ECONOMY GROWTH AND INDIRECT TAX

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BEING A RESEARCH WORK PRESENTED TO THE DEPARTMENT OF ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B. SC) DEGREE IN ACCOUNTING, UNIVERSITY OF BENIN, BENIN CITY.

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CERTIFICATION

I certify that the project titled: **"ECONOMY GROWTH AND INDIRECT TAX"** submitted to the Department of Accounting, University of Benin, for the award of Bachelor of Science (B.Sc.) degree in Accounting is original research carried out by OTOHIBILI EHINOMEN with Matriculation Number MGS1606297 in the Department of Accounting, Faculty of Management sciences, University of Benin, Benin City, Edo State under strict supervision.

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DEDICATION

This project is dedicated to God Almighty.

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I want to give my sincere gratitude to God Almighty for the successful completion of this project work.

My distinctive and special thanks goes to my supervisor, **Miss Efosa Ehima** for her immeasurable assistance, patience, guidance, corrections and ideas she has provided to the success of this work and she has immensely impacted my life as an individual. May God grant her success in all her endeavours.

It is imperative to appreciate my Head of Department of Accounting, **Prof. K. O. Ogiedu** and lecturers for their efforts and sacrifices towards ensuring I become a better and useful person to the society.

This acknowledgement would not be complete without mentioning my parents and siblings for being there in my life and all through my course of study. God bless you all.

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Abstract

The paper examined economy growth and indirect tax. The objectives of the study were to examine the impact of direct tax on economic growth in Nigeria. To achieve these objectives, secondary data was sourced. Based on these findings, the paper recommended amongst others that Nigeria government should coordinate their industries so that more revenue be generated and should be well managed by channeling it to the critical sectors in the absence of systemic corruption in order to enhance economic growth.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The basic goal of taxation is to raise money for the benefit of the people, with a particular emphasis on fostering a nation's economic development through allocating funds for improved public services through an effective administrative structure. Tax income is a significant contributor to the economy's expansion and growth. The government ensures that money is given to important social programs and that those who are vulnerable are supported by taxation. If taxes are not efficiently managed, they may not successfully promote economic activity and growth. This necessitates a close assessment of the connection between tax revenue and the economy in order to properly formulate policy and develop a winning strategy. If tax administration is unable to resolve the aforementioned concerns for any reason, both the tax system and tax administration must be quickly changed.

Nigeria has struggled to increase tax revenue as a source of finance for development initiatives due to a variety of oppositional factors, including tax evasion, avoidance, and unethical behavior. These efforts, which are considered to be economic sabotage, are frequently cited as the reason why the nation is not progressing as it ought to. According to Adegbie et al. (2010), the purpose of government is to efficiently levy

taxes from the economic resources that are at its disposal and use them to foster economic success in order to use the willing and available human and other resources to build infrastructure and maintain essential public services (such as law and order), among other things. Tax resistance makes the development process impossible. At that time, Onairobi. There is a possibility that changing or adjusting tax rates is done to influence or achieve macroeconomic stability. Among the most recent examples, the governments of Canada, the United States, the Netherlands, and the United Kingdom have all employed import charges, corporation income taxes, and value-added taxes to increase their wealth (Adegbie et al., 2010:3). Thus, it can be claimed that a number of factors, including the implementation of an efficient and successful taxation system, affect a nation's economic development. The government's expectations for tax revenue contributions in Nigeria have not been realized. Government representatives also voiced their discontent, and in response, they pledged to increase non-oil tax receipts. Sam and the Festival from 2007. In light of the aforementioned evidence, this paper investigates how Nigeria's tax structure affects economic growth.

1.2 STATEMENT OF THE PROBLEM

On the subject of how taxes affect a country's ability to thrive economically, researchers are generally divided on the issue. For instance, Festus and Samuel (2007) found that tax revenue does not play a significant role in promoting economic activity and growth in Nigeria, contrary to what Ariyo (1997) found in his study on the productivity of the

Nigerian tax system, which documented a satisfactory level of productivity of the tax system prior to the oil discovery.

1.3 RESEARCH QUESTIONS

Based on the above problem, the study seeks to answer the following questions.

Does tax revenue have any significant impact on the economy of Nigeria?

1. What is the impact of Company income tax to the development of the economy of Nigeria?
2. What is the impact of Customs excise and Duties to the development of the economy of Nigeria?
3. What is the impact of Value Added tax to the development of the economy of Nigeria?

1.4 OBJECTIVES OF THE STUDY

To answer the research question raised, identifying the primary objective of the study is to determine how tax revenue impacts Nigeria's economic progress. And the specific objectives are to:

1. investigate the impact of company income tax on the growth of the economy of Nigeria;

2. examine the impact of custom and excise duties on the growth of the economy of Nigeria; and
3. find out the impact of value added tax on the growth of the economy of Nigeria.

1.5 RESEARCH HYPOTHESES

The research Hypothesis are stated below in their null form.

H_o1: Taxation does not have any significant impact on the growth of the Nigerian economy.

H_o2: Company Income Tax has no significant impact on Nigerian economic growth.

H_o3: Value added Tax has no significant impact on the growth of the Nigerian economy.

1.6 SCOPE OF THE STUDY

Examining how taxes affect economic growth in Nigeria is the goal of this study. The Nigerian economy, which will be referred to as Gross Domestic Product (GDP), will be examined to see how Company Income Tax, Customs and Excise Duty, and Value Added Tax have changed over time, these taxes are compared to one another during the pertinent time period. The researcher chose Benin City as her region of concentration since Nigeria's study's target population is so large that it would be hard to cover it in a little period of time. The sample population consisted of 100 Benin City residents, and

the major and secondary sources of our data were articles, journals, and books. A thorough survey was also conducted among the sample population of 100 Benin City residents.

1.7 SIGNIFICANCE OF THE STUDY:

The government should use tax revenue as one of its financial sources. It is important to understand how tax revenue impacts economic growth in Nigeria because it can be used to promote economic growth, prevent signs of depression, inflation, or deflation, achieve income and wealth distribution equity, address issues of poverty, and advance socioeconomic development.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter's objective is to connect our research to the body of knowledge already available on taxation, direct taxes, and economic growth. The relationship between direct taxes and economic growth is examined in relation to the theoretical development of economic analysis. Writing that is theoretical comes first, then writing that is empirical

2.2 Taxation and Economic Growth

The question of whether or not taxation fosters growth has been at the center of theoretical and empirical debate for a very long time (Amanja and Morrissey, 2005). The most significant area of economic study since the Declaration of Independence has been the interaction between taxes and economic growth. Although the amount of taxes a nation collects has an impact on its GDP, the previous neoclassical models did not explicitly demonstrate how these elements connect to economic growth (Cushin, 1995). Recently, governments have developed a greater desire to finance a greater portion of their spending using consumer taxes like sales tax and value added tax (VAT). In order to improve revenue collection through direct taxes, little effort has been placed into developing and implementing policies that can widen the base and raise tax bands. As international tax competition between countries with different tax rates increases, it is

becoming more difficult for governments to collect company and individual income taxes from their citizens. The economy would run more efficiently, would expand more quickly, and jobs would be preserved if consumption taxes took the place of income taxes. Therefore, the decision of the ratio of direct to indirect taxation can be seen as a choice of the amount of revenue to be raised through consumption taxes rather than income taxes.

Despite falling under the broad categories of "taxes on consumption" or "taxes on income," it is important to recognize that different taxes have a variety of forms and economic impacts. While most social security contributions are proportional (a fixed percentage of income) or regressive (taking a larger fraction of lower wages), personal income taxes are frequently progressive (the tax rate increases as income levels increase). The argument that consumption taxes are preferable to income taxes for growth is common. The main points of contention include how various taxes influence decisions regarding the labor supply and savings. When it comes to income taxes vs consumption taxes, saves are regarded differently, with income taxes penalizing savings more severely than consumption taxes. It is conceivable to suppose that rising savings will raise investment and growth by replacing income taxes with consumption taxes, which have no impact on overall tax revenue. There is a problem because it's typical to include both earned income and income from savings in income taxes. In contrast, taxes on consumption are levied when money is spent rather than saved. While income taxes generally have the same impact on savings: Social Security benefits and savings are

typically excluded from personal income taxes, although there are certain exceptions to this rule.

A "revenue-neutral" switch from income taxes, particularly personal income tax, to consumption taxes won't have much of an impact on the total amount of taxes paid by typical workers, making it unlikely to have an impact on their choice of whether or not to work. It will, however, lower their marginal tax rate, which will motivate them to put in more overtime. Consumption taxes, as opposed to income taxes, which are frequently progressive, are typically proportional to income and expenditure. The shift to consumption-based taxes will result in more hours worked and subsequent economic growth. The effectiveness of consumption taxes is frequently associated with the system's capacity to allocate income more fairly, which causes the wealth gap to increase. When considering how progressive taxes impact the labor supply, this is extremely apparent.

Taxes on income have a greater redistributive impact than taxes on consumption since the marginal and average tax rates are so different. Therefore, a change to consumption taxes would result in a greater incentive for people to work while also widening the income gap. A transition from direct to indirect taxation, particularly VAT, has occurred as a result of worries about global commerce and competitiveness. Since "border tax adjustments," a procedure that involves collecting the VAT already paid on exports and imposing VAT on imports, are involved, it is said that raising the VAT to

reduce income taxes improves a nation's ability to compete internationally. By raising exports while decreasing imports, this would foster economic growth and job creation.

The comparison between VAT and corporate tax best supports the claim that consumption taxes increase global competitiveness. Corporate taxes raise the cost of capital, which in turn raises the cost of production and makes it harder for the impacted enterprises to compete in international markets. Contrarily, as VAT is returned upon export, it has no impact on local businesses' capacity to export. There are both the obvious justifications for and against a rise in consumption taxes. Experience has shown that it is crucial for decision-makers to consider more than just the simple dichotomy between taxes on consumption and income when analyzing each tax's unique characteristics in the context of their nation. As an illustration, the impact of consumption taxes on economic efficiency varies depending on whether they are imposed generally or solely on particular commodities, whereas the impact of income taxes on the labor supply varies depending on how progressive they are. This implies that choosing how to modify a country's tax system requires both a challenging political choice and a complex technical study when deciding between higher economic growth and better equality. This study investigates how income taxes on individuals and businesses (direct taxes) affect economic growth in the setting of a Kenyan environment. Without accurately assessing the economy's capacity to finance development projects, economic progress cannot be realized. Therefore, in order to implement certain growth-promoting initiatives, goals, and objectives, governments need funding. In sub-Saharan Africa, taxes are frequently

the primary source of income for a nation. Accordingly, there must at least be a connection between direct taxes and growth.

Although taxes are the main source of funding for public spending, they also represent a serious financial system leak that never leaves the thoughts of decision-makers. As a result, they must formulate and put into action policies that will allow the economy to gain from such levies in terms of financing service provision, economic growth, and development. A significant area of concern for policy experts is the use of taxes to foster economic growth. The possibility of a connection between direct taxes and economic growth arises as a result. The challenge is in comprehending this connection and utilizing its benefits.

2.3 Empirical Literature Review

Using data from African countries, Skinner (1988) came to the conclusion that income, corporation, and import taxes had a greater detrimental effect on output growth than average export and sales taxes. Regarding the same, Dowrick (1992) found that between 1960 and 1985, personal income taxation significantly harmed output growth, whereas corporate taxation had no such effect.

Koester and Kormendi (1989) find that the level of real GDP per capita is significantly negatively impacted by the marginal tax rates, despite the rate of growth being unaffected by this adjustment. This is true even though the rate of growth is

unchanged when the rate of growth is adjusted for the starting level of income. According to their claims, a typical industrial economy would see a 7.1% gain in per capita income with a 10% reduction in marginal tax rates while keeping average rates.

Slemrod (1995) found a strong positive relationship between real GDP per capita and the general government tax revenue/GDP ratio in time series for the United States from 1929 to 1992. When developing nations are included in the sample, a positive correlation between the ratio of tax income to GDP and real GDP per capita was discovered. He finds neither a positive nor a negative correlation between the level of tax rates and the level of GDP per capita for just the OECD countries.

22 OECD countries from 1970 to 1995 were the focus of Kneller, Bleaney, and Gemmell's (1999) study. In order to balance the effects of the business cycle, they used annual data that was averaged over a five-year period. To look into how fiscal policy and growth relate to one another, they used static panel econometric approaches. It was discovered that there is a strong and positive correlation between economic growth and indirect taxes that don't generate distortions. They came to the conclusion that indirect tax is less detrimental to the economy than direct tax because it doesn't reduce return on investment.

Lovell and Branson (2001) utilized data envelopment analysis and a log quadratic equation to investigate the impact of tax burden and tax mix on economic development in New Zealand from 1946 to 1995. In New Zealand, tax collections increased from 23 to

35 percent, and the proportion of direct to indirect taxes fluctuated between 0.31 and 0.75. Economic expansion was found to have a detrimental impact on these.

Rosen and others (2001) examined the personal income tax returns of numerous sole proprietors both before and after the Tax Reform Act of 1986 to ascertain how the significant marginal tax rate reductions brought about by that legislation impacted the growth of their businesses as measured by gross receipts. Individual income taxes were found to have an impact on business growth rates that is statistically and quantitatively significant. The findings revealed that an increase in the single owners' tax rate of 10% resulted in an 8.4% increase in collections. This result lends credence to the hypothesis that higher income tax rates restrict small firm expansion.

According to Padovano and Galli (2001, 2002), while other tax parameters, such as the average tax rate on labor income, are not significantly related to economic growth, the marginal corporate tax rate is inversely connected with economic growth in a cross-section of 70 nations between 1970 and 1997.

Taxes, namely corporate and personal income taxes, were projected to have effects on growth by Gustavo and others (2013). Using vector autoregressive methods and panel data estimates, they assessed how various tax instruments affected growth in a global sample of both emerging and developed nations, including Argentina, Brazil, Mexico, Chile, and Argentina. They discovered that personal income taxes generally had a favorable impact on the expansion of the economy in Latin America. Additionally, they

discovered that corporate income taxes in a number of nations had only moderately detrimental effects on growth, particularly for Argentina, Mexico, and Chile. According to their findings for corporate income tax, reducing tax evasion and increasing dependence on collection should lead to greater economic growth throughout the area, particularly for nations that export natural resource.

Using data from 1968 to 2006, Arisoy and Unlukaplan (2010) examined the Turkish economy and the relationship between direct and indirect taxation and economic growth. According to studies utilizing the Ordinary Least Squares method, real output and indirect tax receipts are positively connected. They arrived to the conclusion that indirect taxes and Turkey's economic expansion are positively correlated.

Poulson and Kaplan (2008) examined how tax policy affects state-level economic growth in the setting of an endogenous growth model. Regression analysis was used to determine how taxes affected state economic growth between 1964 and 2004. The investigation revealed that higher marginal tax rates significantly impede economic development.

Dahlby and Ferede (2012) investigated the association between provincial government tax rates in Canada and economic development using panel data spanning the years 1977 to 2006. The study shows a correlation between higher provincial statutory corporate income tax rates and lower levels of private investment and a slower rate of

economic growth. Empirical studies show that a one percentage point decrease in the company tax rate results in a 0.1 to 0.2 percentage point rise in the annual growth rate.

Empirical results from Umoru and Anyiwe's (2013) study on tax structures and economic growth in Nigeria revealed that direct taxation is strongly and favorably connected with economic growth and that direct taxes account for a disproportionate share of the country's tax-based revenue profile. This and other findings demonstrate how emerging nations like Nigeria do not have the data to support the global transition from direct to indirect taxation. Therefore, rather than creating indirect tax systems, the Nigerian government should improve the direct tax systems.

Musanga (2007) examined the relationship between indirect taxes and Uganda's economic growth using data from 1987 to 2005. The investigation employed cointegration regression as a methodology. According to the study's results, an indirect tax change of 1% would have a damaging effect on economic expansion of 0.53%. A high yet unfavorable correlation between indirect tax and Uganda's economic growth was shown by the indirect tax variable's t-value of (-2.588).

The Nigerian government is dedicated to promoting a macroeconomic environment that is stable, marked by low and stable inflation and prudent fiscal policies. However, from the late 1970s to the present, the government has continued to run enormous, ongoing, and unsustainable deficits. Despite recent economic reform initiatives prioritizing demand management through fiscal restraint, Nigeria's economy

has experienced a substantial budget imbalance and a slowing rate of economic growth. When Fredrick and colleagues (2013) examined the relationship between budget deficits and economic growth, they discovered that the two were positively correlated. Therefore, for the purpose of preventing domestic borrowing from discouraging private sector investment, policymakers should develop and put into place policies that promote responsible financial management and improved tax collection by the revenue authority.

2.4 Literature Review

Since it is assumed that all other elements influencing economic growth are fixed and that the only variables are physical and human capital, the so-called slow growth model argues that taxes shouldn't have an impact on long-term growth rates. However, taxes, particularly direct taxes, have the potential to either slow or speed up growth via increasing welfare. If the direct taxation system adds to the growing wealth gap between the richest and the poorest, then this might happen. Income and profit taxes should be carefully designed in a progressive way based on levels of income and profit to promote fairness and subsequently societal wellbeing Vartia (2008), Zilcha and Eldor (2004), Mendoza et al. (1997), Engen and Skinner (1996), as well as Myles (2000), all argued that cutting consumer and property taxes while rising income taxes over time causes slower growth. Taxes on income and corporations that are too high reduce the incentives for people and companies to take chances and make investments. However, one may equally contend that low taxes only act as a short-term inducement for investment and

risk-taking. This is done to ensure that businesses may succeed even in countries with favorable tax regimes, like those that are secure and have good infrastructure. Only if the government has sufficient funds to meet its costs, which are funded by taxes, is this feasible. According to actual data, economic growth is negatively impacted by high income and company taxes. The essential question is whether taxation genuinely promotes economic growth or whether a booming economy provides enough tax revenue for the states. Empirical results only show how high taxes hinder economic growth; they do not show how tax payments made by people and corporations may be influenced by economic growth. This doesn't clearly show how a direct tax structure could be chosen to boost welfare, enhance equity, and promote economic justice.

2.5 Theoretical Literature

2.5.1 Theories of Taxation and Economic Growth

2.5.1.1Solow's Theory of Economic Growth

When the law of diminishing returns to scale is in effect, economic growth, according to Solow's 1956 theory of economic growth, is brought on by an increase in both physical capital and human capital. According to this hypothesis, a nation's capital supply's size, technological level, and labor force size all affect an economy's output (y).

First off, high tax rates on business and individual income may deter investment. High taxes may also limit people's ability to work, limit the number of hours they put in,

or affect their decision to pursue higher education, more training, or other professional development. Additionally, tax policy may restrain productivity growth by prohibiting venture capital investment in "high-tech" businesses and participation in research and development (R&D), both of which have the potential to increase the productivity of labor and capital that currently exist (Harberger, 1962, 1966).

Last but not least, excessive labor supply taxes may deter people from pursuing low-paying jobs with high social productivity. The effective use of human capital would be hindered by this. In other words, countries with high taxes may see lower values of and which tend to restrain economic growth even when they retain constant rates of investment in both human and physical capital (Engen and Skinner, 1992).

2.5.1.2 Endogenous Growth Model

Fiscal policy affects both the level and growth rate of per capita output, according to the endogenous growth theory. Barro (1990) as well as Barro and Sala-i-Martin (1992, 1995). They used a Cobb-Dowling production function with commodities and services provided by the government (g) as an input to demonstrate the benefits of productive government spending and the drawbacks of direct taxes.

The endogenous framework, which served as the foundation for the investigation into the relationship between direct taxation and economic growth in Nigeria, provided a dynamic steady state of growth. According to the endogenous growth model, which King

and Robelo (1990) popularized, government interventions like taxation can steadily raise per capital productivity if they are exceptionally creative. The model's economic conclusion is that both long-term and short-term government spending and taxation can have a consistent impact on output.

The continuous growth rate of the Solow model is changed by the advancement of technology, according to King and Rebelo's (1990) research on endogenous growth theories. Governments can entice companies to invest in capital projects and take calculated risks with R&D by seeking tax and spending changes. The rest of the economy benefits from this in a positive way. Due to their long-term negative consequences on the economy, taxes are a lousy concept. Increased direct taxes impede economic growth by lowering personal income and discouraging private investment and spending. In addition, increasing direct taxes discourages people from engaging in as many profitable and tax-paying enterprises, which slows economic expansion (Mendoza et al., 1997; Myles, 2000; Engen and Skinner, 1996). b) Model of Extracellular Growth To demonstrate how various tax policies might impact economic growth, Zagler and Durnecker (2003) offer a straightforward growth model. It appears that the creation of a neoclassical model of economic growth is the primary theoretical goal of exogenous growth theories. Long-term growth rates are influenced by the rate of population growth and the degree to which labor can speed up exogenous technological advancement. Saving hence has little impact on capital growth rate. Endogenous growth is described in the new growth literature as an increase in production beyond what exogenous variables by themselves would permit.

These contributions, as opposed to the Solovian model, are novel in that the rate of technological development and, consequently, the rate of growth, are now shown to depend on the choices made by agents rather than being assumed to be predetermined from without. The main justification for endogenous growth is the possibility that as capital is accumulated, returns may rise, resulting in long-term positive growth rates. Tax laws are said to have an impact on people's decisions to invest in technology and save money, which affects economic growth Zilcha and Eldor (2004) It is assumed that these systems approach income and losses differently throughout the majority of corporate tax schedules: Taxes on earnings are higher than the rate at which losses are offset. Companies in this situation are only eligible for a partial rebate if the hazardous initiative is successful and are subject to the statutory corporate tax rate otherwise. Due to corporate taxes and tax incentives, which have the power to impede productivity growth, research and development (R&D) activities, the productivity of which may be enhanced through spillover effects from R&D activities, may be diminished. Vartia (2008) asserts that taxes have an impact on productivity in three different ways, including through affecting factor pricing and factor allocation, promoting entrepreneurship, and boosting R&D. High corporation taxes make it less financially feasible for businesses to invest in technological advancements and other innovations that boost productivity, which lowers the formal sector's productivity and is bad for long-term economic growth. When corporate taxes are high, business risk-taking declines, which has a negative impact on

output. According to Ormaechea and Yoo (2012), higher income taxes that are offset by lower consumer and property taxes lead to less favorable long-term growth.

They also discovered that switching from income taxes to property taxes has a strong positive association with growth, that raising value-added and sales taxes while lowering income taxes is also associated with faster growth. Finally, they found that social security contributions and personal income taxes have a stronger negative association with growth than corporate income taxes. Worlu and Emeka (2012) examined how tax revenue from 1980 to 2007 impacted Nigeria's infrastructure development and how that affected economic growth. The results showed that tax revenue promotes economic growth by funding infrastructure development. The study also shown that tax income had no independent effect on growth through infrastructure development or foreign direct investment, but rather merely permitted infrastructure development and foreign direct investment to respond favorably to increases in output. To ensure that tax revenues have the maximum possible economic impact, the government must create new fiscal laws and regulations and improve those that already exist in line with macroeconomic objectives. These actions will put a stop to tax evaders, curb corruption, and stop tax avoidance. Through this, tax administration will be improved, and public employees' handling of tax money will be transparent and accountable. Because of this, the tax base will be wider, which will increase growth.

The Nigerian government has created economic policies over time with the aim of promoting private investment, which was active in the country's first decade of independence but dwindled in later decades. Stephen (2012) examined how Nigeria's fiscal policy affected private investment from 1964 to 2010. The results of the study demonstrated that fiscal policy's formulation and execution have an impact on the level of private investment in Nigeria. The study found that taxes, spending by the government, paying off debt, and fiscal reforms may either boost or deter private investment over the short- and long-terms. The results of the study indicate that appropriate measures should be implemented when creating a fiscal policy framework to ensure that, as other governmental objectives are attained, the growth of private investment is taken into account. Governments all around the world, including that of Nigeria, invest money in pursuing a number of objectives, one of which is economic growth. In order to examine the relationship between public spending and economic growth in Nigeria, Abdinasir (2013) examined time series data spanning the years 1980–2010.

Government spending on infrastructure and agriculture promotes economic growth, according to the study's findings, whereas expenditure on health and education was found to have a negative impact on economic growth. This indicates that the government must raise financing for growth-promoting projects in order to see economic growth. Tax rate reductions or tax reform do not ensure that the long-term rate of economic growth would increase, despite the fact that the income tax system has an impact on the economy (Gale and Samwick, 2014). In their paper on the effect of income

tax changes on economic growth, they discussed how tax rate reductions may encourage people to work, save, and invest, but they will also probably result in an increase in the federal budget deficit, which will eventually cause the nation's saving to decline and interest rates to rise. Base-widening measures can counteract the benefits of tax rate decreases on budget deficits, but they also have a less significant impact on investment, saving, and labor supply, which have a less significant direct impact on growth. According to the results, not all tax changes will have the same impact on growth. Long-term effects on economic growth will be more favorable if incentives are improved, subsidies are reduced, windfall gains are avoided, and deficit financing is avoided, but these measures may also require balancing equality and efficiency.

2.5.2 Impact of Taxation on Accumulation of Capital

According to Daniel and Jefferey (2013) and Dwenger (2009) (Pfaffermayr, Stockl, and Winner, 2008), corporation taxes have a detrimental effect on a company's age, capital structure, and return on invested capital. While research by Feld and Heckemeyer (2008) and Schraztenstaller, Wagener, and Kohler-Toglhofer (2005) revealed a link between corporation taxes and foreign direct investment (FDI), Brebler (2012) contends that a lower tax rate is what promotes the inflow of FDI. Adina (2009) investigated the impact of tax policy on business owners and their localization choices in the context of globalization and high variable mobility. According to Daniel and Jefferey (2013) and Dwenger (2009) (Pfaffermayr, Stockl, and Winner, 2008), corporation taxes

have a detrimental effect on a company's age, capital structure, and return on invested capital. While research by Feld and Heckemeyer (2008) and Schraztenstaller, Wagener, and Kohler-Toglhofer (2005) revealed a link between corporation taxes and foreign direct investment (FDI), Brebler (2012) contends that a lower tax rate is what promotes the inflow of FDI. Adina (2009) investigated the impact of tax policy on business owners and their localization choices in the context of globalization and high variable mobility, political harmony, etc. The significance of corporate taxation rates in developing countries was discussed by Vill and Barreix (2002), who assert that the majority of these countries heavily rely on tax policy as a tactic for recruiting foreign investment. Understanding how corporation taxes hinder the environment for entrepreneurship and prevent economic growth is crucial. Talops and Vancu (2009) came to a similar result, however their research into industrialized countries shows that the corporate tax rate is not the decisive element of investment. How tax progressivity influences businesses' localization decisions is determined by the presence of tax neutrality (Wong, 2011).

The way that business owners decide how to realize their investments is also impacted by labor taxes. The underlying explanation of this phenomena, according to Alesina et al. (1999), is that as the labor tax rate increases, employees work harder to raise their income to a certain level prior to taxation (which may also lead to a decrease in the number of open positions). Businesses are under pressure to reduce their profits as a result, which lowers investment. High labor taxes discourage companies from locating their investments locally and have an effect on how capital accumulates, according to

Feld and Kirchgässner (2001) and Overesch and Voeller (2010). According to a paper by Dackehag and Hansson (2012), for example, the aforementioned labor taxation channels have a detrimental influence on economic growth.

Consumption taxes may also affect how much capital is set aside or how an investor decides to invest. Salanié (2003) asserts that this type of taxation has a similar effect on investment as labor taxes do when there is no risk.

2.5.3 Impact of Taxation on Human Capital

Taxes have an effect on human capital, the next component of the growth model. In steady-state economies, investing in education pays off because human capital has such a significant impact on increasing marginal output. Studies by Jones and Manuelli (2001) and Teixeira and Fortuna (2003), for instance, and others have demonstrated a connection between long-term economic growth and expenditures in human capital. According to Lin (2001), there can be a beneficial relationship between economic growth and taxation if tax resources are only used for accumulating human capital. Each organization only makes one investment in its employees' training and development, usually during the first several months of work (Becker, 1993). However, while investing in human resources, businesses must distinguish between general and specific capital. Employees can use general capital at other businesses as well, but since they are not liable for any investment costs, the employer is able to pay the employee more (which is equivalent to higher labor productivity). Employers therefore require that workers pay for

expenditures in general human capital (Kotlán, Machová, and Janková, 2011). When it comes to specific capital, things are different because employee productivity only rises with the individual employer, who is logically prepared to bear some of the investment expenses and pay the worker a larger income than is indicative of his or her output. But because the employer takes on the risk of losing the worker, the compensation will be less than the increase in production (related to the investment in particular human capital) (Kotlán, Machová, and Janková, 2011). It is crucial to recognize that human capital is infamous for being illiquid, extremely risky, and offering an inadequate level of certainty (Grochulski and Piskorski, 2007). It is specifically for these reasons that financial institutions only provide funds for investment into human capital at a low rate. Tax relief is the main motivator for a firm to spend money on human resources (Jacobs, 2007).

CHAPTER THREE

RESEARCH METHODOLOGY

The following subheadings are explored in this chapter's discussion of the research methodology and procedures utilized to conduct this study;

3.1 Research Design

This study employed a descriptive survey design. Economic growth and direct taxation were explored in the research design. An investigation into a group of people, things, events, or other things is done through a survey study, which collects and analyzes data from a small sample of those things that are thought to be typical of the full group. Surveys will be the research tool utilized to collect the data needed for this analysis. The data will enable the researcher to provide a summary of the current situation based on direct tax and economic growth. The results will be statistically analyzed before being written up in a research report.

3.2 Population of the Study

One hundred (100) out of Benin City's total population are the subjects of the study, and the researcher is curious to learn more about them. Nigeria has a sizable population, thus the researcher's population of study was Benin City, which she chose at random. The researcher opted to utilize 100 subjects out of the entire population of the study since the population of the citizens of Benin is too huge to cover.

3.3 Sample size and Sampling Procedures

Out of the total population of Benin City, one hundred (100) residents will be the study's sample. The Taro Yamani formula will be used by the researcher to determine the study's sample population because the target population is so large.

3.4 Research instrument

Surveys will be used to gather data. 100 The aims of the study will be reflected in the questions and statements that will be included in the questionnaires. Questionnaires will be used throughout the investigation. There were two sections on each of the questionnaires. While Section A requested personal information, Section B dealt with Direct Tax and Economic Growth.

3.5 Validity of the instrument

A test's validity refers to how closely it measures the variables it claims to (Borg & Gall, 2003). The degree to which a measuring tool adequately addresses the investigative issues guiding the study is referred to as its content validity (Mugenda & Mugenda, 2003). By contacting the supervisors' knowledge, the content validity of this study was determined. These specialists will examine each question in the questionnaire and do their own analysis to determine whether the questions pertaining to the research objectives fall within the scope of the study. In order to enhance the tools, professional corrections will be taken into account.

3.6 Reliability of the instruments

On the structured questions, a test-retest methodology was utilized to evaluate the instrument's dependability. The identical instrument was given to the same respondents twice as part of this test-retest methodology. After a week had passed, the retest was conducted. Using Pearson's Product Moment Correlation Coefficient, the dependability of the scores from both testing windows will be evaluated.

3.7 Method of Data collection procedures

The Research tool that will be used in generating the primary data for this research work is the questionnaire which will be administered to the students and retrieved on the spot.

3.8 Data analysis techniques

Data will be edited to identify and eliminate errors made by respondents. Coding will be done to translate question responses into specific categories descriptive statistics such as frequency distribution and percentages will be used to analyze the data. Qualitative data will be analyzed using content analysis in which all the responses were categorized according to their thematic areas and analyzed according to their contents. Statistical Package for Social Sciences (SPSS) software will be used to aid in the analysis of data and presentation was done on tables.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS AND DISCUSSION OF FINDINGS

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

DATA ANALYSIS

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding.

A total of 100 (hundred) questionnaires were distributed and 100 questionnaires were returned.

Age distribution of the respondents

TABLE I

Age distribution of the respondents

Response		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18 - 34	35	35.0	35.0	
	34 – 49	45	25.0	25.0	
	50 above	20	20.0	20.0	
	Total	100	100.0	100.0	100.0

From the above table it shows that 35% of the respondents were 18-34 years old while 45.0% of the respondents were 34 – 49 years old while 20.0% of the respondents were 50 years old and above.

Gender distribution of the respondents

TABLE II

Gender distribution of the respondents

Response		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	61	61.0	61.0	
	Female	39	39.0	39.0	
	Total	100	100.0	100.0	100.0

From the above table it shows that 61.0% of the respondents were male while 39.0% of the respondents were female.

Level of education of respondents

TABLE III

Level of education of respondents

Response		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary	0	0.0	0.0	
	Secondary	10	10.0	10.0	
	Post-Secondary	25	25.0	25.0	
	Polytechnic	20	20.0	20.0	
	College of Education	15	15.0	15.0	
	University	30	30.0	30.0	
	Total	100	100.0	100.0	100.0

The above tables shown that 0 respondents which represents 0.0% of the respondents are in primary school, 10 respondents which represents 10.0 % are in secondary school, 25

respondents which represents 25.0% of the respondents are in post - secondary,20 respondents which represents 20.0% of the respondents are in polytechnic, 15 respondents which represents 15.0% of the respondents are in College of Education, while 30 respondents which represents 30.0% of the respondents are in the university.

Occupation of respondents

TABLE IV

Occupation of respondents

Response		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Student	56	56.0	56.0	
	Business	7	7.0	7.0	
	Farming	3	3.0	3.0	
	Civil Servant	10	10.0	10.0	
	Other	24	24.0	24.0	
	Total	100	100.0	100.0	100.

The above tables shown that 56 respondents which represents 56.0% of the respondents are students, 7 respondents which represents 7.0 % are business owners, 3 respondents which represents 3.0% of the respondents are farmers, 10 respondents which represents 10.0% of the respondents are civil servants, while 24 respondents which represents 24.0% of the respondents are others.

Question 1

What is the impact of Company income tax to the development of the economy of Nigeria?

S/N	Question items	Agree	%	Disagree	%
1	There is impact of company income tax on the growth of the economy of Nigeria.	49	49.0	51	51.0
2	There is a relationship between corporate income tax and economic growth in Nigeria.	30	30.0	70	70.0
3	Tax revenue has a significant impact on the economy of Nigeria	22	22.0	78	78.0

In the table above, the researcher asked the respondent if there is impact of company income tax on the growth of the economy of Nigeria, it can be seen that 49 respondents which represents 49.0% of the respondents agreed while 51 respondents representing 51.0% of the respondents disagreed, 30 respondents which represents 30.0% of the respondents agreed to the fact that there is a relationship between corporate income tax and economic growth in Nigeria while 70 respondents representing 70.0% of the respondents disagreed, 78 respondents which represents 78.0% of the respondents agreed to the fact tax revenue has a significant impact on the economy of Nigeria while 22 respondents which represents 22.0% of the respondents disagreed.

Question 2

What is the impact of Customs excise and Duties to the development of the economy of Nigeria?

S/N	Question items	Agree	%	Disagree	%
1	There is impact of custom and excise duties on the growth of the economy of Nigeria.	21	21.0	79	79.0
2	There is a relationship between personal income tax and economic growth in Nigeria.	30	30.0	70	70.0

In the table above, the researcher asked the respondent if there is impact of custom and excise duties on the growth of the economy of Nigeria, it can be seen that 21 respondents which represents 21.0% of the respondents agreed while 79 respondents representing 79% of the respondents disagreed, 30 respondents which represents 30.0% of the respondents agreed to the fact that there is a relationship between personal income tax and economic growth in Nigeria while 70 respondents which represents 70.0% of the respondents disagreed.

Question 3

What is the impact of Value Added tax to the development of the economy of Nigeria?

S/N	Question items	Agree	%	Disagree	%
1	There is impact of value added tax on the growth of the economy of Nigeria.	45	45.0	55	55.0
2	Direct taxes relates to economic growth in Nigeria.	40	40.0	60	60.0

In the table above, the researcher asked the respondent if there is impact of value added tax on the growth of the economy of Nigeria, it can be seen that 45 respondents which

represents 45.0% of the respondents agreed while 55 respondents representing 55% of the respondents disagreed, 40 respondents which represents 40.0% of the respondents agreed to the fact that Direct taxes relates to economic growth in Nigeria while 60 respondents which represents 60.0% of the respondents disagreed.

Discussion of findings

The result of the findings shows that there is little or no impact of Company income tax to the development of the economy of Nigeria looking at the current situation of the economy, there is no impact.

The result also shows that Customs excise and Duties has no impact to the development of the economy of Nigeria.

Finally the result reveals that Customs excise and Duties has little or no effect to the development of the economy of Nigeria.

CHAPTER FIVE

CONCLUSION

5.1 Conclusion

According to the study, there is a relationship between direct taxes, particularly Personal Income and Corporate Income Taxes, and economic growth. This suggests that a strong economy will draw significant investments from both foreigners and residents, which will create jobs to draw in personal income tax and company profits to draw in corporation tax money. Therefore, when there is sufficient revenue collection in the economy, it lowers the burden of borrowing, thereby boosting public spending, which in turn encourages investment, enhances the welfare of the people, and motivates them to pay taxes without abusing the system.

When examining numerous studies from the perspective of how taxes affect particular macroeconomic variables, it becomes clear that personal income tax, corporate income tax, and property tax are frequently identified as the main tax forms in econometric modeling. Additionally, the effects of these taxes on economic growth as measured by the GDP are the ones that are most closely examined.

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