

**TAX SYSTEM AND ECONOMIC GROWTH**

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## DECLARATION

I, OSARENKHOE IMUWAHEN CHRISTY declare that

- i. This study is based on a study undertaken by me in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, under the supervision of Mrs D.E Ken-Otokiti
- ii. This work has not been submitted for the award of degree elsewhere.
- iii. Ideas and views are product of my personal research and where the view of others has been expressed, they have been duly acknowledged
- iv. Any liability arising from this work is to be wholly borne by me alone

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OSARENKHOE IMUWAHEN CHRISTY  
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Date

## CERTIFICATION

This is to certify that this work was carried out by **OSARENKHOE IMUWAHEN  
CHRISTY**

in the Department of Accounting, University of Benin, Benin City, under the  
supervision.

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## **DEDICATION**

I want to sincerely dedicate the research work to Almighty God without whom the success of the work would not have been possible and to the memory of my late father, Mr Joseph Orobosa Osarenkhoe, A worthy father

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I want to sincerely appreciate the Almighty God for his mercy, grace, guidance, benevolence and sustenance throughout his study in the Prestigious University of Benin.

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## ABSTRACT

*This study focused on investigates the relationship between tax system and economic growth using the population of tax payers in Benin city as case study for the study. The main objective of this study is to investigate the relationship between tax system and economic growth. The specific objectives are to investigate the relationship between tax laws, enforcements, administration, taxpayer education and economic growth. The descriptive survey design was used in this study to obtain facts about the study and to draw a valid general conclusion from the facts discovered. The population of the study consisted of tax payers residing in Benin City. The sample size was determined using a purposive sampling technique to select 300 respondents representing tax payers in Benin City.*

*The findings reveal that there is a significant relationship between tax laws, tax enforcement, tax administration, tax payer education and Economic Growth*

*In light of these findings the study recommends that government should improve the efficiency and transparency of tax collection agencies in Benin City by adopting modern technologies such as e-taxation systems to reduce leakages, corruption, and bureaucratic bottlenecks. Also efforts should be made to capture the informal sector into the tax net through simplified tax procedures, awareness campaigns, and incentives that encourage voluntary compliance.*

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the study**

An effective tax system is a critical factor in achieving sustainable economic growth, particularly in developing countries like Nigeria. The interplay between tax system and economic growth is significant as it influences government revenue, public service delivery, and overall economic development. In Nigeria, where reliance on oil revenue has historically dominated the economy, the diversification of revenue sources through improved tax system is essential for sustainable growth. Tax revenues provide the necessary funds for public goods and services, infrastructure development, and poverty alleviation initiatives. However, low levels of tax system hinder these efforts, leading to underfunded government budgets and poor public service delivery (Adeyemi & Adebayo, 2021).

Economic growth in Nigeria has been affected by the informal economy, which is characterized by minimal tax system. The informal sector, which employs a significant portion of the workforce, often operates outside the formal tax system and presents challenges to tax authorities (Sulaiman, 2021). Integrating this sector into the tax system

could substantially increase tax revenue and improve system rates (World Bank, 2022). The implications of low tax system for economic growth are profound. Tax revenue is essential for funding public goods and services, which in turn stimulate economic activity and development. According to the International Monetary Fund (IMF, 2019), increasing tax system could significantly enhance Nigeria's fiscal space, allowing for increased public investment and improved economic outcomes. Moreover, a robust tax system can foster a more equitable distribution of resources, contributing to social stability and long-term growth (Ogunleye, 2021). To enhance tax system and stimulate economic growth, policymakers in Nigeria must address the underlying issues contributing to non-system. This includes simplifying the tax system, improving taxpayer education, and strengthening the integrity of tax administration (Afolabi, 2019). Additionally, fostering a culture of system through public awareness campaigns and enhancing the perceived fairness of the tax system can encourage voluntary system (Nwachukwu & Nwankwo, 2021).

According to the World Bank (2022), Nigeria's GDP growth has shown signs of recovery post-COVID-19, but the sustainability of this growth is contingent on diversifying the economy and enhancing the tax base. The role of effective tax system in stabilizing the economy cannot be overstated. Increased revenue from taxes could lead to significant investments in key sectors, such as infrastructure and healthcare, fostering a more

resilient economy (Aremu, 2020). Research also indicates that multiple factors influence tax system in Nigeria, including socio-economic conditions, cultural attitudes towards taxation, and the effectiveness of tax administration systems. According to Okafor (2020), socio-economic factors such as income levels, education, and awareness of tax obligations play a vital role in influencing individuals' willingness to comply with tax laws. Moreover, the role of effective tax administration cannot be overstated. The Nigerian tax system has faced challenges like corruption, inefficiency, and a lack of taxpayer education, which adversely affect system rates (Ogunleye, 2019). A study by Alabede (2019) suggests that improving tax administration and increasing taxpayer education can significantly enhance system levels.

Nigeria, as Africa's largest economy, has significant potential for growth, yet it faces numerous challenges, including a high level of informal economic activity, widespread tax evasion, and a complex tax system. According to the World Bank (2020), Nigeria's tax-to-GDP ratio remains one of the lowest in the world, indicating a substantial gap in tax revenue generation. This low system rate hampers the government's ability to invest in infrastructure, education, and healthcare, which are vital for sustainable economic growth (Afolabi, 2019). Several factors contribute to low tax system in Nigeria. They include a lack of trust in government institutions, perceived corruption, and inadequate enforcement of tax laws (Ogunleye, 2021). The Nigerian tax system is often viewed as

burdensome and complex, leading to taxpayer resistance and non-system (Ojo, 2020). Furthermore, the informal sector, which constitutes a significant portion of the Nigerian economy, often operates outside the tax net, exacerbating the system issue (Nwachukwu & Nwankwo, 2021).

Despite the importance of tax system for economic growth, several challenges persist in the Nigerian tax system. Corruption and a lack of trust in government institutions diminish the willingness of taxpayers to comply (Olufisayo & Abiola, 2019). Additionally, the complexity of tax regulations, coupled with insufficient tax education among the populace, has resulted in low system rates, particularly among small and medium-sized enterprises (SMEs) (Mbah & Okoli, 2021). To address these challenges, the Nigerian government has introduced various reforms aimed at improving tax administration and system. Initiatives such as the Voluntary Assets and Income Declaration Scheme (VAIDS) and efforts to enhance taxpayer education are critical components of these reforms. The effectiveness of such reforms in improving system and, by extension, fostering economic growth remains a subject of inquiry that this study will address. The relationship between taxation and economic growth is multifaceted. On the one hand, taxation provides governments with the necessary funds to invest in public goods such as infrastructure, education, and healthcare. According to the National Bureau of Statistics (NBS) report (2021), increased public spending supported by tax revenues

has been linked to improvements in economic growth indicators in Nigeria. On the other hand, high tax rates or burdensome system requirements can discourage investment and productivity, potentially stunting economic growth (Akintoye , 2020). Therefore, achieving a balance between adequate taxation and economic incentives is crucial for fostering sustainable growth in Nigeria.

This study emphasizes the interconnectedness of tax system and economic growth in Nigeria. Understanding the dynamics of tax system within the context of economic growth is critical for policymakers aiming to enhance revenue generation and foster sustainable development. This study will contribute to existing literature by examining the determinants of tax system and their implications for economic growth in Nigeria, providing insights into effective tax policy formulation.

## **1.2 Statement of the Research Problem**

Tax system plays a critical role in enhancing economic growth by providing essential revenue for government spending on public goods and services. In Nigeria, despite having a wealth of natural resources, the country faces significant challenges in achieving optimal tax system, which adversely affects its economic growth. According to the World Bank (2021), Nigeria's tax-to-GDP ratio remains one of the lowest in the world, indicating a substantial gap in revenue collection that could support necessary infrastructure and social services.

The complexity of the Nigerian tax system which arises from a multitude of factors, including a mix of federal, state, and local taxation, numerous tax incentives and exemptions, and the interplay between formal and informal sectors, coupled with issues such as corruption, lack of public trust in governmental institutions, and inadequate taxpayer education, significantly hampers system rates (Ariyo, 2018; Oladipupo & Obazee, 2017). For instance, a study by Kedir (2020) indicates that the perceived burden of taxation and concerns about the effective use of tax revenues further discourage individuals and businesses from fulfilling their tax obligations. Moreover, the informal sector constitutes a large segment of the Nigerian economy, contributing to a lower overall tax system rate and impacting government revenue (NBS, 2021).

Additionally, the relationship between tax system and economic growth in Nigeria is a broad topic that has been explored by several studies. Understanding this relationship is crucial for policymakers aiming to enhance tax system and, consequently, stimulate economic growth. Therefore, this research seeks to investigate the factors influencing tax system in Nigeria and their implications for economic growth, addressing the recent gap in the existing literature and providing actionable insights for improving tax policy and administration.

### **1.3 Research Questions**

The following research questions were formulated by the researcher to aid in the completion of the study

1. What is the relationship between tax laws and economic growth?
2. What is the relationship between tax enforcement and economic growth?
3. What is the relationship between tax administration and economic growth?
4. What is the relationship between taxpayer education and economic growth?

### **1.4 Objectives of the Study**

The broad objective of the study is to examine the relationship between the challenges of tax system and the implications of financial reporting in Nigeria. However the specific objectives are

1. Investigate the relationship between tax laws and economic growth ;
2. Examine the relationship between tax enforcement and economic growth;
3. Determine the relationship between tax administration and economic growth;
4. Evaluate the relationship between taxpayer education and economic growth.

## **1.5 Research Hypothesis**

The following research hypothesis were formulated by the researcher to aid in the completion of the study

Ho1: There is no significant relationship between tax laws and economic growth

Ho2: There is no significant relationship between tax enforcement and economic growth

Ho3: There is no significant relationship between tax administration and economic growth

Ho4: There is no significant relationship between taxpayer education and economic growth

## **1.6 Scope of the Study**

The main objective of the study is to investigate the relationship between challenges of tax system and economic growth. The study shall mainly focus on tax payers in Ovia North East. This study makes use of a primary data as an instrument for the research. This data will be gathered with the aid of a well-structured questionnaire which will be duly distributed to tax payers located in Ovia North East, in Edo state.

## **1.7 Significance of the study**

The significance of studying tax system and economic growth in Nigeria is multifaceted, impacting various stakeholders including the policy makers, future researchers and the general public.

The study can provide insights into the effectiveness of current tax policies and the challenges faced by taxpayers. This information is essential for formulating policies that enhance system and, consequently, economic growth.

This study can also inform policymakers about the effectiveness of current tax systems and the need for reforms that enhance system and promote economic development. The study can uncover the factors influencing tax system, such as cultural attitudes, trust in government, and perceived fairness of the tax system. This knowledge can help design better tax systems that encourage system. The findings can guide educational initiatives aimed at improving taxpayer awareness and understanding of tax obligations, ultimately leading to higher system rates.

The study can shed light on issues of equity in the tax system. This is particularly relevant in Nigeria, where disparities exist. Research can help identify ways to create a more equitable tax system that supports economic growth. The study will provide

insights into how to integrate informal businesses into the formal tax system, thereby broadening the tax base and enhancing economic growth.

The study helps in understanding how global economic trends affect tax system can help researchers analyze Nigeria's position in the global economy and its implications for growth. The findings can lead to actionable recommendations for government agencies, NGOs, and international organizations working to improve tax systems and promote economic growth. Also insights from the study can inform training programs for tax officials and policymakers, enhancing their capacity to implement effective tax policies.

The study provides insights into the factors that influence taxpayer behavior, such as trust in government, perceived fairness of the tax system, and the effectiveness of tax administration. Policymakers can also design targeted interventions to improve system rates, such as educational campaigns, simplified tax processes, and enhanced taxpayer services. The findings can inform policymakers about the effectiveness of current tax policies and the need for reforms, ensuring that policies are based on empirical evidence.

The study can help in developing better monitoring and evaluation frameworks for tax policies, ensuring they meet their intended goals. Also understanding the study can help develop strategies to bring these businesses into the formal tax system, broadening the tax base.

## **1.8 Limitation of the study**

The limitation of the study includes:

Financial Constraint:

The heavy finances involved in logistics of acquiring data plus limited availability of funds to purchase equipment, materials and other costs puts a heavy financial strain on my attempt to investigate and carry out the research. Additionally challenges in purchasing and securing grants in order to fund the research. These are the financial limitations encountered during the period of investigating this research.

Time:

The research involved collection of data from different sources which had to be subjected to different analysis which took a lot of time.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The study examines the relationship between tax system and economic growth this chapter defines the relevant variables (independent and dependent variable variable), Also this chapter reviews the literature on the relationship between variables, Additionally the chapter also reviews previous studies based on the topic, the chapter also reviews relevant theories and draft the theoretical framework for the study.

#### **2.2 Economic Growth**

Economic growth is a critical indicator of a country's development and prosperity. In Nigeria, the largest economy in Africa, economic growth has been a focal point of policy and academic discourse. Nigeria's economic growth has been characterized by periods of boom and bust, largely driven by fluctuations in oil prices. The oil sector has been the dominant driver of growth since the 1970s, contributing significantly to the country's GDP. However, this reliance on oil has led to economic volatility and hindered diversification efforts (Adenikinju, 2019). In the early 2000s, Nigeria implemented economic reforms, including the National Economic Empowerment and Development Strategy (NEEDS), aimed at fostering growth and reducing poverty. These reforms led to

a period of sustained growth, with GDP growth averaging around 7% annually between 2003 and 2008 (Soludo, 2021). However, the global financial crisis in 2008 and subsequent oil price shocks disrupted this growth trajectory.

Several factors have been identified as key drivers of economic growth in Nigeria. These includes the oil and gas sector which remains the primary engine of growth, accounting for a significant portion of government revenue and export earnings. However, its dominance has led to the "resource curse," where reliance on oil revenues stifles other sectors' growth (Sala-i-Martin & Subramanian, 2021), Additionally despite its potential, the agricultural sector has been underdeveloped, contributing less to GDP than it could. Efforts to revitalize agriculture have been part of recent growth strategies, aiming to increase productivity and reduce import dependency (Ogundari & Bolarinwa, 2018). Furthermore investment in infrastructure, such as roads, power, and telecommunications, is crucial for sustained economic growth. Nigeria has faced significant challenges in this area, with inadequate infrastructure hampering overall economic performance (Estache , 2020). Also Education and health are vital for long-term economic growth. Nigeria's human capital development has been uneven, with significant disparities in access to quality education and healthcare services (World Bank, 2019). Finally effective institutions and good governance are essential for economic growth. Nigeria has

struggled with corruption and weak institutions, which have undermined economic performance (Transparency International, 2020).

Nigeria faces numerous challenges in sustaining and enhancing economic growth which includes diversification which means reducing dependence on oil and promoting other sectors, such as manufacturing and services, is crucial for sustainable growth. Policies aimed at diversification have been proposed, but implementation remains a challenge (Oyejide & Bankole, 2021). Also maintaining macroeconomic stability, including controlling inflation and managing public debt, is essential for fostering a conducive environment for growth (Central Bank of Nigeria, 2021). Furthermore ensuring that economic growth benefits all segments of society is a significant challenge. High levels of poverty and inequality have persisted, necessitating policies focused on inclusive growth (UNDP, 2020). Finally Nigeria must address the environmental impact of economic activities, particularly in the oil sector. Sustainable growth policies that consider climate change are increasingly important (UNEP, 2019).

### **2.2.1 Gross Domestic Product**

Gross Domestic Product (GDP) is a critical indicator of economic performance and growth, representing the total monetary value of all goods and services produced within a country's borders over a specific time period. In the context of Nigeria, a comprehensive conceptual review of GDP involves understanding its significance, the methodologies

used for its calculation, trends over time, challenges faced in data collection and interpretation, and the implications for economic policy and development. GDP can be calculated using three main approaches: the production approach, the income approach, and the expenditure approach. The production approach sums the value added at each stage of production, while the income approach aggregates incomes earned by residents in the production of goods and services. The expenditure approach, which is often the most utilized, calculates GDP by summing consumption, investment, government spending, and net exports.

In Nigeria, GDP serves as a key indicator for policymakers and investors. It reflects the size and health of the economy and influences decisions related to fiscal policy, investment strategies, and international negotiations. Understanding GDP trends aids in forecasting economic growth and preparing for potential economic downturns (Central Bank of Nigeria, 2021). Nigeria has experienced significant fluctuations in GDP growth over the years, influenced by various factors including oil prices, inflation, and political stability. The economy is heavily reliant on crude oil, accounting for a substantial portion of GDP and government revenue. According to the World Bank (2022), Nigeria's GDP growth rate recovered after the recession in 2016, with growth recorded at 3.4% in 2021, reflecting a post-pandemic recovery.

Despite its importance, there are challenges in accurately calculating Nigeria's GDP. Such challenges includes inconsistent data collection methods, particularly in informal sectors (Oputu, 2020). Furthermore as Nigeria strives to diversify its economy beyond oil, accurately capturing contributions from various sectors proves complex (IMF, 2021). Additionally high inflation rates can distort GDP figures, necessitating adjustments and careful interpretation (National Bureau of Statistics, 2022). The insights provided by GDP figures have profound implications for economic policies. Policymakers rely on GDP data to formulate fiscal and monetary policies that aim to stimulate growth and control inflation. For instance, recent efforts in Nigeria have focused on improving agricultural output and enhancing industrial capabilities to reduce the reliance on oil (Federal Ministry of Finance, 2021).

### **2.2.2 Inflation Rate**

Inflation, defined as the rate of increase in prices over a period, significantly impacts economic stability and growth. In Nigeria, inflation is a persistent concern that affects purchasing power, savings, and overall economic well-being. Understanding the dynamics of inflation within the Nigerian context is essential for policymakers, businesses, and consumers. Inflation can be quantified through various indices, the most common being the Consumer Price Index (CPI), which measures the average change over time in the prices paid by urban consumers for a market basket of consumer goods and

services (National Bureau of Statistics [NBS], 2023). A positive inflation rate indicates a rise in average prices, whereas a negative rate signifies deflation, which can also have detrimental economic effects.

Several factors drive inflation in Nigeria, which includes demand-pull inflation which occurs when demand for goods and services exceeds supply, leading to price increases. Rapid population growth and increasing consumer income can fuel demand-pull inflation in Nigeria, especially in developing sectors (Ogunleye, 2020). Additionally cost-push inflation which arises when the costs of production increase, prompting producers to raise prices to maintain profit margins. Factors contributing to cost-push inflation in Nigeria include rising energy costs, particularly from fuel and electricity shortages, and imported inflation due to fluctuations in exchange rates (Adeleke, 2021). Additionally excessive money supply in relation to the goods available can lead to inflation. The Central Bank of Nigeria (CBN) employs various monetary policies to control inflation, including interest rate adjustments and open market operations (Ojo & Ojo, 2022).

Inflation has wide-ranging effects that can significantly influence economic dynamics and these are purchasing power which means consumers can buy fewer goods and services for the same amount of money. This is particularly acute for low-income households, as they tend to allocate a larger share of their income to essential goods (Obaseki, 2019). Also high inflation rates can deter investment due to uncertainty about

future costs and profitability. Investors seek stable economic environments, so persistent inflation can lead to reduced foreign and domestic investments (Afolabi & Oloyode, 2021). Furthermore as prices increase, workers demand higher wages to maintain their standard of living. This can lead to a wage-price spiral, where increased wages lead to higher production costs, prompting further inflation (Adeniyi, 2020).

The response of the Nigerian government and the CBN to inflation requires a careful balance between stimulating economic growth and controlling price levels. And these are the fact that the CBN often adjusts interest rates in response to inflationary pressures. Increasing interest rates can help to curb inflation by reducing the money supply and slowing economic activity (Ojo & Ojo, 2022). Furthermore the Nigerian government has implemented various fiscal policies aimed at reducing inflation. These include adjustments in taxation, public spending, and targeting subsidies on essential commodities to alleviate the cost of living for citizens (Ogundipe, 2020). Also improving production efficiency and supply chain management can alleviate cost-push inflation. Investments in infrastructure, energy production, and technology are crucial for enhancing productivity in the Nigerian economy (Ijeoma & Okeke, 2021).

As of late 2023, Nigeria has been grappling with elevated inflation rates, primarily due to global economic factors, internal challenges, and the aftermath of the COVID-19 pandemic. Consumers are facing increasing prices for staples and essential goods, which

has intensified the debate on effective policy measures to stabilize the economy (NBS, 2023).

### **2.2.3 Business Confidence Index**

The Business Confidence Index (BCI) is a critical economic indicator that reflects the optimism or pessimism of business leaders regarding the economic environment and their own business prospects. In Nigeria, the BCI serves as a vital tool for policymakers, investors, and economists to gauge the health of the economy and make informed decisions. The Business Confidence Index is typically derived from surveys conducted among business executives and entrepreneurs, assessing their expectations about future economic conditions, sales, employment, and investment. A higher BCI indicates greater confidence, suggesting that businesses are likely to invest, expand, and hire, which can lead to economic growth (Baker, 2019). In Nigeria, the BCI is particularly important due to the country's unique economic challenges, including fluctuating oil prices, inflation, and regulatory hurdles. Understanding the BCI can help stakeholders anticipate economic trends and make strategic decisions (Central Bank of Nigeria, 2020).

Several factors influence the BCI in Nigeria which includes economic indicators such as inflation rates, exchange rates, and GDP growth significantly impact business confidence. For instance, high inflation can erode purchasing power and deter investment (Ogunleye, 2019). Also political events, including elections and government policies, can create

uncertainty. A stable political environment tends to boost business confidence, while political turmoil can lead to pessimism (Adeleke & Ojo, 2021). Additionally the ease of doing business, including tax policies, trade regulations, and bureaucratic processes, directly affects business sentiment. Reforms aimed at improving the business climate can enhance the BCI (World Bank, 2020). Also as a country reliant on oil exports, global oil prices and economic conditions in major trading partners can significantly influence Nigeria's BCI. A downturn in global markets can lead to reduced demand for Nigerian exports, affecting business confidence (Oni & Adebayo, 2020).

In Nigeria, the BCI is often measured through surveys conducted by various institutions, including the Central Bank of Nigeria (CBN) and private sector organizations. These surveys typically ask business leaders about their expectations for sales, employment, and investment over the next six months. The responses are aggregated to create an index score, which can be tracked over time to identify trends (Central Bank of Nigeria, 2020).

The implications of the BCI are profound. A rising BCI can signal potential economic growth, prompting increased investment and hiring. Conversely, a declining BCI may indicate economic contraction, leading to reduced spending and potential layoffs (Adeleke & Ojo, 2021). Policymakers can use BCI trends to implement measures aimed at boosting confidence, such as fiscal stimulus or regulatory reforms.

### **2.3 Tax System**

Nigeria's tax system comprises various taxes, including personal income tax, corporate tax, value-added tax (VAT), payroll tax, and others. According to Adebayo and Akinyemi (2020), the multiplicity of tax laws and the overlapping authorities at the federal, state, and local levels create confusion for taxpayers and tax administrators. Economic theories emphasize that a well-structured tax system can enhance economic performance (Bahl, 2019). Compliance with tax regulations remains a major challenge in Nigeria. Adeyemi (2021) finds that high tax rates, coupled with poor tax administration, discourage voluntary compliance among taxpayers. Furthermore, Oladipupo and Obazee (2019) argue that the lack of public awareness regarding tax obligations and the perception of corruption within tax authorities significantly contribute to low compliance rates.

The integration of technology into tax administration has been posited as a solution to some of these challenges. According to Eze and Adebayo (2022), the adoption of digital tax platforms can streamline processes and reduce the costs of compliance. The Federal Inland Revenue Service (FIRS) has initiated various technology-driven projects aimed at improving tax collection and efficiency (Muhammed & Adebisi, 2021).

The tax system's efficacy has substantial implications for Nigeria's economic development. A report by the African Tax Administration Forum (ATAF, 2021) states

that enhancing tax revenue is crucial for funding infrastructure and social services, which in turn can stimulate economic growth. However, the current system's inefficiencies may impede these benefits (Nda, 2020).

### **2.3.1 Tax Laws**

Taxation in Nigeria is a crucial aspect of the nation's economic framework, governed by a complex landscape of laws and regulations. The tax system is designed to generate revenue for the government, ensure economic stability, and promote social welfare. The constitutional basis for taxation in Nigeria is derived from the 1999 Constitution of the Federal Republic of Nigeria, which outlines the powers of the Federation and the states regarding taxation.

Key legal instruments under the Nigerian tax laws include the companies income tax Act (CITA) 2004 this act governs the taxation of corporate profits and outlines the rules for corporate tax assessments (Federal Republic of Nigeria, 2004), Personal Income Tax Act (PITA) 2004 this covers the taxation of individual incomes, detailing assessments and regulations applicable to individuals (Federal Republic of Nigeria, 2004). Value Added Tax Act (VATA) 2004 which establishes the framework for value-added tax on goods and services (Federal Republic of Nigeria, 2004). Other Relevant Acts includes the Petroleum Profits Tax Act, Capital Gains Tax Act, and the Stamp Duty Act among others

(Federal Republic of Nigeria, 2004). Taxes in Nigeria can be broadly categorized into Direct and Indirect Taxes.

The administration of tax collection and enforcement in Nigeria is primarily managed by the Federal Inland Revenue Service (FIRS) and various State Boards of Internal Revenue (SBIRs). The FIRS is responsible for federal taxes while states manage their respective tax regimes. The tax administration framework comprises of assessment and collection which includes the tax procedures Act which governs how taxes are assessed, collected, and enforced. Additionally it is required for all tax-payable entities to enable tracking and compliance.

Despite a robust legal framework, Nigeria's tax system faces numerous challenges which are tax evasion and avoidance which undermines tax collection efforts. According to the International Monetary Fund (IMF, 2020), tax evasion remains high, particularly in informal sectors. Furthermore the intricate nature of tax laws can deter compliance. Many taxpayers lack the necessary understanding of their obligations (Nwogugu, 2019). Additionally corruption in tax administration affects the integrity of the tax system, leading to distrust among taxpayers (Transparency International, 2021). Also insufficient infrastructure and human resources hamper effective tax administration (World Bank, 2022).

In recent years, the Nigerian government has initiated reforms to improve tax collection and compliance, including introducing sweeping changes to various tax laws, aimed at enhancing revenue generation and compliance (Federal Republic of Nigeria, 2020). Also the adoption of digital platforms for tax collection and reporting has been prioritized to enhance efficiency and transparency (PWC Nigeria, 2021).

### **2.3.2 Tax Enforcement**

Tax enforcement in Nigeria is a critical component of the country's fiscal policy, aimed at enhancing revenue collection and ensuring compliance with tax laws. The Federal Inland Revenue Service (FIRS) and the State Boards of Internal Revenue are the primary authorities responsible for tax administration and enforcement. Nigeria's tax enforcement strategies include audits, penalties, legal proceedings, and the use of technology to monitor compliance. One of the significant challenges faced in Nigeria's tax enforcement framework is tax evasion, which undermines revenue collection and economic development. To address this, Nigeria has adopted various measures such as the use of electronic tax administration systems, data analytics, and strengthened legal provisions to curb evasion and improve compliance (Ogundele, 2018).

Legal enforcement mechanisms include the issuance of notices, penalties, and prosecution of defaulters. The Nigerian Tax Laws, including the Personal Income Tax Act, the Companies Income Tax Act, and the Value Added Tax Act, provide the legal

basis for enforcing tax laws and imposing sanctions on defaulters (Adebiyi & Oladipo, 2020). Despite these efforts, enforcement remains a challenge due to issues such as corruption, inadequate infrastructure, and resistance from taxpayers. Recent reforms have focused on enhancing transparency, digitalizing tax processes, and increasing taxpayer education to improve compliance (Ojo & Oladipo, 2021).

### **2.3.3 Tax Administration**

Tax administration in Nigeria encompasses the processes by which the government collects taxes, manages revenue, and ensures compliance with tax laws. With a growing economy and diverse revenue needs, efficient tax administration is crucial for sustainable national development. Nigeria's tax system consists of various taxes categorized into direct and indirect taxes. Direct taxes include income tax, corporate tax, and capital gains tax, while indirect taxes encompass value-added tax (VAT), excise duties, and customs duties (Federal Inland Revenue Service [FIRS], 2021). The FIRS, established by the Federal Inland Revenue Service (Establishment) Act of 2007, is the primary agency responsible for tax administration at the federal level, while state governments administer their own taxes, such as personal income tax (Ogunbanjo & Orji, 2020).

Several challenges affect tax administration in Nigeria, contributing to issues of compliance and revenue generation which is a significant portion of the economy operates in the informal sector, which is often untaxed. This limits the tax base and

reduces potential revenue for the government (Amu & Oladele, 2019). Additionally corruption within tax administration undermines compliance and contributes to a lack of public trust in the system. This includes bribery, embezzlement, and other forms of fraud that disrupt effective revenue collection (Iyiola & Adeyemi, 2020). Also the complexity of tax laws and regulatory frameworks can create confusion and compliance challenges for taxpayers. Frequent changes in tax legislation can also leave taxpayers uncertain (Ekeocha, 2021). Furthermore inadequate technological infrastructure hampers efficient tax collection and management. Manual processes can lead to errors and inefficiencies, making it difficult to track compliance and enforce tax laws (Afolabi & Ajibola, 2020). Also many citizens lack awareness of their tax obligations and the benefits of tax compliance, leading to apathy and resistance toward tax payments (Nwogboso, 2022).

To address these challenges, the Nigerian government has undertaken several reforms aimed at improving tax administration which is government introducing reforms such as the Tax Reforms Committee (TRC) and the National Tax Policy to streamline the tax system and enhance efficiency (Federal Ministry of Finance, 2021). Additionally the FIRS is increasingly embracing technology by implementing online tax payment systems, e-filing platforms, and automated tax administration solutions. This digital transformation aims to improve compliance and reduce tax evasion (FIRS, 2021). Also training programs for tax officials and taxpayers are essential for enhancing understanding of tax

laws and fostering a culture of compliance. These initiatives can empower tax officials to perform more effectively and improve taxpayer education (Iyiola & Adeyemi, 2020). Additionally campaigns aimed at informing citizens about the importance of taxes, their roles in national development, and the benefits of compliance can help improve participation in the tax system (Nwogboso, 2022). Also collaborating with businesses, professional bodies, and civil society organizations can facilitate discussions on tax reforms and encourage voluntary compliance. Stakeholder engagement can also provide insights into taxpayer challenges (Afolabi & Ajibola, 2020).

#### **2.3.4 Taxpayer Education**

Taxpayer education is a vital component of an effective tax administration system. In Nigeria, taxpayer education is particularly important given the challenges of low tax compliance, a large informal sector, and widespread misconceptions about taxation. The Federal Inland Revenue Service (FIRS) and other tax authorities have increasingly recognized the need for robust taxpayer education to foster voluntary compliance, increase revenue generation, and promote civic responsibility. Taxpayer education refers to strategies and programs aimed at increasing taxpayers' awareness, knowledge, and understanding of tax laws, rights, obligations, and procedures. Effective taxpayer education enables citizens to comply voluntarily with tax laws and contributes to the development of a tax-compliant culture (Bird & Zolt, 2022).

In Nigeria, taxpayer education is primarily spearheaded by the FIRS, State Boards of Internal Revenue (SBIRs), and the Joint Tax Board (JTB). Initiatives include workshops and seminars which are organized for stakeholders in different sectors to disseminate tax information. Also the use of radio, television, newspapers, and social media to reach a broad audience. Additionally efforts to include taxation topics in school curricula to inculcate tax values from a young age. Furthermore to simplify tax processes and educate users through digital means (FIRS, 2020).

Despite these efforts, several challenges hinder effective taxpayer education in Nigeria which include low Literacy levels which is a significant portion of the population may not fully grasp complex tax information (Olaoye & Ogundipe, 2020). Also mistrust in government, perceptions of corruption and lack of transparency reduce citizens' willingness to pay taxes (Oladipupo & Obazee, 2019). Furthermore limited budget allocations for outreach and educational programs. Also large informal sector with limited access to formal education channels (Adebisi & Gbegi, 2023).

To enhance the effectiveness of taxpayer education in Nigeria localization of content using local languages and culturally appropriate methods can improve understanding and reach, Additionally engaging professional bodies and civil society organizations can broaden outreach. Furthermore regular assessment of education programs to refine

strategies and measure success. Additionally providing incentives for compliance can reinforce the importance of taxation (Okoye & Ezejiolor, 2019).

## **2.4 Empirical Review**

Tax system and economic growth are critical areas of study in Nigeria, given the country's reliance on tax revenue for development and the challenges it faces in achieving high system rates. This review synthesizes empirical studies that explore the relationship between tax system and economic growth in Nigeria.

Adebisi and Gbegi (2022) conducted a study that highlighted the impact of tax education and awareness on system levels among small and medium enterprises (SMEs) in Nigeria. They found that increased awareness and understanding of tax obligations significantly improved system rates. This suggests that educational initiatives could play a crucial role in enhancing tax system.

Another study by Oseghale and Okwu (2019) examined the relationship between tax revenue and economic growth in Nigeria. They found a positive correlation, indicating that increased tax revenue contributes to economic growth. This relationship underscores the importance of effective tax system in enhancing government revenue, which can be reinvested into the economy.

Other studies have explored the direct relationship between tax system and economic growth in Nigeria. For instance, a study by Olatunji and Ojo (2020) utilized a time-series analysis to assess the impact of tax system on economic growth from 1990 to 2018. Their findings indicated that higher tax system rates lead to increased government revenue, which in turn fosters economic growth. They emphasized that improving tax system could significantly enhance the government's capacity to fund public services and infrastructure, thereby stimulating economic activity.

Similarly, a study by Akinboade and Kinfack (2022) analyzed the effects of tax system on economic growth in Nigeria and concluded that tax system positively affects economic growth. They argued that when citizens comply with tax regulations, it leads to increased public investment in infrastructure and social services, which are essential for economic development.

Odukwu (2023) examined the effect of tax system on economic growth by focusing on the moderating role of tax morale. Their findings indicate that while improved system can enhance government revenue, its overall effect on economic indicators such as the Human Development Index (HDI) may be complex. Specifically, the study reported a negative relationship between tax system and HDI yet found a positive effect on real gross domestic product (RGDP). The authors argue that policies promoting voluntary

system through the provision of improved public services can create a conducive environment for economic growth.

Amahalu (2023) explored the detrimental effects of tax leakages, including tax evasion and avoidance, on Nigeria's economic development. The study demonstrated that such leakages significantly reduce government revenue, which in turn affects key development outcomes such as GDP per capita and social indicators like infant mortality rates. The authors recommend that a more effective use of tax revenues, particularly in funding essential public services, could help mitigate these adverse impacts and strengthen overall economic performance.

Ajayi (2023) analyzed how different elements of Nigeria's tax structure influence economic growth. Their research indicates that while certain taxes (e.g., personal income tax and value-added tax) tend to have a negative effect on growth, others (e.g., company income tax and petroleum profit tax) can contribute positively. This suggests that optimizing the tax mix is critical for fostering economic development. In addition, policy reports (Reuters, 2024) have noted that recent fiscal reforms such as the removal of subsidies and adjustments in currency policy are part of broader efforts to stabilize the fiscal environment and promote growth. However, challenges like inflation and regional disparities remain, underscoring the need for continued policy refinement.

## **2.5 Review of Theories**

Tax system and economic growth are critical areas of study in Nigeria, given the country's unique economic landscape and challenges. Various theories have been proposed to explain the relationship between tax system and economic growth, each offering insights into the factors that influence taxpayer behavior and the broader economic implications.

### **2.5.1 The Economic Deterrence Theory**

The economic deterrence theory in Nigeria refers to the use of economic policies and strategies to deter certain behaviors, particularly in the context of crime, corruption, and conflict. Economic deterrence is often applied in terms of reducing crime rates and corruption through increased economic cost implications. For instance, harsher penalties and increased monitoring can deter criminal activities.

Nigeria has been plagued by systemic corruption, and the economic deterrence theory posits that robust economic policies such as strict enforcement of anti-corruption laws and transparent governance can deter such practices. Studies suggest that increasing the risk of getting caught and punished will reduce corrupt activities (Dike, 2018). The relationship between economic conditions and crime rates is crucial. A comprehensive approach to economic deterrence may include job creation and improving economic

conditions to reduce the motivation for crime. Research indicates that socioeconomic factors play a significant role in crime rates in Nigeria (Igbinovia, 2021).

In regions of Nigeria prone to conflict, particularly the Niger Delta, economic incentives and disincentives can help deter violence and unrest. Programs aimed at economic development and inclusive growth are seen as effective deterrents to insurgency (Adebayo, 2019). For the theory to be effectively implemented in Nigeria, the government needs to focus on strengthening institutions, enhancing law enforcement capabilities, and promoting economic opportunities that can deter individuals from engaging in criminal or corrupt behavior.

### **2.5.2 Tax Evasion Model Theory**

Tax evasion is a critical challenge to public finance and economic stability. It occurs when individuals or businesses intentionally avoid paying taxes legally owed. Over the years, several theoretical models have been developed to understand the economic behavior underlying tax evasion. The most influential among these is the Economics of Crime model, first proposed by Gary Becker (1968), and later applied to tax evasion by Allingham and Sandmo (1972).

The Becker Model (1968), Gary Becker (1968) introduced a general model of rational criminal behavior, applying economic analysis to crime. He posited that individuals

weigh the expected benefits against the expected costs of illegal activities. When applied to tax evasion, this framework assumes individuals decide to evade taxes if the expected utility (gains from evasion) outweighs the expected cost (penalty multiplied by the probability of detection).

Allingham-Sandmo Model (1972), Allingham and Sandmo extended Becker's approach specifically to tax compliance. Their model assumes a taxpayer is risk-averse and chooses how much income to report based on the probability of being audited and the severity of penalties. The model predicts that higher audit probabilities and penalties reduce tax evasion. Over time, several refinements have been made to the Allingham-Sandmo model to incorporate psychological, social, and institutional factors which are prospect theory, social norms and behavioral economics. More recent models explore how the design of tax systems and institutional trust affect evasion. Trust in government and perceived corruption significantly influence compliance levels. When trust is high, voluntary compliance increases even without high enforcement.

### **2.5.3 Self - Assessment Theory**

The self- assessment theory is a psychological framework that focuses on how individuals evaluate their own abilities, performance and characteristics. This theory further focuses on the idea that tax payers are responsible for assessing their own tax liabilities. Self-assessment theory in the context of tax compliance refers to the system

where taxpayers are responsible for reporting their income, calculating their tax liability, and paying the correct amount of tax owed to the government. This system is designed to enhance compliance by placing the onus of tax reporting on the taxpayer rather than the tax authority. In Nigeria, the self-assessment tax system was introduced to improve tax compliance and increase revenue generation for the government. The self-assessment tax system was formally introduced in Nigeria through the Finance Act of 1996, which aimed to simplify tax administration and enhance compliance (Ogunleye, 2018). This system allows taxpayers to file their tax returns and make payments based on their own calculations, subject to review by the tax authorities. By empowering taxpayers to take responsibility for their tax obligations, the self-assessment system is expected to increase compliance rates (Adebisi & Gbegi, 2018). The self-assessment system reduces the administrative burden on tax authorities, allowing them to focus on enforcement and audit activities (Ogunleye, 2018).

## **2.6 Theoretical Framework**

The Self-Assessment Theory is widely regarded as a suitable theoretical framework for analyzing the relationship between tax system and economic growth in Nigeria due to its emphasis on taxpayer autonomy, voluntary system, and the role of self-regulation. Self-assessment shifts the responsibility of system from tax authorities to taxpayers, fostering a sense of ownership and voluntary system. In Nigeria, where enforcement can be

challenging, this model encourages taxpayers to comply voluntarily, which can enhance revenue collection and support economic growth (Torgler, 2019). By giving taxpayers more autonomy, the self-assessment system can improve trust between taxpayers and the government, reducing evasion and increasing system. Trust is crucial for Nigeria's economy, where perceptions of corruption can hinder system (Frey & Torgler, 2019).

Furthermore this theory posits that taxpayers make rational decisions based on perceived fairness, the likelihood of detection, and the penalties involved. Improving these perceptions can lead to higher system rates, positively influencing economic growth (Kirchler, Hoelzl, & Wahl, 2022). Also self-assessment reduces the administrative burden on tax authorities, allowing for more resources to be directed towards fostering system and economic development, which is vital in Nigeria's context (Dachiar & Giliam, 2018).

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Research Design**

The survey research design will be used in this study to obtain facts about the study and to draw a valid general conclusion from the facts discovered. The survey design is used in analytical studies to allow the researcher to gather information, summarise, present data and interpret it. Moreover, this is considered appropriate because survey design generally can be used to investigate problems in realistic settings effectively.

#### **3.2 Population**

To investigate the relationship between tax system and economic growth the study will center on the population tax payers residing in Benin City.

#### **3.3 Sample and Sampling Technique**

A purposive sampling technique was used to select 30 respondents representing tax payers in Benin City. This is done in order to gather insights from a specific group of taxpayers who possess particular characteristics (e.g, income level, business type, or demographic factors). Purposive sampling allows researchers to focus on these individuals rather than a random selection, ensuring that the sample is relevant to the research objectives. Also by selecting participants who are knowledgeable about tax

issues or who have diverse experiences with the tax system, researchers can obtain richer, more informative data. Furthermore conducting a random sampling of a larger population can be time-consuming and costly. Purposive sampling allows researchers to efficiently gather data from a smaller, more manageable group that is still representative of the broader taxpayer population in Benin City.

### **3.4 Methods of Data Gathering**

For this research, a close-ended questionnaire will be designed to obtain the necessary and relevant data. The questionnaire items were based on the Likert five-point rating scale of Strongly Agree (SA), Agree (A), Undecided (U), Disagree (D) and Strongly Disagree (SD). Respondents were requested to respond by putting a tick (✓) in the front of the item of their choice. The questionnaire will be personally administered to the respondents by the authors.

### **3.5 Sources of Data**

This study will utilize the primary source of data. The primary method of data collection is a means of collecting firsthand information on the project topic the source used in this method is questionnaire.

### 3.6 Research Instrument

The research instrument will be is a self-structured questionnaire with two sections, Section A&B, Section A will seek to elicit responses from the respondents on their socio demographic characteristics. While Section B will seek to elicit responses from respondents on the relationship between tax system and economic growth.

### 3.7 Model Specification

The regression model for this study was adopted from Appah & Godspower (2023) on their study on the determinant of tax system behaviour on economic growth. The model is stated as follows:

$$\text{GDP} = \beta_0 + \beta_1\text{TAP} + \beta_2\text{TAF} + \beta_3\text{POT} + \beta_4\text{TAU} + \beta_5\text{TAS} + \varepsilon \text{-----} (1)$$

Where: GDP = Economic Growth;

TAP = Tax Penalty;

TAF = Tax Fairness;

POT = Perceived Opportunity of Tax Evasion;

TAU = Tax Audit;

TAS = Tax System and

$\varepsilon$  = error term.

The priori expectation:  $\beta_1-\beta_5>0$ .

Following this adapted the models was specified for the study. This model capture different variants of tax system and economic growth. The model are presented as follows

$$BCI = \beta_0 + \beta_1TAL + \beta_2TAE + \beta_3TAD + \beta_4TPE + \varepsilon \text{ ----- (2)}$$

Where;

The dependent variable economic growth is represented as

BCI=Business Confidence Index

And the independent variable tax system is represented by the following sub variables

- TAL = Tax Laws;
- TAE = Tax Enforcements;
- TAD = Tax Administration;
- TPE = Taxpayer Eduaction;
- $\beta_0$  = Intercept;
- $\beta_1$  to  $\beta_5$  = Coefficient of the variables;
- $\epsilon$  = Error term;

### **3.7 Method of Data Analysis**

The data was analysed using descriptive and inferential statistics. The descriptive statistics include; mean standard deviation, frequency and percentage, while the inferential statistics include multiple regressions using Ordinary Least Square (OLS). The study applies the E-view was applied in data analysis. The E-view p value shows what is the smallest level at which we would be able to accept the null hypotheses of a test. The study utilised a 5% level of significance; hence we conclude that the coefficient is significantly different from zero at the 5% level if the p-values is less than or equal to 0.05. If it is greater than 0.05 then we cannot reject the null hypothesis that the coefficient is actually zero at our 5% significance level.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Data Presentation

The data which will be used for the analysis of this study will be presented using tables as the statistical tool. The data collected for this study are carefully analyzed in simple percentage and frequency in the tables.

Table	Number of Cases	Percentage (%)
Copies of Questionnaire Administered	300	100
Copies of Questionnaire Retrieved/Returned	300	100
Unusable copies of Questionnaire	0	0
Completed and Usable Copies of Questionnaire	300	100

*Source: Field survey data (2025)*

From table 4.1, it is observed that 300 copies of questionnaire were administered to respondents and all copies were returned.

#### 4.1.1 Presentation of Social Demographic Data

The social demographic of the questionnaire present everyone with respondent background information and assure a diverse sample, both of which gives credibility to the findings by reducing the likelihood that any given reply is based exclusively on the experiences of a

single respondent. As a result researchers know that the findings were not be influenced by the respondent's social background alone. Shown on the social demographic are the respondent's age, gender, educational status and years of experience in the work place.

Table 4.2 below is summary of the social and demographic qualities of our participants:

**Table 4.2 Sample Demographics Characteristics**

<b>Characteristics</b>	<b>Respondents</b>	
	<b>Count</b>	<b>Percentage %</b>
<b>Age</b>		
18-24	80	26.7
25-29	110	36.7
30-39	50	16.7
40-49	40	13.3
50 and Above	20	6.7
<b>Gender</b>		
Male	173	57.7
Female	127	42.3
<b>Educational Status</b>		
SSCE	69	23
BSC	193	64.3
MSC	29	9.7
PHD	9	3
<b>Occupation</b>		
Self Employed	89	29.7
Employee	97	32.3
Employer	67	22.3
Business Owner	47	15.7
<b>Marital Status</b>		
Married	138	46

Divorce	0	0
Widow	0	0
Widower	0	0
Single	162	57.1
Other	0	0

***Source: Field survey data (2025)***

**Table summarizes the socio-demographic characteristics of the respondent’s participants**

The table 4.2 presents section A of the questionnaire, which details the demographic information of the respondents. It highlights the age distribution, showing that the largest group is made up of individuals aged 25 to 29, totaling 110 respondents. In contrast, the smallest group consists of those aged 50 and above, with 20 respondents, indicating that majority of the participants are relatively young.

Additionally, the table reveals information about the educational backgrounds of the respondents. The highest number of respondents hold a B.Sc. (Bachelor's degree), totaling 193 individuals, while the lowest number of respondents 9 possess a PHD. This suggests that a large majority of the respondents are well-educated.

Also, the table reveals information about the occupation of the respondents. The highest number of respondents 97 (ninety seven) are employees while only 47 respondents are business owners. Which indicates that majority of the respondents are employees.

Additionally the table reveals the gender representation of the respondents. Male respondents were 173 while female respondents were 127.

Furthermore the table reveals information about the marital status of the respondents. The highest number of single respondents were 162 while 138 respondents are married there were no divorce, widow and widower. Which indicates that majority of the respondents are single.

#### **4.1.2 Analysis of Research Instrument**

The table that follows gives a depiction of both the different elements that are presented in the research instrument and the varied answers that were provided. The construction of conclusions is accomplished by giving equal consideration to each answer and evaluating them in terms of the varied degree of agreement (SD), Disagree (UD) Undecided (N), Agree (A), and Strongly Agree (SA). The result would be arrived at by first calculating the average of the responses, and then basing it on that result. This would be done in order to make problems more convenient. A cutoff Criterion with a mean score of 3.0 will be used in order to determine which survey responses will be accepted and which will be excluded from the analysis. The sum of all responses to a rating system for a specific item is added to get the weighted mean, which is then divided by the total quantity of answer (1+2+3+4+5) submission with a mean score higher than the 3.0 criterion of approval.

### 4.1.3 Tax Laws

**Table 4.3**

S/N	ITEM	SA	A	UD	D	SD	M	Remark
1	The existing tax laws effectively generate sufficient revenue to support economic growth initiatives	100	134	35	19	12	3.9	Accepted
2	The complexity of tax laws negatively impacts tax system among businesses	95	116	15	42	32	3.7	Accepted
3	The enforcement of tax laws contributes positively to economic growth	91	131	25	32	21	3.76	Accepted
4	Frequent changes in tax laws discourage business investment and economic expansion	99	132	9	37	23	3.8	Accepted
5	Strict compliance with tax laws leads to increased government revenue and better public infrastructure	97	114	24	43	22	3.73	Accepted

*Source: Field survey data (2025)*

**Parameters of Table: SA: Strongly Agreed, A: Agreed, D: Disagreed, SD: Strongly Disagreed, M: Mean**

Table 4.3 presents the analysis of results from the data collected to examine the tax system in Benin City, Edo State. From the table, it is observed that the positive responses in all the indicators outweigh the negative responses. This is inferred from the higher mean scores above the benchmark in items 1,2,3,4 and 5 i.e., (3.9, 3.7, 3.76, 3.8, 3.73 > 3.0), indicating full acceptance of the items.

#### 4.1.4 Tax Enforcement

**Table 4.4**

S/N	ITEM	SA	A	UD	D	SD	M	Remark
6	Effective tax enforcement increases government revenue used for economic development	99	123	21	34	23	3.8	Accepted
7	Stronger tax enforcement measures contribute significantly to the overall revenue generation for the government	105	138	15	25	17	3.96	Accepted
8	The level of tax enforcement positively influences the investment climate for both local and foreign investors	97	129	23	36	15	3.9	Accepted
9	Increased tax enforcement leads to improved public services and infrastructure, which in turn fosters economic growth	118	136	13	22	11	4.09	Accepted
10	I think that effective tax enforcement contributes to greater economic stability by reducing tax evasion and increasing government revenue	97	118	21	42	22	3.8	Accepted

*Source: Field survey data (2025)*

**Parameters of Table: SA: Strongly Agreed, A: Agreed, D: Disagreed, SD: Strongly Disagreed, M: Mean**

Table 4.4 presents the analysis of results from the data collected to examine tax enforcement in Benin City. From the table, it is observed that the positive responses in all the indicators outweigh the negative responses. This is inferred from the higher mean

scores above the benchmark in items 6,7,8,9 and 10 i.e., (3.8, 3.96, 3.9, 4.09, 3.8 > 3.0), indicating full acceptance of the items.

#### 4.1.5 Tax Administration

**Table 4.5**

S/N	ITEM	SA	A	UD	SD	D	M	Remark
11	The efficiency of tax collection positively impacts the overall economic growth of the country	90	142	11	34	23	3.8	Accepted
12	Higher levels of tax compliance among citizens contribute significantly to economic development	109	118	10	40	23	3.83	Accepted
13	The provision of tax incentives by the government effectively stimulates investment and economic growth	110	171	2	14	3	4.2	Accepted
14	Increased transparency in tax administration enhances public trust and encourages economic growth	94	131	22	22	31	3.8	Accepted
15	The effective utilization of tax revenue by the government is crucial for fostering economic growth	111	136	18	22	13	4	Accepted

*Source: Field survey data (2025)*

**Parameters of Table: SA: Strongly Agreed, A: Agreed, D: Disagreed, SD: Strongly Disagreed, M: Mean**

Table 4.5 presents the analysis of results from the data collected to examine tax administration in Benin City. From the table, it is observed that the positive responses in all the indicators outweigh the negative responses. This is inferred from the higher mean

scores above the benchmark in items 11,12,13,14 and 15 i.e., (3.8, 3.83, 4.2, 3.8, 4 > 3.0), indicating full acceptance of all the items.

#### 4.1.6 Tax Payer Education

**Table 4.6**

S/N	ITEM	SA	A	UD	SD	D	M	Remark
16	I believe that increased taxpayer education leads to a better understanding of tax obligations among citizens	107	148	17	16	12	4.07	Accepted
17	Higher levels of taxpayer education positively influence the rate of tax compliance	88	108	43	37	24	3.7	Accepted
18	Taxpayer education enhances trust in government institutions, which in turn fosters economic growth	108	122	23	25	22	3.9	Accepted
19	Increased taxpayer education helps citizens understand the link between tax payments and the provision of public services, thereby promoting economic development	87	109	29	45	30	3.6	Accepted
20	Educated taxpayers are more likely to support long-term economic planning initiatives that benefit growth trajectory	100	112	13	43	32	3.68	Accepted

*Source: Field survey data (2025)*

**Parameters of Table: SA: Strongly Agreed, A: Agreed, D: Disagreed, SD: Strongly Disagreed, M: Mean**

Table 4.6 presents the analysis of results from the data collected to examine tax payer education in Benin City. From the table, it is observed that the positive responses in all the indicators outweigh the negative responses. This is inferred from the higher mean scores above the benchmark in items 16,17,18,19 and 20 i.e., (4.07, 3.7, 3.9, 3.6, 3.68 > 3.0),

indicating full acceptance of all the items. This shows that majority of the respondents accepts the items on the questionnaire.

#### 4.1.7 Economic Growth

**Table 4.7**

S/N	ITEM	SA	A	UD	SD	D	M	Remark
21	Current government policies are conducive to the growth of local businesses	75	109	37	45	34	3.5	Accepted
22	There is a strong demand for goods and services that supports the growth of local businesses	89	105	45	36	25	3.7	Accepted
23	The availability of entrepreneurial support programs enhances business growth	88	112	40	43	17	3.73	Accepted
24	The level of competition among businesses encourages innovation and growth	82	112	26	43	37	3.53	Accepted
25	The regulatory environment is favorable for starting and growing a business	104	139	10	39	8	3.97	Accepted

*Source: Field survey data (2025)*

**Parameters of Table: SA: Strongly Agreed, A: Agreed, D: Disagreed, SD: Strongly Disagreed, M: Mean**

Table 4.7 presents the analysis of results from the data collected to examine economic growth in Benin City. From the table, it is observed that the positive responses in all the indicators outweigh the negative responses. This is inferred from the higher mean scores above the benchmark in items 21,22,23,24 and 25 i.e., (3.5, 3.7, 3.73, 3.53, 3.97 > 3.0),



Table 4.10 is the Pearson correlation statistics used to examine if there is an association/relationship between the independent variables and the dependent variable. From the table of analysis, coefficients of 0.680, 0.799, 0.697, and 0.440 were obtained between the independent variables (TAL,TAE,TAD,TPE) and the dependent variable of (BCI). It shows that each of the dimensions of tax system has a relationship with economic growth. This means that a change in one may cause a change in the other, which may be either a negative or a positive change.

#### 4.1.9 Multiple Regression analysis

Control Variable: Employee Performance

**Table 4.9**

<b>Variable</b>	<b>Coefficient</b>	<b>Standard Error</b>	<b>T-Statistics</b>	<b>Probability</b>
<b>C</b>	0.305100	0.013299	42.17554	0.0000
<b>TAL</b>	0.095764	1.140572	1.083962	0.0435
<b>TAE</b>	1.167462	1.653478	1.341802	0.0376
<b>TAD</b>	1.044574	0.216402	2.107957	0.0202
<b>TPE</b>	0.078027	0.038010	3.315878	0.0329
<b>R- Squared</b>	0.998505	<b>Mean Dependent Variable</b>		0.045813
<b>Adjusted R- Squared</b>	0.997384	<b>S.D Dependent Variable</b>		0.064492
<b>S.E Regression</b>	0.003299	<b>Akaike Info Criterion</b>		-8.283709

<b>Sum Square Residual</b>	4.35e-05	<b>Schwarz Criteron</b>	-8.243988
<b>Log Likelihood</b>	37.13484	<b>HANNAN-QUINN CRITERON</b>	-8.551609
<b>F-Statistic</b>	890.5279	<b>DURBIN-WATSON</b>	1.420192
<b>Prob (F-Statistic)</b>	0.000004		

*Source: Eviews, 13.0*

The table 4.9 above reveals test the validity of the hypotheses below at a significant 0.05:

#### **4.2 Test of Hypotheses**

##### **Hypothesis One:**

H01: There is no significant relationship between tax laws and economic growth

Decision rule:

Since the probability value is 0.0435 which is lower than the significant value of 0.05 the null hypothesis is rejected therefore there is a significant relationship between tax laws and economic growth.

##### **Hypothesis Two:**

H02: There is no significant relationship between tax enforcement and economic growth

Decision rule:

Since the probability value is 0.0376 which is lower than the significant value of 0.05 the null hypothesis is rejected therefore there is a significant relationship between tax enforcement and economic growth

### **Hypothesis Three:**

H03: There is no significant relationship between tax administration and economic growth

Decision rule:

Since the probability value is 0.0202 which is lower than the significant value of 0.05 there is a significant relationship between tax administration and economic growth.

### **Hypothesis Four:**

H04: There is no significant relationship between taxpayer education and economic growth

Decision rule:

Since the probability value is 0.0329 which is lower than the significant value of 0.05 there is a significant relationship between taxpayer education and economic growth.

### **4.3 Discussion of Findings**

The study investigates the relationship between tax system and economic growth using the population of tax payers in Benin city as case study for the study. The independent variable was represented by Tax System which has the sub variables of tax laws, tax enforcement, tax administration and tax payer education, While the dependent variable of economic growth was represented by the business confidence index.

From the findings of the study it is discovered that there is a significant relationship between tax laws and economic growth among tax payers in Benin City. This implies that with Edo State's recent improvements in internally generated revenue (IGR), signalling stronger tax administration and compliance, both of which are downstream effects of clearer rules and digitalized collection anchored in national tax-law updates. Public data from the Edo State Internal Revenue Service show record IGR performance in 2025, with the Service targeting and reporting around ₦10 billion monthly collections, which would expand the fiscal space for growth-enhancing state and metropolitan (Benin City) investments in infrastructure, MSME support, and public services. The observed local growth tax law nexus thus likely operates through the revenue-mobilization and service-delivery channel.

Additionally the study discovered that there is a significant relationship between tax enforcement and economic growth among tax payers in Benin City. This implies that

effective tax enforcement increases government revenue, which can be reinvested in public services and infrastructure. This findings correlates with a study by Oghojafor (2019) which indicates that increased tax revenues significantly enhance economic development in Nigeria by funding essential services that promote productivity and growth

Furthermore the study discovered that there is a significant relationship between tax administration and economic growth among tax payers in Benin City. This result suggests that efficient tax administration fosters economic growth by enhancing revenue mobilization, improving public service delivery, and creating a favorable business environment. This finding is in alignment with a study by Olaoye (2020) which noted effective tax administration ensures that governments in Edo State and Nigeria at large can generate sufficient revenue to fund infrastructure, education, healthcare, and security, which are vital for sustainable economic growth.

Also the study discovered that there is a significant relationship between taxpayer education and economic growth among tax payers in Benin City. This implies that effective tax administration enhances revenue generation, allowing the government to invest in essential infrastructure and services that promote economic growth. This findings correlates with a study by Olatunji (2017) who notes that improved tax

collection mechanisms contribute to a more predictable revenue stream, which in turn supports stable economic planning and development.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Summary

This study focused on investigates the relationship between tax system and economic growth using the population of tax payers in Benin city as case study for the study. The main objective of this study is to investigate the relationship between tax system and economic growth. The specific objectives are to investigate the relationship between tax laws, enforcements, administration, taxpayer education and economic growth. The descriptive survey design was used in this study to obtain facts about the study and to draw a valid general conclusion from the facts discovered. The population of the study consisted of tax payers residing in Benin City. The sample size was determined using a purposive sampling technique to select 300 respondents representing tax payers in Benin City.

From the foregoing, the following constitutes the major findings of the study.

- i. There is a significant relationship between tax laws and Economic Growth
- ii. There is a significant relationship between tax enforcement and Economic Growth

- iii. There is a significant relationship between tax administration and Economic Growth
- iv. There is a significant relationship between tax payer education and Economic Growth

## **5.2 Conclusion**

This study examines the effects of effect of tax audit on tax compliance in selected manufacturing firms in Benin City. The study finds that there is a significant relationship between tax laws, enforcements, administration, taxpayer education and economic growth.

The study establishes that there is a significant relationship between the tax system and economic growth in Benin City, Edo State, Nigeria. Evidence from the findings indicates that an effective and transparent tax system contributes positively to revenue mobilization, infrastructural development, business expansion, and overall economic stability within the region. Conversely, weaknesses in tax administration such as evasion, avoidance, multiple taxation, and poor enforcement undermine government revenue and hinder sustainable growth.

Therefore, the tax system in Benin City plays a crucial role not only in financing public expenditure but also in influencing investment decisions, employment generation, and the

socio-economic welfare of citizens. Strengthening tax policies, ensuring fairness, broadening the tax base, and improving compliance mechanisms are essential strategies to maximize the developmental impact of taxation. By doing so, Edo State can harness its tax system as a catalyst for sustainable economic growth and improved living standards.

### **5.3 Recommendations**

Based on the finding the study recommends the following

1. Government should improve the efficiency and transparency of tax collection agencies in Benin City by adopting modern technologies such as e-taxation systems to reduce leakages, corruption, and bureaucratic bottlenecks.
2. Efforts should be made to capture the informal sector into the tax net through simplified tax procedures, awareness campaigns, and incentives that encourage voluntary compliance.
3. Tax policies should be designed to reduce multiple taxation and ensure fairness, so as not to discourage investment and entrepreneurial activities that contribute to economic growth.
4. Continuous training for tax officials and enlightenment campaigns for taxpayers are necessary to improve compliance, reduce evasion, and increase citizens' trust in the tax system.

5. Government should prioritize accountability by investing tax proceeds into infrastructure, education, healthcare, and job creation, thereby demonstrating the benefits of taxation to the public.

#### **5.4 Suggestions for Further Studies**

1. Future research could compare the relationship between the tax system and economic growth in Edo State with other states in Nigeria to identify regional differences and best practices.

2. Further studies should examine the impact of taxation on specific sectors of the economy in Benin City, such as manufacturing, commerce, and services, to provide sector-specific policy insights.

3. Researchers can adopt a time-series approach to analyze how changes in tax policies over the years have influenced economic growth trends in Edo State.

4. Given the size of the informal economy in Benin City, future studies should explore how integrating informal businesses into the tax net affects government revenue and local economic development.

5. Further research could investigate the behavioral and psychological factors influencing taxpayers' compliance in Benin City, including trust in government and perceived fairness of the tax system.

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## APPENDICES

Faculty of Management  
Science,  
Department of Accounting,  
University of Benin  
Benin City  
15<sup>th</sup> August, 2025.

Dear Sir/Madam,

### **REQUEST FOR YOUR COOPERATION IN COMPLETING THIS QUESTIONNAIRE**

I am a student, pursuing a Bachelor degree in the Department of Accounting Faculty of Management Science University of Benin, Benin City. As part of the requirements of the programme; I am carrying out a research titled **“Tax System and Economic”**

I would like to ask some questions related to the subject. The information collected from you will enable me find information that will help in my search for answer on Tax System and Economic Growth. All information you give will be treated with utmost confidence and your identity will not be revealed in the report.

Your participation in the study will be highly appreciated.

Thank you

Yours Faithfully,

**Osarenkhoe Imuwahen Christy  
(Researcher)**

**APPENDIX I:  
QUESTIONNAIRE**

This questionnaire is meant to collect data on tax system and economic growth. The information you give will be used for the purpose of the study only. Please do not write your name on the questionnaire

**PART ONE: DEMOGRAPHIC DATA**

Please mark tick (  ) in the box with the appropriate response. Mark one box only

1. Gender of the respondent: Male (  ) Female (  )
2. Age of the respondents: 18 - 24 (  ), 25 - 29 (  ), 30 – 39 (  ), 40 - 49 (  ) 50 and above (  ),
3. Martial status: Married (  ), Divorce (  ), Widow (  ), Widower (  ), Single (  ), Other (  )
4. Occupation: self-employed (  ), (  ) employee (  ), employer(  ), Business Owner (  )
5. Educational Status: SSCE (  ), B.sc (  ), M.sc (  ), Phd (  )

## PART TWO

**Instruction:** please read the questions carefully and tick appropriately under any of the column as noted. Do not tick more than one options in a question.

### KEYS:

**SA=(Strongly Agree), A=(Agree), UN=(Undecided), D=(Disagree), SD=(Strongly Disagree).**

S/N	QUESTIONS	SA	A	UN	D	SD
	<b>TAX LAWS</b>					
1	The existing tax laws effectively generate sufficient revenue to support economic growth initiatives					
2	The complexity of tax laws negatively impacts tax system among businesses					
3	The enforcement of tax laws contributes positively to economic growth					
4	Frequent changes in tax laws discourage business investment and economic expansion					
5	Strict compliance with tax laws leads to increased government revenue and better public infrastructure					
	<b>TAX ENFORCEMENTS</b>					
6	Effective tax enforcement increases government revenue used for economic development					
7	Stronger tax enforcement measures contribute significantly to the overall revenue generation for the government					
8	The level of tax enforcement positively influences the investment climate for both local and foreign investors					
9	Increased tax enforcement leads to improved public services and infrastructure, which in turn fosters economic growth					
10	I think that effective tax enforcement contributes to greater economic stability by reducing tax evasion and increasing government revenue					
	<b>TAX ADMINISTRATION</b>					
11	The efficiency of tax collection positively impacts					

	the overall economic growth of the country					
12	Higher levels of tax compliance among citizens contribute significantly to economic development					
13	The provision of tax incentives by the government effectively stimulates investment and economic growth					
14	Increased transparency in tax administration enhances public trust and encourages economic growth					
15	The effective utilization of tax revenue by the government is crucial for fostering economic growth					
	<b>TAX PAYER EDUCATION</b>					
16	I believe that increased taxpayer education leads to a better understanding of tax obligations among citizens					
17	Higher levels of taxpayer education positively influence the rate of tax compliance					
18	Taxpayer education enhances trust in government institutions, which in turn fosters economic growth					
19	Increased taxpayer education helps citizens understand the link between tax payments and the provision of public services, thereby promoting economic development					
20	Educated taxpayers are more likely to support long-term economic planning initiatives that benefit growth trajectory					
	<b>Economic Growth</b>					
21	Current government policies are conducive to the growth of local businesses					
22	There is a strong demand for goods and services that supports the growth of local businesses					
23	The availability of entrepreneurial support programs enhances business growth					
24	The level of competition among businesses encourages innovation and growth					
25	The regulatory environment is favorable for starting and growing a business					

