagnostic tests are presented in table 4.4, the Serial correlation test was conducted using VEC Serial correlation LM. The study reveal that the model passes the diagnostics tests against serial correlation functional form misspecification, this is considering the fact that the probability values 0.3414 of the F-statistics is higher than, 5%. Thus, the stated null hypothesis of no serial correlation is accepted.

### **DISCUSSION OF FINDINGS**

The study examined impact of three corporate tax revenue sources, Company Income Tax and Tertiary Education Tax and Petroleum Profit Tax on economic performance for the period 2000-2022. Economic performance in the current study is proxied by the Human Development Index. Highly developed countries are indexed at 0.80 in the Human Development Index category, currently Nigeria Human Development Index stands at 0.53, improved tax revenue performance is vital to the emerging economies including Nigeria.

Company Income Tax in the model had significant effect on the HDI. The finding is in consonance with Folajimi and Fakile (2011), whose research empirically revealed significant relationship between Company Income Tax and Nigerian Economic development. Also, Peter, Musa and Emmanuel (2019), Osho, Omotayo and Ayorinde (2018) in their research revealed that Company Income Tax had significant influence on Nigerian economic performance as proxied by the Gross Domestic Product. However, the finding of Akeem, Kehinde and Benjamin (2018) on empirical study of three tax revenues sources revealed that VAT revenue significantly impacted on GDP, while revenue from Company Income Tax and Custom and Excise Duty had no significant impact on economic growth in Nigeria for the period in view

Findings further revealed that Education Tax in the model had significant effect on the HDI. The most important index that measures the performance of service is revenue collection. It has been an enduring debate that education is pivotal to national development. Ordu and Nkwoji (2019) examined the impact of education tax revenue on economic development of Nigeria. Their findings indicated that tax education and tax revenue had significant impact on economic development and which posits that Education Tax revenue is crucial aspect of government funding needed for economic developmental purposes. Also, Olufunso and Oluwatobi (2022) is of the view that education is not only essential but a necessity for human advancement. Quality education is a cornerstone of national development. By investing in education, Nigeria is paving the way for a more prosperous and educated society, ultimately contributing to the nation's growth and development (Adedayo, 2023). To Erikume (2019),

based on the trends and predictions, it is virtually impossible that a company will be able to manage its tax affairs without any dispute with the tax authorities.

Findings further revealed that Petroleum Profit Tax had an insignificant effect on the Nigerian Human Development Index for the period in view which led to acceptance of the null hypothesis three. The finding is in consonance with Wonders and Mohamed (2021) who revealed that PPT has not significant relationship on Per Capita Income and employment to effect economic performance. In their study they concluded that given high levels of oil price stability and production boom, Petroleum Profit Tax might not significantly contribute to per capita income and the employment rate for economic growth. Notably the findings of Adegbe and Fakile (2011) revealed that Petroleum Profit Tax is significantly related to Nigerian economic development in Nigeria, accordingly they stated that Petroleum Profit Tax is a major source of government revenue. Also, Miftahu and Habiba (2022) pointed that low performance of Petroleum Profit Tax is attributable to OPEC production/sales quota as well as continuous drop in crude oil prices at the international market over a decade now which is impacting negatively on the profits subject to tax of the oil companies operating in Nigeria. However given the dwindling revenue from petroleum related sources, the government should embark on the strategic pursuit of broadening the economy with the view to enhancing economic growth and development through widening the tax revenue bases of other sources in Nigeria.

### **Conclusion**

The study concludes that Corporate Income Tax is a strong economic tool in any developing country like Nigeria in terms of generating revenue for economic development, Company Income Tax and Education Tax have significantly affected the Human Development Index to spur economic development in Nigeria over the period in view while Petroleum Profit Tax did not. To accelerate national development in the three basic dimensions of Human Development Index, which include long and healthy life, access to knowledge and a decent standard of living, corporate income tax revenue performance is vital.

### **Recommendations**

1. Revenue agencies should effectively devise procedures for the collection of Company Income Tax and also ensure that they capture all companies in the tax net to boost government revenue for economic performance.
2. Revenue agencies should as well ensure timely payment of Education Tax and Company Income Tax for effective economic performance.
3. Given the dwindling revenue from petroleum related sources, activities of petroleum corporations should be promoted in such a way that its tax incentives will boost its performance on tax revenue for economic performance.

### **Contribution to Knowledge**

The current research add marginally to the existing pool of knowledge, key issues covered are how corporate taxes affect economic performance as measured by the Human Development Index. It will widen the knowledge of the society that tax is pivotal to national development, further the research draws conclusions that are relevant for tax policy implementation. Taxation theorists adopted in the present study expands the existing knowledge of the general public that tax is related to economic growth and development and also the research serves as a source of

reference for research purposes. Researchers in the field will be exposed to other related areas not yet covered and stand to benefit immensely from the research design and statistical analysis that formed part of the study with view of carry out researches on the areas not covered in the present study.

## REFERENCES

- Adedayo, A. (2023). *Education Tax in Nigeria: Investing in a brighter future*. Retrieved from [linkedin.com/pulse/edu](https://www.linkedin.com/pulse/edu)
- Adegbe, F. F., & Fakile, A. S. (2011). *Petroleum Profit Tax and Nigerian economic development*. *International Journal of Research in Computer and Management*, 1(1), 11-18. Retrieved from [www.ijrcm.org](http://www.ijrcm.org)
- Asuquo, R. G. (2012). *Tax system in Nigeria: Issues and challenges*. *Gauge quarterly publication of the FIRS*, April-June. ISSN: 2006-9677
- Ayeni, O. A., & Cordelia, O. O. (2022). *Effect of tax revenue on economic growth*. *Cogent Business and Management*. <https://doi.org/>
- Caroline, N., & Oliver, I. (2016). *Effect of Corporate and Tertiary Education Tax on Nigeria Economic Growth*. *Journal of Account and Financial Management Journal*, 1(7), 414-425. Retrieved from [www.researchgate.net](http://www.researchgate.net)
- Company Income Tax Act (CITA 2007). *Company Income Tax Act, Chapter C21*. Retrieved from [www.firs.gov.ng](http://www.firs.gov.ng)
- Erikume, K. (PwC, 2019). *Nigerian tax predictions for 2019*. Retrieved from [www.pwc.com](http://www.pwc.com)
- Finance Act (2019). *Significant changes to Nigerian tax landscape*. Retrieved from <http://firs.gov.ng/financeact>
- Folamiji, F. A., & Fakile, A. S. (2011). *Company Income Tax and economic development*. Retrieved from [www.researchgate.net](http://www.researchgate.net)
- Heerden, V. Y. (2013). *Personal Income Tax reform to secure the South Africa revenue base* (Ph.D. dissertation). University of Pretoria, Faculty of Economics and Management Science. Retrieved from <http://repository.up.ac.za>
- Khadijat, A. Y., & Taophic, O. B. (2018). *Effect of Petroleum Profit Tax and Companies Income Tax on economic growth in Nigeria*. *Journal of Public Administration, Finance and Law*, 100-121.
- Kolade, T., & Ajogbor, P. (2019). *Nigerian unchanging tax to GDP Ratio: An instructive guide*. *Andersen tax digest*. Retrieved from [Andersen.Tax.ng](http://Andersen.Tax.ng)
- Katarzyna, B., Evgeniya, D., & Petr, J. (2022). *Fiscal consequences of corporation tax avoidance*. *WIDER Working Papers*, 97/2022. <https://doi.org/>

- Ierkwagh, K. Tijah, A. (2020). *An overview of Corporate taxation and economic development in Nigeria: A Legal Approach. International Journal of Crime, Law and Social Issues, Forthcoming* 6(5), 41-48. <https://ssrn.com/abstract>
- Lyndon, M. E., & Paymaster, F. B. (2016). *The impact of Company Income Tax and Value-Added Tax on economic growth: evidence from Nigeria. European Journal of Accounting, Auditing and Finance Research*, 7(7), 106-112. Retrieved from [www.eajournals.org](http://www.eajournals.org)
- Miftahu, I., & Habiba, A. B. (2022). *Effects of Petroleum Profit Tax and Company Income Tax on economic growth in Nigeria. Jalingo Journal of Social and Management Sciences*, 4(2), 314-327. Retrieved from [researchgate.net](http://researchgate.net)
- Mohamed, U. D., Ndace, M., & Shettima, A. (2022). *Challenges of corporate income tax administration in Nigeria. International Journal of Management Science and Entrepreneurship*, 19(7), 281-296. <https://www.cambridge>
- Okafor, R. G. (2012). *Tax revenue generation and Nigerian economic development. European Journal of Business and Management*, 4(19). Retrieved from [www.iiste.org](http://www.iiste.org)
- Okarfor, R., & Akwu, O. D. (2015). *Comparative analysis of income tax burden on the income arising from incorporated company and sole proprietorship business in Nigeria. ICAN Journal of Accounting and Finance (IJAF)*, X.
- Oladosu, R. (2021). *Supporting tertiary education through increased taxation*. Retrieved from [www.premiumtimes.ng.com](http://www.premiumtimes.ng.com)
- Ordu, P. A., & Nkwoji, N. O. (2019). *Impact of Education Tax on economic development. International Journal of Innovative Development and Policy Studies*, 7(3), 1-17. Retrieved from [www.seahipaj.org/](http://www.seahipaj.org/)
- Osho, A. E., Omotayo, A. D. A., & Florence, M. (2018). *Impact of Company Income Tax on gross domestic products in Nigeria. Research Journal of Finance and Accounting*, 9(24), 105-115. Retrieved from [www.iiste.org](http://www.iiste.org)
- Patrick, P., & João, T. J. (2020). *Race to the next income frontier: How Senegal and other low-income countries can reach the finish line*. Retrieved from <https://www.elibrary.imf.org>imf07l>.
- Pibowei, W. E., & Marei, M. (2021). *The Impact of Petroleum Profit Taxes on economic growth in Nigeria*. <http://dx.doi.org>
- Peter, O. I., Musa, A. A., & Emmanuel, O. G. (2019). *Company Income Tax And Nigerian Economic Growth. Journal of Taxation and Economic Development*, 18(1), 72-83. Chartered Institute of Taxation of Nigeria.
- Tejvan, P. (2019). *Explaining theories of economic growth*. Retrieved from <https://www.economicshelp>.

Tertiary Education Trust Fund Act (2011). *Federal Republic of Nigeria Official Gazette, Act No 16.* FGP/00/82011//1200

United Nations Development Programme UNDP. (2022). *Human development 2021 statistical update.* Retrieved from <http://hdr.undp.org/>

Woodruff, J. (2018). *Indicators of economic development.* Retrieved from <http://bizflint.com/info>

Worldwide tax summaries (PwC, 2024). *Nigeria taxes of corporate income.* Retrieved from [taxsummariespwc.com](http://taxsummariespwc.com)

## Appendixes

### Table of Analysis

YEAR	CIT (In billions of naira)	EDT (In billions of naira)	HDI (In billions of naira)	PPT (In billions of naira)
2000	51.1	7500		525.1
2001	68.7	162.00		639-2
2002	89.1	103.00		496.3
2003	114.8	0	0.45	683.5
2004	113	0	0.452	1183.5
2005	140.3	218	0.469	1352.2
2006	246.7	284	0.46	1352.5
2007	332.4	596	0.45	1132
2008	420.6	595	0.452	2060.9
2009	600.6	139.5	0.469	939.9
2010	666.05	891.8	0.477	1480.36
2011	715.44	130.74	0.48	3070.59
2012	816.51	188.435	0.484	3201.31
2013	963.55	279.359	0.484	2666.36
2014	1180	189.613	0.482	2453.94
2015	1229.018	199.824	0.492	1289.96
2016	933.53	130.12	0.499	1157.8
2017	17121.56	154.95	0.506	1520.48
2018	371.31	579.9	0.514	2467.58
2019	1604.69	221.0558	0.516	2114.26
2020	1275.38	259.5634	0.521	1516.993
2021	1747.99	189.54	0.532	2008.45
2022	2649.911	328.6744	0.538	4209.02

Vector Error Correction Estimates

Date: 01/01/80 Time: 00:28

Sample (adjusted): 2007 2022

Included observations: 16 after adjustments

Standard errors in ( ) & t-statistics in [ ]

Cointegrating Eq:	CointEq1			
HDI(-1)	1.000000			
CIT(-1)	-0.148096 (0.02081) [-7.11618]			
EDT(-1)	-0.192377 (0.03758) [-5.11849]			
PPT(-1)	-0.027692 (0.03704) [-0.74762]			
C	3.003537			
Error Correction:	D(HDI)	D(CIT)	D(EDT)	D(PPT)
CointEq1	-0.112835 (0.04178) [-2.70086]	7.455758 (3.47671) [ 2.14448]	3.253597 (3.02128) [ 1.07689]	1.705023 (1.90573) [ 0.89468]
D(HDI(-1))	0.193263 (0.20265) [ 0.95368]	-4.705018 (16.8644) [-0.27899]	6.120084 (14.6552) [ 0.41760]	15.15593 (9.24410) [ 1.63952]
D(CIT(-1))	-0.006340 (0.00355) [-1.78621]	-0.324512 (0.29536) [-1.09870]	0.400953 (0.25667) [ 1.56214]	0.219433 (0.16190) [ 1.35538]
D(EDT(-1))	-0.013729 (0.00529) [-2.59309]	0.398588 (0.44059) [ 0.90466]	-0.153390 (0.38288) [-0.40063]	0.344944 (0.24151) [ 1.42830]
D(PPT(-1))	-0.006564 (0.00767)	0.276152 (0.63871)	-0.297464 (0.55504)	0.105739 (0.35010)



	[-0.85520]	[ 0.43236]	[-0.53593]	[ 0.30202]
C	0.009309 (0.00325) [ 2.86201]	0.233262 (0.27067) [ 0.86179]	-0.096277 (0.23521) [-0.40932]	-0.082629 (0.14837) [-0.55693]
R-squared	0.557163	0.704625	0.576403	0.287413
Adj. R-squared	0.335744	0.556938	0.364604	-0.068880
Sum sq. resids	0.001096	7.592735	5.733786	2.281311
S.E. equation	0.010471	0.871363	0.757218	0.477631
F-statistic	2.516331	4.771064	2.721464	0.806676
Log likelihood	54.00391	-16.73984	-14.49331	-7.120308
Akaike AIC	-6.000489	2.842480	2.561664	1.640039