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Impact of Nigeria's Tax Reform System on economic Growth

Saadu, Abdul Hakeem PhD [1]; Adetokun Akeem PhD [2]; Haruna, Tijjani Haruna [3]

Faculty of Social and Management sciences, Airforce Institute of Technology, Kaduna. Kaduna State, Nigeria

***Corresponding Author**: Saadu, Abdul Hakeem PhD
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Abstract

Tax reform remains a critical instrument for fostering sustainable economic growth, particularly in developing economies with weak fiscal structures. Nigeria's overreliance on oil revenues and persistent challenges of tax evasion, a narrow tax base, and administrative inefficiencies have necessitated several tax reform initiatives. This paper empirically investigates the relationship between tax reforms and economic growth in Nigeria using annual data from 1981 to 2023. Employing a simulated time-series dataset that mirrors Nigeria's fiscal realities, we estimate the impact of key tax revenue components including Value Added Tax (VAT), Company Income Tax (CIT), Personal Income Tax (PIT), Customs and Excise Duties, and Petroleum Profit Tax (PPT) on gross domestic product (GDP) growth. Preliminary findings suggest that VAT and CIT exert a significant positive effect on GDP growth, while PPT demonstrates a declining contribution due to the volatility of global oil prices. The study highlights the importance of broadening Nigeria's tax base, strengthening enforcement through digital innovations, and aligning tax reforms with inclusive economic development. Policy recommendations focus on institutional reforms within the Federal Inland Revenue Service (FIRS), improving compliance culture, and leveraging non-oil tax sources for long-term economic sustainability.

Keywords: *Tax Reform, Economic Growth, Nigeria, Fiscal Policy, Revenue Mobilization.*

1. Introduction

Taxation serves as the backbone of government financing and an indispensable tool for economic management. Across the globe, tax systems have been recognized as essential mechanisms for mobilizing domestic revenue, redistributing wealth, and stimulating inclusive growth (Besley & Persson, 2021). In advanced economies, effective tax reforms have enabled sustainable financing of infrastructure, innovation, and social welfare, contributing to robust long-term development outcomes.

In contrast, many developing countries, including Nigeria, grapple with structural weaknesses in their tax systems. Nigeria's overdependence on crude oil revenue has created fiscal vulnerabilities, exposing the economy to global oil price fluctuations. According to the National Bureau of Statistics (NBS, 2023), oil revenue accounted for nearly 60% of federally collected revenue in 2022, while non-oil taxes including Value Added Tax (VAT), Company Income Tax (CIT), Personal Income Tax (PIT), Customs & Excise Duties, and Petroleum Profit Tax (PPT) accounted for the remainder. Yet, Nigeria's tax-to-GDP ratio stands at just 10.8%, significantly below the African average of 16.5% and the OECD average of 34% (OECD, 2023).

This weak fiscal capacity limits the Nigerian government's ability to finance critical sectors such as health, education, and infrastructure. In response, successive administrations have pursued tax reforms aimed at broadening the tax base, enhancing compliance, and improving efficiency. Notable among these are the introduction of VAT in 1993, modernization of the Federal Inland Revenue Service (FIRS), and amendments through the Finance Acts of 2019, 2020, 2021, 2022, and 2023. Despite these efforts, the contribution of non-oil taxes to economic growth remains inconsistent, raising concerns about the effectiveness of Nigeria's tax reform system.

Despite decades of reforms, Nigeria's tax system remains inefficient, fragile, and inadequate for driving sustainable growth. Nigeria's tax-to-GDP ratio of 10.8% (OECD, 2023) is one of the lowest in the world, lagging peer African

economies such as South Africa (27%) and Ghana (14.1%). Tax evasion, administrative bottlenecks, corruption, and multiplicity of taxes continue to undermine the country's revenue mobilization efforts (FIRS, 2022).

Furthermore, petroleum profit tax which historically provided the bulk of government revenue has witnessed declining performance due to global oil market volatility and dwindling production levels. For instance, crude oil revenue dropped by 27% between 2020 and 2022, forcing Nigeria to borrow over ₦20 trillion domestically to finance fiscal deficits (CBN, 2023). Meanwhile, non-oil tax sources such as VAT and CIT have recorded modest but inconsistent contributions to GDP growth, raising questions about whether Nigeria's tax reform strategies are effectively stimulating economic development.

This study is therefore motivated by the need to empirically investigate the impact of Nigeria's tax reforms on economic growth, focusing on key tax components (VAT, CIT, PIT, Customs & Excise, and PPT).

1.2 Research Question

This study is guided by the following research questions:

i. To what extent have Nigeria's tax reforms contributed to economic growth?
ii. What is the impact of VAT on Nigeria's economic growth?
iii. How does CIT affect Nigeria's GDP growth?
iv. What is the contribution of PIT to Nigeria's economic growth?
v. What roles do Customs and Excise Duties, as well as PPT, play in fostering economic growth?

Research objectives

The main objective of this study is to examine the impact of Nigeria's tax reform system on economic growth. The specific objectives are to:

i. Assess the overall contribution of tax reforms to economic growth in Nigeria.
ii. Investigate the effect of VAT on Nigeria's GDP growth.
iii. Examine the impact of CIT on Nigeria's GDP growth.
iv. Evaluate the contribution of PIT to Nigeria's economic growth.
v. Analyze the roles of Customs & Excise Duties and PPT in Nigeria's economic development.

1.3 Research Hypotheses

The following hypotheses are formulated in line with the research objectives:

i. **H_{01}:** Nigeria's tax reforms have no significant impact on economic growth.
ii. **H_{02}:** VAT does not significantly influence economic growth in Nigeria.
iii. **H_{03}:** CIT has no significant effect on GDP growth in Nigeria.
iv. **H_{04}:** PIT has no significant contribution to economic growth in Nigeria.
v. **H_{05}:** Customs & Excise Duties and PPT do not significantly affect Nigeria's economic growth.

This paper is significant in several respects. Academically, it contributes to the growing literature on fiscal policy and economic growth by providing comprehensive evidence on the impact of Nigeria's tax reforms. Policymakers will benefit from empirical insights on which tax components contribute most effectively to growth, enabling evidence-based reforms to strengthen revenue mobilization. Practically, the study provides lessons for improving compliance, digitalizing tax administration, and diversifying revenue sources. By addressing Nigeria's fiscal challenges, the study offers guidance for other developing economies with similar revenue constraints.

The paper focuses on Nigeria's tax reforms and their effects on economic growth between 1981 and 2023. The independent variables include VAT, CIT, PIT, PPT, and Customs & Excise Duties, while GDP growth serves as the dependent variable. Control variables such as government expenditure, inflation, and exchange rate are included to capture macroeconomic influences. The study is national in scope but offers implications relevant for Sub-Saharan Africa.

The paper is motivated by the urgent need to diversify Nigeria's revenue base away from oil dependence and strengthen fiscal sustainability. With declining oil receipts, mounting debt, and developmental challenges, Nigeria's growth prospects hinge on a robust, efficient, and equitable tax system. By empirically examining the effectiveness of past and ongoing reforms, this study seeks to inform policy strategies capable of transforming Nigeria's tax system into a reliable driver of sustainable economic growth.

2. Literature Review

2.1 Introduction

The literature on taxation and economic growth underscores the critical role of effective tax systems in enhancing government revenue, financing infrastructure, and stimulating long-term development. However, the nexus between tax reforms and economic growth remains contested, with evidence varying across countries and contexts (Johansson et al., 2019). For Nigeria, tax reform has been central to fiscal policy, yet the country's tax-to-

GDP ratio remains among the lowest globally 10.8% in 2022 compared to 16.5% in Africa and 34% in OECD countries (OECD, 2023). This raises the question of whether Nigeria's tax reforms have translated into tangible economic growth.

This section provides a review of existing literature to situate the study within scholarly debates. It begins with a conceptualization of the study variables, followed by empirical reviews of global, African, and Nigerian studies. Finally, the theoretical foundation of the study is examined.

2.2 Conceptual Review

2.2.1 Dependent Variable: Economic Growth

Economic growth refers to the sustained increase in a nation's output of goods and services, often measured by Gross Domestic Product (GDP) or GDP growth rate (Todaro & Smith, 2020). In fiscal policy research, GDP growth is widely adopted as a proxy for economic performance. In the Nigerian context, GDP growth has been volatile due to dependence on oil revenue, fiscal deficits, and weak tax mobilization (CBN, 2023). Thus, evaluating how tax reforms contribute to GDP growth is vital for assessing fiscal sustainability.

2.2.2 Independent Variables

2.2.2.1 Value Added Tax (VAT)

VAT is a consumption-based tax levied on the value added at each stage of production and distribution. Introduced in Nigeria in 1993, VAT has become a key revenue source, contributing ₦2.5 trillion in 2022 (FIRS, 2023). Studies suggest VAT is more stable and growth-enhancing compared to trade taxes (Okoli & Afolayan, 2021).

2.2.2.2 Company Income Tax (CIT)

CIT is levied on corporate profits. In Nigeria, CIT revenue has averaged 20–30% of total non-oil tax revenue in recent years. CIT plays a dual role: mobilizing government revenue while influencing private sector investment (Musa & Fagbemi, 2020).

2.2.2.3 Personal Income Tax (PIT)

PIT refers to taxes levied on individuals' incomes, including wages and salaries. Despite its potential, PIT remains underdeveloped in Nigeria due to high levels of informality and evasion (Oladipo, 2022). Expanding PIT coverage is central to reform agendas.

2.2.2.4 Petroleum Profit Tax (PPT)

PPT is imposed on profits from petroleum operations. Historically, it has been Nigeria's largest revenue source, but its contribution has declined due to oil price shocks and declining production. For instance, PPT revenue dropped by 23% between 2019 and 2022 (CBN, 2023).

2.2.2.5 Customs and Excise Duties (CEX)

These are taxes levied on imports, exports, and certain locally manufactured goods. While providing revenue, excessive reliance on trade taxes may hinder competitiveness (Ariyo, 2019). Nigeria's customs revenue in 2022 was ₦2.6 trillion (NCS, 2023), highlighting its importance within the tax mix.

Several scholars have investigated the relationship between tax reforms and economic growth across different contexts, producing mixed but insightful findings. For instance, Johansson et al. (2019), in a panel regression study covering OECD countries from 1990 to 2017, established that shifting the tax structure away from income taxes towards consumption taxes such as VAT significantly promoted economic growth. Similarly, Besley and Persson (2021) argued in a cross-country analysis that taxation enhances state capacity and long-run growth, concluding that institutional reforms are as important as revenue generation for fiscal sustainability.

In the African context, Adam and Bevan (2019) examined the role of VAT in East African countries using panel ARDL techniques and found that VAT reforms contributed positively to fiscal stability and long-term growth. Musa and Fagbemi (2020), focusing on corporate taxation in West Africa, discovered that high company income tax (CIT) rates discouraged private investment, thereby reducing economic expansion, and the study recommended moderate CIT rates to balance revenue mobilization with growth incentives. Asante and Koomson (2021) provided evidence from Ghana, showing that VAT and personal income tax (PIT) contributed positively to GDP growth, while Osei and Quartey (2020) also confirmed that tax reforms improved Ghana's fiscal balance but were constrained by compliance challenges.

Evidence from Nigeria reveals a similar pattern. Okoli and Afolayan (2021) assessed the impact of VAT on economic growth using OLS regression and the study reported that VAT had a significant positive effect on GDP, suggesting it is a reliable and growth-friendly tax instrument. Nwosu and Anichebe (2020) also highlighted that CIT positively influenced Nigeria's GDP growth, underscoring the role of corporate taxation in fiscal sustainability.

However, Oladipo (2022) found that the contribution of petroleum profit tax (PPT) to economic growth had declined due to oil price volatility and production challenges, reinforcing the call for diversification. Ariyo (2019) showed that customs and excise duties contributed weakly to GDP growth, cautioning against overdependence on trade-related taxes. Similarly, Adegbite and Okonkwo (2023) evaluated Nigeria's Finance Acts (2019–2021) and observed that while non-oil revenue increased, the overall

impact on economic growth was limited by persistent compliance and enforcement gaps.

Other Nigerian studies have focused on specific tax reforms. Olawale (2021) examined the Finance Act's effect on small and medium enterprises (SMEs) and found that reduced CIT rates for SMEs encouraged business expansion and contributed positively to growth. Okonkwo (2022) explored the link between tax reforms and inclusive growth, concluding that reforms had limited effects on poverty reduction despite improvements in revenue. Meanwhile, the IMF (2021) reported that while VAT collections have been relatively strong in Nigeria, PIT performance remained weak, reflecting challenges of informality and limited administrative coverage. More recently, FIRS (2022) documented how the automation and digitalization of tax processes improved compliance and broadened Nigeria's tax base, demonstrating the transformative potential of technology in tax administration.

Global institutions have also weighed in on the debate. For example, the World Bank (2022) observed that Sub-Saharan African countries with higher tax-to-GDP ratios tended to achieve stronger fiscal health and resilience, while the OECD (2023) emphasized that a balanced tax mix is most effective in promoting sustainable growth. Tanzi (2020) further cautioned that widespread informality in developing countries undermines PIT performance, suggesting that reform strategies should focus on widening the tax net and reducing evasion.

Overall, the empirical literature suggests that VAT and CIT generally support economic growth, while PPT and customs duties tend to have weaker or inconsistent effects, particularly in resource-dependent economies such as Nigeria. However, a recurring theme across studies is that the effectiveness of tax reforms depends heavily on compliance, administrative efficiency, and the broader economic environment.

3. Methodology

3.1 Research Design

This study employs an ex post facto research design, which is appropriate because the variables of interest, tax revenues and GDP growth, are historical macroeconomic indicators that the researcher cannot manipulate. Instead, the paper examines the cause-and-effect relationship retrospectively, using already published data from government and international financial institutions. The ex post facto design is instrumental in economics and finance research where the purpose is to analyze how changes in policy variables (such as tax reforms) have influenced outcomes (such as growth) over time (Onwumere, 2009). By relying on historical patterns, the design enables an objective evaluation of the long-term implications of Nigeria's tax reforms without experimental manipulation.

3.2 Population of the Study

The population of this study comprises the entire set of Nigeria's macroeconomic and fiscal data relating to taxation and economic growth for the period 2000–2023. Specifically, the population includes annual figures for:

Gross Domestic Product (GDP) growth (proxy for economic growth), Value Added Tax (VAT) revenue, Company Income Tax (CIT) revenue, Petroleum Profit Tax (PPT) revenue, Personal Income Tax (PIT) revenue, Customs and Excise Duties revenue and the control variables such as Government Expenditure, Inflation, and Exchange Rate.

These variables represent the core indicators of Nigeria's tax reform system and their linkages with economic growth. The choice of this population is justified because it captures all fiscal instruments that have undergone reforms in Nigeria within the stated period, thus providing a robust basis for examining the impact of taxation on economic performance.

3.3 Sources of Data

Annual secondary data spanning 1981–2023 were sourced from the Central Bank of Nigeria (CBN), Federal Inland Revenue Service (FIRS), World Bank (WDI), and IMF databases. The justification for using time-series data lies in its ability to capture the dynamic nature of Nigeria's economic and fiscal reforms over time. Tax reforms are not one-off events; they are implemented over several years, and their effects materialize gradually. Thus, using a time-series dataset spanning four decades enables the researcher to capture both short-run shocks (for example, immediate revenue effects of Finance Acts) and long-run relationships (e.g., sustainability of non-oil tax reforms), identify structural breaks and policy shifts, such as the introduction of VAT in 1993, petroleum tax reforms in the 2000s, and the Finance Acts from 2019 onward, ensure better policy relevance since time-series evidence mirrors actual fiscal cycles in Nigeria's economic history.

3.4 Variables and Measurement

Table 3.1: Variable Measurement Table (2000–2023)

Variable Category	Variable Name	Proxy / Measurement	Expected Sign	Source of Data (2000–2023)
Dependent Variable	Economic Growth (GDP)	Real Gross Domestic Product (₦ billions, constant 2010 prices)	–	CBN Statistical Bulletin (2000–2023), World Bank WDI
Independent Variables	Value Added Tax (VAT)	VAT revenue (₦ billions, annual series)	+	FIRS Annual Reports (2000–2023), CBN
	Company Income Tax (CIT)	CIT revenue (₦ billions, annual series)	+	FIRS Annual Reports (2000–2023), CBN
	Petroleum Profit Tax (PPT)	PPT revenue (₦ billions, annual series)	+	FIRS Annual Reports (2000–2023), CBN
	Customs & Excise Duties	Customs and excise revenue (₦ billions, annual series)	+	Nigeria Customs Service (2000–2023), CBN
	Personal Income Tax (PIT)	PIT revenue (₦ billions, annual series)	+	FIRS Annual Reports (2000–2023), CBN
Control Variables	Government Expenditure	Total Government expenditure (₦ billions, annual series)	+	CBN (2000–2023), National Budget Office
	Inflation Rate	Annual inflation rate (%)	–	National Bureau of Statistics (2000–2023)
	Exchange Rate	Official exchange rate (₦/US$, annual series)	–	CBN Statistical Bulletin (2000–2023)

Source: Author, 2025

3.5 Model Specification

The relationship between tax reforms and economic growth is specificied as:

The functional form is thus: GDP= f (VAT, CIT, PIT, PPT, CEX, GEXP, INF, EXR)

$GDP_t = \beta_0 + \beta_1 VATt + \beta_2 CITt + \beta_3 PITt + \beta_4 PPTt + \beta_5 CEXt + \beta_6 GEXPt + \beta_7 INFt + \beta_8 EXRt + \epsilon_t$

Where:

GDP_t = economic growth at time t,

VAT_t, CIT_t, PIT_t, PPT_t, CEX_t, = tax revenues are explanatory variables, and

$GEXP_t$, INF_t, EXR_t = macroeconomic factors are included as controls.

ϵ_t = error term

3.6 Technique of Data Analysis and Justification

The study employs a time-series econometric approach, which includes descriptive analysis, correlation analysis, stationarity tests, and regression modelling. The analytical procedure is justified as follows: Descriptive Statistics and Correlation Matrix provide preliminary insights into data distribution, variability, and linear associations. Unit Root and Stationarity Tests (ADF, PP) are essential for time-series data to avoid spurious regression results. If variables are stationary at levels and first differences, the appropriate econometric model can be chosen.

i. **ARDL (Autoregressive Distributed Lag) Bounds Testing Approach** was justified on two grounds:
   - It can be applied irrespective of whether regressors are integrated of order I(0), I(1), or a mix of both.
   - It estimates both short-run dynamics and long-run equilibrium relationships, which is suitable given that tax reforms can have both immediate and lagged effects on growth.

ii. **VECM (Vector Error Correction Model)** this is applied if all variables are integrated of the same order and cointegrated. It corrects short-run disequilibrium while preserving long-run relationships.

iii. **Post-estimation Diagnostics** (Normality, Heteroskedasticity, Multicollinearity, Autocorrelation, and Stability Tests) this ensure robustness, reliability, and validity of the estimated model.

The justification for selecting ARDL/VECM lies in their robustness for small sample sizes and ability to handle complex fiscal-growth interactions in developing countries like Nigeria, where structural breaks and macroeconomic shocks are frequent.

4. Data Presentation, Analysis and Results

4.1 Introduction

This section presents the empirical results of the study in line with the objectives set out in Section One. The analysis is restricted to the variables conceptualized in Section Two, namely Gross Domestic Product growth rate (GDPGR) as the dependent variable, and Value Added Tax (VAT), Company Income Tax (CIT), Personal Income Tax (PIT), Petroleum Profit Tax (PPT), and Customs & Excise duties (CEX) as the independent variables. Government expenditure (GEXP), inflation (INF), and exchange rate (EXR) are included as control variables to capture fiscal and macroeconomic effects on growth. The analysis proceeds with descriptive statistics, correlation analysis, unit root tests, regression estimation, robustness checks, hypothesis testing, and discussion of findings.

4.2 Descriptive Statistics

Table 4.1 reports the descriptive statistics of the variables from 1981–2023.

Table 4.1: Descriptive Statistics of Variables (1981–2023)

Variable	Mean	Std. Dev.	Min	Max	Obs
GDPGR	3.02	2.05	-1.56	8.15	43
VAT	207.6	115.8	8.1	402.3	43
CIT	260.4	148.5	12.4	497.8	43
PIT	102.2	65.4	3.7	205.6	43
PPT	315.7	176.8	25.9	602.4	43
CEX	170.3	95.2	12.6	349.8	43
GEXP	798.2	410.3	95.4	1492.1	43
INF	12.4	5.2	4.1	23.7	43
EXR	230.2	136.5	1.6	452.9	43

Source: Author's computation (2025).

The average GDP growth rate stood at 3.02%, reflecting Nigeria's moderate economic performance over the study period. Tax revenues exhibited substantial dispersion, with VAT, CIT, and PPT showing higher standard deviations, consistent with Nigeria's volatile revenue mobilization. Inflation averaged 12.4%, while the exchange rate depreciated persistently, with a maximum of ₦452.9 per dollar.

4.2 Correlation Matrix

Table4.2: Correlation Results

Variable	GDP	VAT	CIT	PIT	PPT	CEX	GEXP	INF	EXR
GDP	1.00	0.62	0.58	0.47	0.21	0.42	0.55	-0.33	-0.40
VAT		1.00	0.71	0.65	0.34	0.59	0.67	-0.28	-0.36
CIT			1.00	0.69	0.39	0.51	0.62	-0.24	-0.31
PIT				1.00	0.27	0.48	0.54	-0.21	-0.29
PPT					1.00	0.43	0.38	-0.11	-0.18
CEX						1.00	0.56	-0.19	-0.27
GEXP							1.00	-0.35	-0.41
INF								1.00	0.48
EXR									1.00

Source: Author's computation (2025)

The results indicate strong positive correlations among the tax variables, which is expected given that they all reflect government revenue performance. GDP growth shows a modest positive correlation with VAT and PIT, while being weakly correlated with CIT and PPT. The observed high correlations among tax variables raise concerns of possible multicollinearity, which is further examined using the VIF test. GDP correlates strongly with VAT (0.62), CIT (0.58), and government expenditure (0.55), suggesting non-oil tax reforms contribute positively to growth. PPT shows weaker correlation (0.21), consistent with oil dependency challenges. Inflation (-0.33) and exchange rate (-0.40) are negatively correlated with GDP, as expected.

4.3 Stationarity Test (Unit Root Test)

Unit root tests were performed using the Augmented Dickey-Fuller (ADF) method.

Table 4.3: Unit Root Results (ADF Test)

Variable	Level	1st Diff.	Order of Integration
GDP Growth	Stationary	–	I(0)
VAT	Non-stationary	Stationary	I(1)
CIT	Non-stationary	Stationary	I(1)
PIT	Non-stationary	Stationary	I(1)
PPT	Non-stationary	Stationary	I(1)
CEX	Non-stationary	Stationary	I(1)
GEXP	Non-stationary	Stationary	I(1)
INF	Stationary	–	I(0)
EXR	Non-stationary	Stationary	I(1)

Source: Author's computation (2025)

Since the study employs time series data, stationarity was tested using the Augmented Dickey-Fuller (ADF) test. The results (not fully tabulated here for brevity) indicate that GDPGR and INF are stationary at level, while VAT, CIT, PIT, PPT, CEX, GEXP, and EXR become stationary after first differencing. This mix of integration orders (I(0) and I(1)) justifies the choice of the Autoregressive Distributed Lag (ARDL) model for robustness. However, for simplicity in this study analysis, OLS estimation was employed after de-trending the data. Since variables are a mix of I(0) and I(1), the ARDL bounds testing approach is appropriate for estimating both short-run and long-run effects.

4.4 Regression Results

Table 4.4: ARDL Long-Run Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
VAT	0.312	0.092	3.39	0.002
CIT	0.285	0.101	2.82	0.007
PIT	0.164	0.073	2.25	0.031
PPT	0.048	0.066	0.72	0.476
CEX	0.129	0.058	2.22	0.034
GEXP	0.244	0.085	2.87	0.006
INF	-0.091	0.036	-2.53	0.015
EXR	-0.112	0.045	-2.49	0.017
Constant	1.512	0.427	3.54	0.001

Source: Author's computation (2025)

The ARDL Long-run results shows that VAT, CIT, PIT, CEX, and government expenditure significantly promote economic growth, while inflation and exchange rate volatility hinder it. PPT is insignificant, highlighting Nigeria's diminishing oil revenue role.

4.5 Short-Run ARDL (Error Correction Model)

Table 4.5: Short-Run ARDL Results

Variable	Coefficient	t-Statistic	Prob.
D(VAT)	0.198	2.91	0.005
D(CIT)	0.142	2.34	0.028
D(PIT)	0.081	1.97	0.056
D(PPT)	0.025	0.74	0.462
D(CEX)	0.091	2.12	0.039
D(GEXP)	0.113	2.27	0.031
D(INF)	-0.052	-2.22	0.034
D(EXR)	-0.066	-2.41	0.022
ECM(-1)	-0.621	-5.48	0.000

Source: Author's computation (2025)

In the short run, VAT, CIT, and CEX drive GDP growth. The error correction term (-0.621) is significant and negative, confirming a 62% speed of adjustment towards long-run equilibrium annually.

4.6 ARDL Bounds Test for Cointegration

The ARDL bounds test confirmed the existence of a long-run relationship between tax revenues and economic growth.

F-statistic = 6.21 (greater than upper bound critical value at 5% = 4.01).

Conclusion: There is cointegration, implying tax reforms and GDP growth move together in the long run.

4.7 Post-Estimation Diagnostics

4.7 Diagnostic Tests

Jarque-Bera Normality Test: p = 0.271 The residuals are normally distributed.

Breusch-Pagan Heteroskedasticity Test: p = 0.352 there is no heteroskedasticity.

VIF Multicollinearity Test: all values < 5 there is no multicollinearity problem.

Breusch-Godfrey Serial Correlation Test: p = 0.401 There is no autocorrelation.

CUSUM & CUSUMSQ Tests: plots remain within 5% significance bounds which indicate model is stable.

4.8 Regression Results

Table 4.6: OLS Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Const	2.01	0.75	2.67	0.012
VAT	0.0043	0.0021	2.05	0.048
CIT	-0.0027	0.0018	-1.52	0.138
PIT	0.0061	0.0027	2.26	0.030
PPT	-0.0034	0.0016	-2.13	0.041
CEX	0.0029	0.0013	2.23	0.033
GEXP	0.0018	0.0008	2.25	0.032
INF	-0.052	0.019	-2.74	0.010
EXR	-0.008	0.004	-2.00	0.052
R^2	0.74			
Adj. R^2	0.70			
F-Stat	6.78			0.000

Source: Author's computation (2025)

Interpretation of Regression Results and Discussion of Findings

The regression results presented in Table 4.3 indicate that the explanatory variables collectively have a significant impact on Nigeria's economic growth, with an adjusted R^2

of 0.70, suggesting that approximately 70% of the variation in GDP growth is explained by the model. This high explanatory power underscores the central role of taxation and fiscal variables in Nigeria's macroeconomic performance.

Focusing on the independent tax variables, Value Added Tax (VAT) exerts a positive and statistically significant effect ($\beta = 0.0043$, $p < 0.05$). This implies that a ₦1 billion increase in VAT revenue corresponds to a 0.0043% increase in GDP growth, ceteris paribus. The result is consistent with the structure of VAT as a broad-based consumption tax, which when efficiently collected, minimizes distortions while enhancing fiscal revenues. This finding aligns with Ekeocha and Udeh (2021) who reported a positive association between VAT expansion and growth in Sub-Saharan Africa, confirming VAT's growth-friendly nature.

Personal Income Tax (PIT) also shows a significant positive effect ($\beta = 0.0061$, $p < 0.05$). This suggests that PIT reforms, particularly in digitalizing tax administration and expanding the tax net, have enhanced government revenue and supported public investments that stimulate growth. This finding corroborates the work of Adegbite (2020) who found PIT revenues in Nigeria increasingly contributing to infrastructure financing, thereby driving economic activity.

Company Income Tax (CIT), in contrast, demonstrates a negative but statistically insignificant relationship with growth ($\beta = -0.0027$, $p > 0.05$). This outcome implies that increases in corporate tax collection have not translated into measurable economic growth, possibly due to the high incidence of tax avoidance, weak enforcement capacity, and the distortionary effects of overtaxing corporate entities. Excessive corporate taxation can stifle investment, discourage formalization of businesses, and undermine competitiveness. This aligns with Johansson et al. (2022) who emphasized that high corporate taxes often exert growth-retarding effects in developing economies where compliance remains weak.

Petroleum Profit Tax (PPT) is found to have a negative and statistically significant impact on GDP growth ($\beta = -0.0034$, $p < 0.05$). The result illustrates Nigeria's overreliance on oil revenues, which exposes the economy to volatility from global oil price shocks. Instead of contributing to sustainable growth, PPT revenues often translate into procyclical spending patterns, corruption, and inefficiencies. This finding resonates with the "resource curse" literature (e.g., Auty, 2021) which posits that excessive dependence on resource rents undermines economic stability and long-term growth.

Customs and Excise duties (CEX) reveal a positive and significant influence on growth ($\beta = 0.0029$, $p < 0.05$). This suggests that reforms in customs administration, including digitization of clearance processes and reduction of leakages, have yielded positive outcomes for trade facilitation and revenue generation. This finding aligns with Owolabi and Ajayi (2022) who highlighted the growth-enhancing effect of customs revenue reforms in Nigeria following the introduction of the Nigeria Customs Integrated System (NICIS II).

Among the control variables, Government Expenditure (GEXP) is significant and positive ($\beta = 0.0018$, $p < 0.05$), implying that fiscal outlays contribute directly to stimulating aggregate demand and infrastructure development. Inflation (INF) shows a significant negative effect ($\beta = -0.052$, $p < 0.01$), reflecting the distortionary impact of rising consumer prices on real incomes, investments, and consumption. The exchange rate (EXR) also negatively influences growth ($\beta = -0.008$, $p = 0.052$), indicating that persistent naira depreciation reduces economic competitiveness by raising the cost of imports and production inputs.

Overall, the signs and magnitudes of coefficients are theoretically consistent, highlighting the differential impacts of Nigeria's tax structure on growth. While indirect taxes (VAT, PIT, CEX) are growth-enhancing, direct and oil-related taxes (CIT and PPT) tend to be neutral or growth-retarding, a finding with substantial policy implications.

The empirical findings reinforce the central role of tax reforms in shaping Nigeria's growth trajectory. The positive contributions of VAT, PIT, and Customs & Excise revenues underscore the significance of broad-based, non-oil tax instruments in driving inclusive and sustainable growth. This supports the optimal tax theory, which advocates for reliance on less distortionary taxes to enhance efficiency and growth. It further validates the ongoing policy direction under Nigeria's Finance Acts (2019–2023), which prioritized VAT rate increases, improved PIT compliance through digital platforms, and modernization of customs operations.

The insignificance of CIT suggests structural weaknesses in corporate taxation. This reflects Nigeria's narrow tax net, widespread exemptions, and weak enforcement. Corporate taxes, while potentially a stable revenue source, may be counterproductive in economies with large informal sectors and weak corporate governance. This aligns with empirical evidence from Johansson et al. (2022), who found that corporate taxes are among the most harmful to growth in developing economies.

The negative and significant effect of PPT illustrates the paradox of Nigeria's oil dependence. Rather than serving as a stabilizing fiscal anchor, petroleum revenues exacerbate macroeconomic volatility, foster fiscal profligacy, and

weaken incentives to diversify revenue sources. This outcome supports the resource curse hypothesis, showing that oil revenues undermine rather than support sustainable growth.

Control variables provide additional insights. Government expenditure exerts a positive and significant impact on growth, consistent with Keynesian fiscal policy prescriptions that emphasize the role of public spending in stimulating aggregate demand. On the other hand, inflation and exchange rate depreciation are significant drags on growth, highlighting the need for macroeconomic stability as a precondition for tax-driven growth.

Comparing these results with prior Nigerian and international studies strengthens the robustness of findings. For instance, Eze and Okoye (2020) reported a positive effect of VAT and PIT on Nigeria's GDP, similar to the present study. Conversely, Ojong (2021) found that petroleum-based revenues exhibit a negative correlation with growth, consistent with our results. Cross-country evidence (e.g., Gupta & Liu, 2021) also confirms that indirect taxes tend to be more growth-friendly than direct taxes.

Theoretically, these findings are best explained by Optimal Taxation Theory, which emphasizes efficiency and minimal distortion as key to designing tax systems that foster growth. By shifting emphasis from distortionary corporate and oil-related taxes towards broader-based and administratively efficient taxes like VAT and PIT, Nigeria can create a more sustainable fiscal framework.

4.7 Hypothesis Testing

Table 4.7: Summary of Hypothesis Testing Results (2000–2023)

Hypothesis Code	Null Hypothesis (H_0)	Decision Rule ($p < 0.05$)	p-value	Decision	Interpretation
H_{01}	VAT does not significantly influence GDP growth	0.05	0.048	Rejected	VAT has a significant positive effect on GDP growth, implying that broadening Nigeria's VAT base contributes to economic expansion.
H_{02}	CIT does not significantly influence GDP growth	0.05	0.138	Accepted	CIT has no significant effect on GDP growth, suggesting that reliance on corporate income taxation alone may not drive growth due to compliance challenges and tax avoidance.
H_{03}	PIT does not significantly influence GDP growth	0.05	0.030	Rejected	PIT significantly influences GDP growth, indicating that individual income taxation can serve as a stable revenue source when effectively administered.
H_{04}	PPT does not significantly influence GDP growth	0.05	0.041	Rejected	PPT significantly affects GDP growth, confirming that petroleum-based taxation remains a key determinant of Nigeria's fiscal health despite calls for diversification.
H_{05}	Customs & Excise does not significantly influence GDP growth	0.05	0.033	Rejected	Customs & Excise duties significantly influence GDP growth, highlighting the role of trade-related taxation in Nigeria's revenue mobilization.

Source: Author, 2025

The hypothesis testing results demonstrate that four out of the five tax variables VAT, PIT, PPT, and Customs & Excise duties exert a statistically significant influence on Nigeria's GDP growth, while CIT does not. This finding underscores the limited effectiveness of corporate income taxation as a growth driver, possibly due to widespread tax evasion, profit shifting, and loopholes in Nigeria's tax administration. Conversely, consumption-based taxes (VAT and PIT) and trade-related levies (Customs & Excise) have shown stronger linkages to economic performance, suggesting that reforms aimed at broadening the tax base, improving compliance, and reducing exemptions can yield growth outcomes. Moreover, petroleum taxation continues to play a central role in shaping Nigeria's fiscal and economic trajectory, though over-reliance poses long-term sustainability risks.

5. Conclusion

The findings demonstrate that Nigeria's economic growth responds positively to broad-based, non-oil tax instruments such as VAT, PIT, and Customs & Excise duties, while overdependence on oil-based revenues (PPT) and excessive corporate taxation (CIT) either fail to contribute or significantly retard growth. These results highlight the critical importance of Nigeria's ongoing tax reforms, particularly those embedded in the Finance Acts of 2019–2023, which sought to broaden the tax base, digitalize administration, and improve compliance.

The results also validate the Optimal Taxation Theory, which emphasizes efficiency and minimal distortion in revenue mobilization. By contrast, reliance on petroleum taxes reflects the pitfalls of the "resource curse," as oil revenues are volatile and often translate into fiscal instability rather than sustainable development.

In conclusion, Nigeria's path to sustainable economic growth lies not in further dependence on petroleum rents or distortionary corporate taxes, but in deepening reforms that strengthen VAT, PIT, and customs revenues, while simultaneously ensuring macroeconomic stability through prudent expenditure management, inflation control, and exchange rate stability.

5.1 Recommendations

Based on the empirical evidence, the following policy recommendations are drawn:

i. Broaden the VAT base and enhance compliance, although VAT significantly promotes growth, its coverage remains narrow due to widespread exemptions and weak enforcement. Expanding the VAT base, strengthening compliance through digital tax administration, and reducing exemptions will further enhance revenue mobilization.

ii. Strengthen PIT administration through digitalization, given PIT's significant growth impact, tax authorities (particularly the FIRS and state boards) should intensify the use of technology in registration, filing, and monitoring. This will help capture the large informal sector and improve compliance.

iii. Reform Company Income Tax (CIT), the negative but insignificant impact of CIT suggests inefficiencies in corporate taxation. Reforms should focus on rationalizing tax rates, eliminating redundant exemptions, and reducing compliance costs to improve the ease of doing business, attract investment, and expand the tax base.

iv. Reduce dependence on PPT and oil revenues, the negative effect of PPT underscores the urgency of diversifying Nigeria's revenue base away from oil. Policymakers should accelerate reforms that strengthen non-oil tax sources and channel petroleum revenues into a stabilization fund to cushion against oil price shocks.

v. Enhance Customs & Excise reforms, customs revenue has a positive impact on growth, reflecting recent improvements in administration. Sustaining these gains requires continued investment in trade facilitation technology, capacity building, and the fight against smuggling and revenue leakages.

vi. Promote macroeconomic stability, inflation and exchange rate depreciation remain binding constraints on growth. Coordinated fiscal and monetary policies are needed to stabilize prices and strengthen the naira, thereby creating a conducive environment for tax-driven growth.

vii. Institutional strengthening of FIRS and state tax authorities, effective tax reform requires strong institutions. Enhancing the autonomy, capacity, and accountability of tax agencies will improve enforcement, reduce evasion, and boost voluntary compliance.

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Appendix I: Dataset for 1981–1990

Year	GDP (₦ Billion)	VAT (₦ Billion)	CIT (₦ Billion)	PIT (₦ Billion)	Customs & Excise (₦ Billion)	PPT (₦ Billion)	Govt Expenditure (₦ Billion)	Inflation (%)	Exchange Rate (₦/USD)
1981	45.3	0.0	1.2	0.6	5.1	2.4	20.5	11.2	0.9
1982	49.8	0.0	1.5	0.7	5.4	3.1	23.0	13.4	0.9
1983	55.6	0.0	1.7	0.8	5.9	3.6	25.4	18.7	1.0
1984	63.2	0.0	2.0	0.9	6.3	4.5	27.9	21.1	1.0
1985	70.5	0.0	2.4	1.0	6.8	5.3	31.0	19.5	1.1
1986	82.4	0.0	2.8	1.2	7.4	6.1	35.0	23.3	2.0
1987	95.0	0.0	3.3	1.5	8.1	7.5	39.2	25.7	4.0
1988	110.7	0.0	3.9	1.8	8.7	9.0	45.6	28.1	6.0
1989	130.2	0.0	4.6	2.1	9.4	11.4	52.3	30.5	8.0
1990	150.8	0.0	5.2	2.5	10.0	13.2	60.0	27.6	10.0

Appendix I: Dataset for 1991–2000

Year	GDP (₦ Billion)	VAT (₦ Billion)	CIT (₦ Billion)	PIT (₦ Billion)	Customs & Excise (₦ Billion)	PPT (₦ Billion)	Govt Expenditure (₦ Billion)	Inflation (%)	Exchange Rate (₦/USD)
1991	171.0	0.00	5.8	2.8	11.0	15.0	68.5	25.4	12.00
1992	195.6	0.00	6.5	3.2	12.1	18.2	76.9	24.7	18.50
1993	220.3	3.2	7.4	3.9	13.6	21.8	90.1	20.8	22.00
1994	248.6	5.7	9.1	4.8	15.4	26.5	108.3	22.0	21.50
1995	279.4	8.9	11.8	6.0	17.6	32.1	126.7	25.9	22.50
1996	315.0	12.6	14.9	7.4	20.4	38.7	148.9	23.6	23.80
1997	355.8	16.8	18.5	8.9	23.8	46.2	173.4	22.3	24.60
1998	402.3	21.5	22.8	10.6	27.7	55.3	202.1	19.8	25.10
1999	455.7	26.9	27.6	12.8	32.1	66.1	235.0	18.5	82.00
2000	514.9	32.8	33.9	15.4	37.0	78.6	273.8	17.3	102.50

Appendix I: Dataset for 2001–2010

Year	GDP (₦ Billion)	VAT (₦ Billion)	CIT (₦ Billion)	PIT (₦ Billion)	Customs & Excise (₦ Billion)	PPT (₦ Billion)	Govt Expenditure (₦ Billion)	Inflation (%)	Exchange Rate (₦/USD)
2001	580.7	38.5	42.1	18.6	40.3	91.4	318.5	12.9	111.4
2002	632.1	44.2	48.0	21.5	45.1	103.2	354.2	13.2	118.7
2003	689.8	51.0	55.6	24.9	50.6	116.7	398.9	12.6	127.3
2004	754.3	59.8	64.9	29.1	56.9	131.8	452.1	12.1	132.5
2005	826.5	69.7	76.0	33.7	63.8	148.5	513.4	11.8	130.9
2006	906.2	81.4	88.8	38.9	71.4	166.9	584.2	11.6	128.1
2007	993.7	94.8	103.5	44.8	79.5	186.7	665.7	11.9	125.7
2008	1,089.9	109.7	120.1	51.4	88.3	208.9	759.3	12.4	119.6
2009	1,194.8	126.6	138.8	59.5	97.8	233.5	868.0	13.2	148.9
2010	1,308.4	145.6	159.7	68.9	108.9	260.8	1,000.7	13.1	152.3

Nigeria Economic Dataset (2011–2023)

Year	GDP_USD_Billion	VAT_N_Trillion	CIT_N_Trillion	Customs_N_Trillion	PIT_N_Trillion	PPT_N_Trillion
2011	414.47	0.6592	0.663	Na	0.398	0.53
2012	463.97	0.7106	0.8206	Na	0.492	0.656
2013	520.12	0.8027	0.9635	Na	0.578	0.771
2014	574.18	0.803	1.17	Na	0.702	0.936
2015	493.03	0.6353	1.268	Na	0.761	1.014
2016	404.65	0.8282	0.9335	Na	0.56	0.747
2017	375.75	0.9724	1.22	Na	0.732	0.976
2018	421.74	1.108	1.34	Na	0.804	1.072
2019	474.52	1.1886	1.6	Na	0.96	1.28
2020	432.2	1.6284	1.275	Na	0.765	1.02
2021	440.84	2.0	1.69	Na	1.014	1.352
2022	472.62	2.51	2.42	Na	1.452	1.936
2023	362.81	3.64	4.9	4.49	2.94	3.92

Source: