



Effects of Oil and Non-oil Tax Revenue on Economic Growth in Nigeria: Evidence of Quarterly Tax Inflows from 2010 to 2019

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Abstract: Oil boom in 1970s have positive and negative impact on the Nigerian economy. The recent oil price dwindling in the world has created problems for government of the country to adequately generate revenue to settle government expenditures. The study investigated the effects of oil and non-oil taxes revenue on economic growth in Nigeria. Gross Domestic Product (GDP) was used as proxy for economic growth, while oil tax revenue was proxy with Petroleum Profit Tax (PPT); non-oil taxes were proxy with Company Income Tax (CIT), Capital Gain Tax (CGT), Stamp Duties (SD) and Education Tax (EDT). Ex-post facto research design was adopted and secondary data were sourced from the Federal Inland Revenue Service (FIRS) and Central Banks of Nigeria (CBN) Statistical Bulletin on quarterly basis for nine years (2011-2019). Descriptive statistics, Unit roots test, Toda Yamamoto (Granger Causality Test and Wald Test) were used to analyze the time series data. The results of the study showed that oil tax revenue have no influence on economic growth while non-oil taxes have effect on economic growth. Therefore, the study recommended that government need to initiate regular tax reforms that will encourage small and medium scale enterprises (SME's) and encourage full diversification of the economy into technological, agricultural, mechanical and productivity aspects to improve the standard of living of the citizens.

Keywords: Gross Domestic Product, Taxes, Oil Tax, Non-oil Tax, Revenue

1. Introduction

The growth and development of a country depends on the ability to generate adequate revenue and considering the pattern of expenditure incurred. The revenue derived from economic activities must be effectively and judiciously utilized for capital project, economic re-structuring and considerable government expenditures. The fiscal policy aspect of government enhances the process of generating revenue through taxation and considering the pattern of expenditures to be applied. Taxation is basically levy on profit to raise fund which are usefully for economic growth and development of a country's economy but issues of tax evasion and tax avoidance through tax loopholes reduces tax amount and this results to decrease in the government revenue. According to Ilaboya [5] tax can be defined as compulsory

levies imposed on individuals, firms and corporate bodies which accrued to government for rendering essential services, financing government expenditure and fiscal planning purposes. Onwuchekwa and Aruwa [19] defined tax as a mandatory payment made by all citizens to the government of a country from which essential services are rendered, without explanations on how the generated money was spent or balancing the services provided with the money generated. The basic necessities and services of a country could be achieved through an efficient and effective tax system. In order to increase the standard of living of citizens, there is need to provide basic necessities and services in the country through efficient and effective tax system [15].

Nigeria is the largest oil producing country in sub-Saharan Africa and a member of OPEC since 1971 with an average daily production volume of over two million barrels in 2019.

Presently, Nigeria is the thirteen largest oil producers worldwide. The petroleum industry accounts for above 9% of the country's GDP and 90% of the export value. Nigerian economy largely depends on crude oil proceeds as major source of revenue since 1970s (OPEC, 2019). Yahaya and Yusuf [23] explained that oil revenue is obtained from petroleum sales proceeds which attract petroleum profit tax, royalty and gas tax while non-oil revenue is derived from other economic activities such as banking, commerce, marketing, communication, transportation, trading, importation and exportation. Revenues from direct and indirect taxes collected from other sectors of the economy, except the oil sector are categorized as non-oil tax revenue. Personal income tax (PIT), capital gain tax (CGT), withholding tax (WHT), education tax (EDT) and company income tax (CIT) are examples of direct taxes while indirect taxes are import duties, custom and excise duties and value added tax (VAT). Considering the fact that Nigeria government derived much revenue from crude oil proceeds despite other productive activities in the country. Hence, there is need to view government sources of revenue from oil and non-oil economic activities as well as considering the effect of these taxes on gross domestic products (GDP).

Several tax reforms and measures have been adopted by the Nigerian government in order to improve the oil and non-oil tax revenue contribution to the overall government revenue. Nigeria experienced a drop in total revenue in 2016 due to dwindling oil revenue [12]. The reduction in the oil revenue has made Nigeria government to consider other medium of realizing funds such as increase the tax base to aid tax revenue increase for capital projects and welfare. According to Otu and Adejumo [20], the proportion of tax revenue in the total country revenue is small and these have really affected the accrued revenue to the Federal Government. Issues of oil prices decline have also affected the available funds to share among the Federal, State and Local Governments in Nigeria [3]. The major challenge of decrease in tax revenue from oil sector is dwindling oil revenue in the world and it affected Nigeria so much due to over-dependence on crude oil as the major source of revenue which caused setback in economic planning, growth and development [4]. Also, multiple taxation issues, bureaucratic taxation system, unnecessary taxes, embezzlement of tax funds, lack of trained personnel and ineffective tax reforms have been the problem of tax revenue.

Most previous studies focused on the different tax revenue and its effect on economic [4, 5, 18], but very few focused on the comparison between the effect of oil and non-oil taxes revenue on Nigerian economic growth. Also, none or few researches used quarterly tax inflow to examine the effect of petroleum profit tax (Oil tax revenue) and non-oil tax revenue (Company Income Tax, Capital Gain Tax, Stamp Duties and Education Tax) using Toda Yamamoto. Therefore, this study compared the effects of oil and non-oil tax revenue on economic growth using variables such as Gross Domestic Product (GDP) to proxy economic growth, Petroleum Profit Tax (PPT) to proxy oil tax revenue and Company Income Tax (CIT), Capital Gain Tax (CGT), Stamp Duties (SD) and

Education Tax (EDT) as proxies for non-oil tax revenue.

1.1. Objectives of the Study

The main objective of this study is to analyze the comparative effects of oil and non-oil tax revenue on economic growth of Nigeria. Other specific objectives include:

- i. To examine the influence of oil tax revenue on Gross Domestic Product of Nigeria.
- ii. To evaluate the effects of non-oil tax revenue on Gross Domestic Product of Nigeria.

1.2. Research Hypotheses

The following research hypotheses are stated in their null form:

Ho₁: Oil tax revenue does not have significant effect on Gross Domestic Product of Nigeria.

Ho₂: There is no significant effect of non-oil tax revenue on Gross Domestic Product of Nigeria.

2. Literature Review

2.1. Conceptual Review

According to Jhingan [24] economic growth can be defined as when production increases and consumption of goods and services also increases. It can also be defined as increase in production and per capita income. The economic growth can be increasing in real gross domestic product (GDP). Therefore, GDP can be defined as total value of goods and services produced in a country and the revenue derived from economy activities usually a year. It is also the summary of all economic activities of a country in a year. Nigeria GDP growth rate in 2017 was 0.81% and growth rate in 2018 increased to 1.92% reflecting 1.11% annual change. Also, in 2019 the GDP growth rate showed 2.21% revealing annual change of 0.29% (www.macrotrends.net).

Taxation has been regarded as the most essential source of revenue for government, contributing about ninety percent (90%) of total revenue generated [2]. Ezu and Okoh [7] stressed that taxation is a theory which imposes tax on citizens. The imposition of tax is likely to generate revenue which should be used in the provision of amenities, both social and security and create condition for the economic well-being of the citizens. Soyode and Kajola [6] defined tax as compulsory money exaction by government authority for general public purposes. They defined taxation as a medium used by government in raising money from individual, firms and corporate bodies through contribution for essential purposes. The purposes of taxation are numerous and it includes building infrastructural facilities, rendering essential services, administrative purposes and debt financing purpose. Taxes are categorized into oil tax and non-oil tax revenue. According to Ogba, Park and Nakah [16], non-oil revenue is income generated from the economic activities which includes commodities sold in the international market, excluding crude oil (petroleum product), while the taxes levied on non-oil

revenue are non-oil taxes. Kromfit and Gukat [9] revealed that the economic activities that generate non-oil tax revenue comprises manufacturing, telecommunication, agriculture, finance, tourism, real estate, entertainment, construction, health sector, etc. Oil revenue is revenue obtained from petroleum activities (exploration and development). The tax levied on petroleum activities is Petroleum Profit Tax (PPT).

2.2. Theoretical Review

Ramsey [21] propounded the optimal tax theory which was later established by [14]. The optimal tax theory considered the implementation function of taxes based on the tax design, social welfare and economic constraints. Mankiw, Weinzierl and Yagan [13] examined adopted equitable ability of distribute and view personal features, attributes and income level as bases for optimal marginal tax rate schedules. They further explained that only final goods ought to be taxed and typically they ought to be taxed uniformly (actual tax policy). The theory is related to oil and non-oil taxes because it helps in reducing the adverse effects of taxes on private investment, thereby, increasing investments toward an attainable level in a no-tax environment due to the granting of an investment tax credit.

Adam [1] proposed in his work “wealth of nation expediency theory” which must pass the test of practicality and in choosing tax policy or proposal, it must be the only consideration measures by government authority. The expediency theory considered the economic and social objectives; effect of tax system should be treated as irrelevant. The principle of taxation explained that in tax collection instrument, government must consider whether the taxes levied are economy, effective and efficient. Tax policies set up by the government are solution to economic and social issues such as unemployment, high inflation, inequitable distribution of income and regional disparities [3]. The theory helps to examine the effect of oil and non-oil taxes on the economy activities as test of practicality.

Wicksell [22] and Lindahl [10] developed benefit theory that explained that tax levied by government on individual should be based on the benefits obtained from social goods and services government rendered. The theory had been applied to such subjects as corporation taxes, tax progressivity, and taxes on property or wealth. The assumption of the theory was based on the relationship between the taxpayers and the government considering the benefit derived from the social goods (infrastructural facilities). Hence, the theory will help to reveal the effects of the oil tax and non-oil taxes on the economy growth considering the economic activities (GDP).

2.3. Empirical Review

Macek [11] evaluated the impact of taxation on the economic growth of OECD countries for 2000 to 2011. Multiple regression model was used to capture the linearity correlation between the variables of the study. Personal income tax, corporate income tax, social security contribution, property tax, value-added tax and tax on consumption were used as

independent variables, while economic growth variables such as gross domestic product, capital accumulation, human capital and government spending were used as dependent variables. The study revealed that non-oil tax was statistically significant on economic growth. In another study by Akwe [4], the impact of non-oil tax revenue on economic growth for 1993 to 2012 was investigated. Ordinary Least Squares Regression was adopted on secondary data and the findings revealed that non-oil tax revenue had impact on economic growth in Nigeria.

Kalas, Mirovic and Andrasic [8] investigated the United States from 1996 to 2016 to estimate the impact of taxes on economic growth. The study adopted correlation matrix to reveal effects of personal income tax, corporate income tax and social security contributions on gross domestic product. The study revealed a strong and positive relationship between tax revenue growth and non-oil tax and also found non-oil tax does not have a significant impact on gross domestic product. Similarly, Asaolu, et al. [5] examined the relationship between tax revenue and economic growth in Nigeria from 1994 to 2015. Auto Regressive Distributed Lag (ARDL) Regression and other post estimations techniques (Jarque-Bera test; Breusch-Godfrey LM and Ramsey Reset Test) were used in estimating the model. The findings revealed that non-oil taxes variables used had significant relationship with economic growth while PPT had no significant relationship with economic growth. In Okonkwo and Chukwu [17] study of government tax revenue and economic development in Nigeria from 1996-2017, it was revealed that tax revenue does not have significant effects on human development index in Nigeria after using Vector Autoregressive Estimates to estimate the model.

Oshiobugie and Akpokerere [19] carried out research on tax revenue and Nigerian economy from 2000 to 2017. The study adopted the ex-post facto research design while ordinary least square regression techniques were used to process the data gathered. The findings revealed that there is insignificant effect of tax revenue on economic growth and concluded that personal income tax and company income tax affect economic growth in Nigeria. In a recent work of Omes, Ngoke and Ordu [18], non-oil revenue and economic development of Nigeria for thirty (30) years from 1989 to 2018 was examined using descriptive and historical research design while regression was used for data analysis and interpretation. The finding reveals a positive relationship between non-oil revenue and GDP. Thus, it was concluded that non-oil revenue contributed positively to the economic development of Nigeria in both short and long run perspective.

3. Methodology

The research design adopted for this study is the expo-facto design. This design is used because it allows for easy collection of secondary data without influences. Judgmental Sampling technique was adopted in selecting the span years based on quarterly data availability. Quarterly data from 2010 to 2019 were obtained from the Federal Inland Revenue Services (FIRS) and Central Banks of Nigeria (CBN)

Statistical Bulletin. Gross Domestic Product (GDP) was used as proxy for economic growth, while oil tax revenue was proxy with Petroleum Profit Tax (PPT); non-oil taxes were proxy with Company Income Tax (CIT), Capital Gain Tax (CGT), Stamp Duties (SD) and Education Tax (EDT). Unit roots test, error correction model, Toda Yamamoto (Granger Causality Test and Wald Test) were adopted in analyzing the time series variables to estimate the parameters in order to reveal the effect of oil and non-oil tax revenue on economic growth. The statistical tools used for data analysis was E-views statistical software 9.0.

On the basis of theoretical exposition, the study adapted the model of [5] which is stated below:

$$\ln GDP_{it} = \beta_0 + \beta_1 \ln OTR_{it} + \beta_2 \ln NOTR_{it} + \mu_{it} \quad (1)$$

Where:

GDP = Gross Domestic Product

OTR = Oil Tax Revenue (PPT)

NOTR=Non-Oil Tax Revenue (CIT, CGT, SD and EDT)

β_0 = Intercept Coefficient

β_1 = Regression Coefficient of GDP with respect to OTR

β_2 = Regression Coefficients of GDP with respect to NOTR

μ = Error term

t = 2010, 2011...2019

4. Research Findings

4.1. Descriptive Statistics

Table 1 showed that GDP was positively skewed with a value of 0.4795 and it indicated that the data were asymmetrical in nature. Jarque-Bera statistic of 2.1449 with $p=0.3422>0.05$ indicated that the null hypothesis of normality was accepted which means that the data were normally distributed. OTR and NOTR series with skewness of -0.1915 and -0.0612 respectively suggested that all the variables were negatively skewed and asymmetric in nature since these values were less than zero. The Jarque-Bera statistic of 1.5649 ($p=0.4573>0.05$) and 0.1919 ($p=0.9085>0.05$) for OTR and NOTR respectively also showed that the independent variables were normally distributed and null hypothesis of normality was accepted.

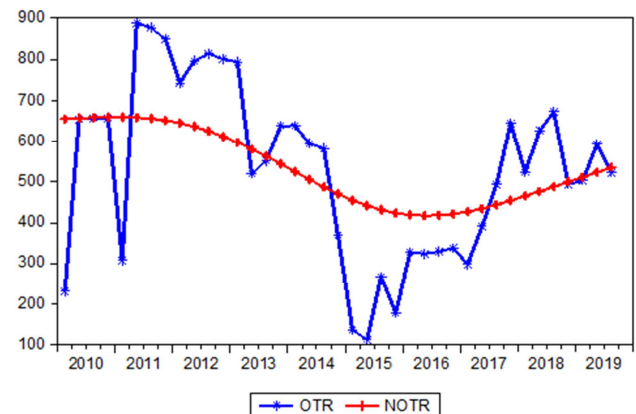
Table 1. Descriptive Statistics.

	GDP	OTR	NOTR
Mean	2403891	531.6583	533.8089
Median	2308091	551.8105	528.6971
Maximum	4002973	888.2278	972.0214
Minimum	1314151	111.9589	124.3520
Std. Dev.	7053175.	214.0595	201.6826
Skewness	0.4795	-0.1915	-0.0612
Kurtosis	2.3674	2.0965	2.6789
Jarque-Bera	2.1449	1.5649	0.1919
Probability	0.3422	0.4573	0.9085

Source: Authors' computation (2021)

Graphical Presentation of Oil and Non-Oil Taxes: OTR showed irregular time series data because there was unstable

data movement from 2010 to 2019, while NOTR showed exponential smoothing time series from 2010 to 2019 which reflects continuous decrease trend from 2010 to 2016 and upward increase from third quarter of 2016 to 2019. Comparatively, oil tax revenue showed irregular times series trend which denotes that petroleum profits tax (PPT) fluctuated based on price variation of crude oil, while for non-oil tax that showed regular or smooth trend denoted that various factors were responsible for trend since non-oil activities comprises several taxes like CIT, CGT, SD, EDT, WHT and VAT.



Source: Authors' Presentation (2021)

Figure 1. Oil and Non-Oil Tax Revenue Trend.

4.2. Unit Root Test

Augmented Dickey-Fuller and Phillips-Perron test statistic unit root tests were adopted to check the stationarity of data. The results on Table 2 revealed that none of the variables were stationary at level, but OTR and NOTR were stationary at first difference with $p<0.05$; therefore, the null hypothesis was rejected, while GDP with $p>0.05$ indicated that the variable was not stationary at level and first difference. Meanwhile, at second difference, GDP showed that $p<0.05$, that is, stationary at second difference, which suggested that the null hypothesis should be rejected at I (1). Hence, the OTR and NOTR variables were stationary at first difference, while GDP is stationary at second difference. Phillips-Perron test statistic unit root tests revealed that NOTR is stationary at level while GDP and OTR were stationary at first difference. In this situation, Toda Yamamoto test would be necessary.

Table 2. Unit Root Test.

Augmented Dickey-Fuller Test			
Variables	Level	First Difference	Second Difference
GDP	0.9998	0.5298	0.0001***
OTR	0.0762	0.0000***	-
NOTR	0.8913	0.0000***	-
Phillips-Perron Test Statistic			
Variables	Level	First Difference	Second Difference
GDP	0.9991	0.0000***	-
OTR	0.0779	0.0000***	-
NOTR	0.0020***	-	-

Source: Authors' computation (2021)

4.3. Toda Yamamoto (VAR Granger Causality)

In carrying out Toda Yamamoto, the following tests are considered useful.

4.3.1. VAR Granger Causality/Block Exogeneity Wald Tests

Table 3 showed the results of causality between the economy growth (GDP) as dependent variable with Oil Tax Revenue (OTR) and Non-Oil Tax Revenue (NOTR) as the relevant independent variables used in the study. Causality tests were conducted between the GDP and each independent variable. The null hypothesis in each case is that there is causation between the GDP and OTR while there is no causation between GDP and NOTR which is bi-directional granger causality. As a rule, null hypothesis is rejected if the probability of F-statistic in the table is less than 0.05. On table 3, it can be seen that NOTR caused the variations in GDP, while OTR caused no variations in GDP. The null hypothesis for NOTR ($p=0.0008<0.05$) was rejected which means there was no causality tests while the null hypothesis for OTR ($p=0.1733>0.05$) was accepted which showed that there were causality tests.

Table 3. Granger Causality Tests.

Variables	Chi-sq	Df	Prob.
Dependent variable: GDP			
OTR	4.979366	3	0.1733
NOTR	16.76403	3	0.0008
The overall Prob. Is 0.0078			
Dependent variable: OTR			
GDP	4.523169	3	0.2102
NOTR	6.401768	3	0.0936
The overall Prob. Is 0.2241			
Dependent variable: NOTR			
GDP	26.15700	3	0.0000
OTR	5.383269	3	0.1458
The overall Prob. Is 0.0001			

Source: Authors' computation (2021)

4.3.2. VAR Lag Order Selection

VAR lag order selection is necessary to reveal the optimal lag length of one (i.e. $m=1$) out of a maximum of 3 lag lengths as selected by Final Prediction Error (FPE), Schwarz Information Criterion (SC) and Hannan-Quinn Information Criterion.

Table 4. VAR Lag Order Selection Criteria.

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-1085.983	NA	3.7802	60.4990	60.6310	60.5451
1	-1020.940	115.6308	1.6802	57.3856	57.9134*	57.5698
2	-1005.648	24.6383	1.2002	57.0360	57.9597	57.3584
3	-992.1028	19.5647*	9.6102*	56.7835*	58.1031	57.2441*

Source: Authors' computation (2021)

LR: sequential modified LR test statistic (each test at 5% level)

FPE: Final prediction error

AIC: Akaike information criterion

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

4.3.3. Wald Test-Chi-square Analysis

Test of the Influence of Oil Tax and Non-Oil Tax Revenue on Economy Growth: Table 5 showed the Wald test of the influence of oil tax revenue (Petroleum Profit Tax) on economy growth (GDP). The value of GDP and OTR are 14.1160 > 7.815 table value of 0.05. and 2.8224 < 7.815 respectively at table value of df (3) at 0.05 criteria and probability value of GDP 0.0028 < 0.05 and OTR 0.4198 > 0.05. Coefficient of determination ($R^2 = 0.9659$) showed that changes in GDP can be explained by 96.59% variations in the OTR variable. This indicated that the null hypothesis was not rejected; therefore, there was no significant effect of OTR on GDP. Therefore, oil tax revenue (OTR) had no significant effects on gross domestic product (GDP). Durbin-Watson statistic (1.9172 \approx 2) indicated that there was no auto-correlation in the sample. This implied that the problem of

serial auto-correlation did not constitute a problem in this study.

Also, the Wald test of the effects of non-oil tax revenue (CIT, CGT, SD and EDT) on economy growth (GDP). The value of GDP and NOTR are 14.1160 > 7.815 table value of 0.05. and 21.148 > 7.815 respectively at table value of df (3) at 0.05 criteria and probability value of GDP 0.0028 < 0.05 and NOTR 0.0001 < 0.05. Coefficient of determination ($R^2 = 0.6684$) showed that changes in GDP can be explained by 66.84% variations in the NOTR variable. This indicated that the null hypothesis was rejected; therefore, there was significant effect of NOTR on GDP. Therefore, non-oil tax revenue (NOTR) had significant effects on gross domestic product (GDP). Durbin-Watson statistic (2.2212 \approx 2) indicated that there was no auto-correlation in the sample. This implied that the problem of serial auto-correlation did not constitute a problem in this study.

Table 5. Wald Test on Effects of Oil and Non-Oil Tax Revenue on Economy Growth.

Variables	Value	Df	Probability	Least Square
GDP	14.1160	3	0.0028	R-squared=0.9659; Durbin-Watson=2.5044
OTR	2.8224	3	0.4198	R-squared=0.6684; Durbin-Watson=1.9172
NOTR	21.148	3	0.0001	R-squared=0.6401; Durbin-Watson=2.2212

Restrictions are linear in coefficients.

Source: Authors' computation (2021)

4.4. Discussion of Findings

The empirical findings as stated above revealed that the asymptotic significance of the tested hypothesis one is greater than 0.05 decision criterion while asymptotic significance of the tested hypothesis two is less than 0.05 decision criterion. At 5% significant level, the result passed the overall significant test (F-test) which indicated that the estimated coefficient is equal to zero and the oil tax revenue (OTR) had no significant effects on gross domestic product (GDP), while non-oil tax revenue (NOTR) had significant effects on gross domestic product (GDP). Based on Nigeria present economy situation, oil revenue constitutes most of the total revenue generated in the country but proportion of tax paid on the profit generated does not commensurate. This could be due to high level of tax avoidance and tax incentives granted to oil producing companies in Nigeria. The revenue deriving from crude oil have been declining since 2016 due to several endogenous and exogenous factors such as illegal oil activities in Niger Delta, Saboteurs of crude oil and international countries organization such as OPEC conditions and reactions.

These findings of hypothesis one agreed with the works of some researchers like Macek [11], Akwe [4], Omes, Ngoke & Ordu [18] that non-oil taxes revenue had effects on GDP, but contradicted [8]. While the findings of hypothesis two supported the works of Asaolu, et al. [5] that oil tax revenue have no significant effect on gross domestic product.

5. Conclusion and Recommendations

The study investigated the effects of oil and non-oil tax revenue on economy growth. On the strength of the findings, the study concluded that oil tax revenue has no effects on economy growth, while non-oil tax revenue has effects on economy growth. In line with the theories (Optimal tax theory, expediency theory and benefit theory) adopted in this study, the findings justified the theories that taxes (direct and indirect) from petroleum and other economy activities should be fair, equitable and tolerable burden on the citizens. It is also evident that oil and non-oil taxes revenue helps in reducing the negative effect of taxes on private investment and hence, the level of investment tax credit is due to provision made by government of countries on frank investment in no-tax environment. The oil tax revenue insignificant effects on economic growth (GDP) in Nigeria might contributes to increase in unemployment rate and poverty level since government concentrate more on oil activities and give more tax incentives to oil companies which invariably reduces tax. Non-oil tax revenue has significant effects on economic growth (GDP) is an eye opener that other economic activities (such as technological, agricultural, mechanical and productivity) generate more revenue to the government that helps them in fiscal policy planning such as create job opportunities that will reduce unemployment, improves investment opportunities, human capital, physical capital,

financial development and stability.

Based on the findings of the study, government should focus more on non-oil tax activities of the country in order to formulating effective monetary and fiscal policy which will improve the GDP of the country at the short run and also at the long run. There is need for continuous growth in the GDP of a country as it will improve the standard of living of the citizens and reduces the cost of living. Investors are attracted to countries with growing GDP and it serves as determinant to invest in the country. Government should put in place a more effective tax administrative re-structuring mechanism will help government improve the tax revenue generation in order to reduce tax avoidance and tax evasion. Government need to initiate regular tax reforms that will encourage the small and medium scales enterprises (SME's) and also encourage full diversification of the economy in technological, agricultural, mechanical and productivity aspects for improvement of the country. To researchers, this study serves as an eye opener that in emerging economy such as Nigeria, oil tax revenue had no effects on economy growth while non-oil tax revenue had effects on economy growth; therefore, much focus on oil revenue without proper scaling of tax from other economy activities will have long term adverse effect of the economy growth and development.

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