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Tax Revenue and National Income: The Nigeria Experience

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Abstract
The importance of the national income to the economic growth and development of any country cannot be overemphasized. The tax generated from the oil sector and other sectors of the economy forms the national income of the country. Government attaches great importance to oil exploration and production as well as other crucial economic activities with high returns. These taxable returns provide the government with tax revenue which forms the national income. It is as a result of this link that this paper looks at the relationship between tax revenue and national income in Nigeria. Secondary sources of data collection were employed. Correlation is used to test the two hypotheses and the study covered 2005 – 2009. The results show that there is a significant relationship between tax revenue and national income. It also indicated that value Added Tax (VAT) contributed significantly to the national income in Nigeria. It is therefore recommended that tax administration in Nigeria should be strengthened to enhance revenue generation.
Keywords: Oil Sector, Tax Revenue, VAT, National Income**.**

Introduction
The desire of God as shown in the Holy Scriptures is that all should benefit from the resources he has created. This made him to remind Moses to remember that there will always be poor people in the land flowing with milk and honey they have been promised. It is this reality that human society always be a composition of those who have and those who do not have that made merging civilizations to put in place a tax system that will enable those who have to provide for those who do not have. The contributions of those who have will enable governing services that are commonly enjoyed, for example security, health and education (Exodus 33: 1 -10).

Tax payment is therefore part of price to be paid for living in an organized and orderly society, for if this is not done, the miscreants produced through the inequality in the system will be a source of constant irritation to the well-being of those who even have (Soyode and Kajola, 2006). The oil industry has achieved great prominence in the Nigerian economy as a result of tax derives great prominence in the early seventies. It is because of the importance that government attaches to oil exploration and production that the taxation of profit or gains of companies engaging in such operations are taxable under a tax law different from the company income Tax Act (Alwodola, 2000).

The tax generated from the oil sector and other sectors of the economy form the national income of the country. National income is therefore the total income earned by a Nation's residents in the production of goods and services while Gross Domestic Product (GDP) is the market value of all final goods and services produced within a country in a given period of time. Gross Domestic Products measures the value of production within the geographic confines of a country. It also measures the total spending on goods and services in all markets in the economy. If total spending rises from one year to the next, one of two things must be true. The economy is producing a larger output of goods and services or goods and services are being sold at higher prices. When studying changes the economy over time, economics want to separate these two effects. In particular, they want a measure the total quantity of goods and services the economy is producing that is not affected by changes in the prices those goods and services (Mankiu, 2002).

The emphasis on this study is the tax generated by Federal Inland Revenue Service (FIRS) and National Income in Nigeria. It is on this note that the researcher made an in depth study to evaluate the relationship between Tax Revenue and National Income in Nigeria economy and non-oil revenue. Oil revenue which include Petroleum Profit Tax, Royalties, Personal Income Tax, Custom and Excise duties, Value Added Tax which have contributed greatly to the national income of Nigeria (Aguolu, 2004). However, since 1972 direct taxes such as Petroleum Profit Tax, Companies income tax and other revenue became glaringly the leading sources of government revenue in Nigeria (Anyafo, 1996).

Tax revenue generation is faced with a number of challenges. These challenges range from tax revenue assessment and administration of prudent collection from taxable entities. Tax evasion and tax avoidance had a very serious effect on the national income since the tax revenue forms the national income of the country. Both the oil revenue and the non-oil revenue including VAT have contributed greatly to the national income in Nigeria. The questions is how has tax revenue contributed to the national income of Nigeria? The problem therefore is to examine the relationship between tax revenue and the national income.

Statement of the Problem

The discovery of oil in large commercial quantities in the 1970s and its rapid monetization provided the government revenue for the expansion of government economic activities and gave added fillip to the establishment of several public enterprises (Anyanwu, 1997). Indeed, like most other developing countries, Nigeria set up tax generating authorities in all sectors of the national economy. Such taxing power was seen as the only way of achieving rapid and desired pattern of economic growth in the face of inadequate entrepreneurial skills (Musgrave and Musgrave, 1998). Tax revenue generation is faced with a number of challenges. These challenges range from tax revenue assessment and administration of prudent collection from taxable entities. Tax evasion and tax avoidance had a very serious effect on the national income since the tax revenue forms the national income of the country. Both the oil revenue and the non-oil revenue including VAT have contributed greatly to the national income in Nigeria but government has to do maximize the contributions.

The questions is how has tax revenue contributed to the national income of Nigeria? The problem therefore is to be examining the relationship between tax revenue and the national income. Government various efforts to make the tangible and tangible infrastructural investment that underpin rapid growth and development as well as ensure social and economic justice in critical in Nigeria of today. Government worked very hard in recent years on errors of commission; it is time to work on the errors of omission. Government must be helped to perform it central functions that it can do (Lindaver and Nunberg, 1994).

Objectives of the Study

The general objective of this paper is to evaluate the relationship between Tax Revenue and National Income in Nigeria. The specific objectives are, to:

i. examine the relationship between tax revenue and national income.
ii. ascertain the extent to which Value Added Tax (VAT) has contributed to the national income.

Research Hypotheses

Two null hypotheses were formulated in line with the objectives of the paper.

HO_1: There is no significant relationship between tax revenue and national income in Nigeria.

HO_2: Value Added Tax does not significantly contribute to National Income in Nigeria.

Research Questions

i. What is the relationship between tax revenue and national income?
ii. To what extent does Value Added Tax contribute to the national income in Nigeria?

Scope of the Study

The study appraised the relationship between tax revenue and national income in Nigeria. It explored the relationship between Vat revenue and the national income. The period covered in this study was five (5) years which spanned from 2005 to 2009.

Significance of the Study

The importance of tax revenue to the economy of Nigeria cannot be overemphasized. It has provided the government with strategic revenue generating sources needed for infrastructural development in the country. The citizens are provided with basic amenities like electricity, water, roads, schools, hospital etc from the funds provided by the tax revenue. Corporate establishments also provide conducive environment for their businesses. This study also serves as an input for researchers in related areas

Review of Related Literature

Every country struggles or tries to exhibits sustainable economic growth and development. Nigeria, a developing nation is not an exception. Sustainable development involves all aspects of man's social, economic, political and institutional framework that keep the society going (Todara and Smith, 2004). According to Ariyo (1997) a country's tax system is a major determinant of other macro-economic index specifically for both developed and developing economics, there exists a relationship between tax structure and the level of nation's income in term of economic growth and development.

The early period of economic development is therefore, characterized by the dominance of agricultural taxation which serves as a proxy for personal income taxation and in Nigeria the various marketing boards served as effective mechanism for administering agricultural taxation. Agricultural taxation substituted for personal income tax given the difficulty in reaching individual farmers and the inability to measure their liability accurately, furthermore, the large percentage of self-employed to total employment makes effective personal income tax unworkable (Musgrave, 1969).

Taxation can simply be seen as compulsory transfer or payment of money (or occasionally of goods and services) from private individuals, institutions, or groups or the government. It may be levied upon wealth or income or in the form of surcharge on prices (Anyanwu, 1997). Adesina (2001) defined Tax as “a compulsory levy imposed by the government on the people in a country”. He defined three major characteristics of tax which according to him are:

i. Tax is a compulsory levy
ii. Tax is a contribution to defray the cost incurred by the state.
iii. Tax is not levied in return for any specific services rendered by the government to the tax payer.

He therefore said that tax is a system of imposing a compulsory levy on all income, goods, services and properties of individual, partnership, trustees, executors and companies by the government backed up by Law. While tax is a compulsory levy, the process or system of imposing the compulsory levy refers to taxation.

National income has been defined in a number of ways. According to Jhingan (2000) national income means the total value of goods and services produced annually in a country. In other words, the total amount of income accruing t a country from economic activities in a year’s time is known as national income. It includes payments made to all resources in the form of wages, interest, rent and profits. According to Begg et al (1997) National income is the economy’s net national product. It is calculated by subtracting depreciation from Gross National Product (GNP) at factor cost. National income measure the amount of money the country has available for spending on goods and services after setting aside enough money to maintain its capital stock by offsetting depreciation (Ugo, 1962). National income is the process of determining the total output of a national economy in terms of final good produced as well as the income and expenditure generated by such production (Abumere, 2002).

Types, Objectives and Characteristics

Types of Good Tax System

Direct Taxes and Indirect Taxes

Direct Taxes

Direct taxes are levied directly on the person who is expected to pay the tax, the tax payer is not only advised by notification (called assessment notice) but he is duly receipted. The purpose of these formalities is to bring to the tax payer notice the incidence of such tax. Examples are Personal Income Tax (PIT), Company Income Tax (CIT), Withholding Tax (WHT), Capital Gain Tax (CGT) and Petroleum Profit Tax (PPT).

Indirect Taxes

This is born by a person other than the one from whom the tax is collected. It is levied on the manufacturer but paid by the consumer. The taxpayer in case of indirect tax is never notified nor have knowledge of such levy. Very good examples of these are excise tax on manufactured products, custom duties and Value Added Tax (VAT) (Soyode and Kojola, 2006).

Objectives of Taxation

The government whether at the local, states or federal level has responsibilities to meet the yearnings of the governed. The need to meet the expectations of governance in a modern society is the rationale for levying taxes.
These responsibilities include:

i. **Revenue Generation**
The primary objective of a modern tax system is generation of revenue to help the government to finance ever-increasing public sector expenditure.

ii. **Provision of Merit Goods**
An important objective of tax system is the promotion of social, economic and good governance through provision of merit goods. Examples of merit goods are hospitals, education, etc.

iii. **Provision of public goods**
Provision of commonly consumed goods and services for which an individual cannot be levied the cost of the goods or services consumed are one of the functions of government. For example, the services of police and other security agencies, provision of street lights and roads.

iv. **Discouraging Consumption of demerit goods**
Tax can be used to discourage consumption of demerit or harmful goods like alcohol and cigarettes. This is done to reduce external costs to the society. These external costs include health risks and pollution.

v. **Redistribution of Income and Wealth**
Tax system is a means of ensuring the redistribution of income and wealth in order to reduce poverty and promote social welfare. For example, taxation can be used as economic regulatory for promotion of economic stability and sustainability growth through fiscal policy. Government also has responsibility for fighting inflation, unemployment and creating a sound infrastructure for businesses. A tax system is one of the means of achieving is (Soyode and Kojola, 2006).

Characteristics of Good Tax System

Adam Smith (1910) maintained in his book "The Wealth of Nation" put forward the following as the characteristics, usually called cannons of taxation that a good tax system should display the following:

I. It should meet the canon of equity. It should be equitable that is, every person should be taxed according to his ability. The rich should pay more while poor pay less – it should be progressive.

Similarly, Musgrave and Peacock (1984) conceived the principles of equity as equal proportion of taxation on every income that is, in principle, everyone should pay the same proportion of his income as tax.

II. It should be used on the cannon of certainty. The time of payment, the manner of payment, the amount to be paid should be certain and clear to the contributor and to every other person.

In addition, Oba (1987) has said that "the tax which each individual is bound to pay, ought to be certain and not arbitrary". He argued that individual should know with certainty what his tax liability should be in order to make adequate provision and to make sure that taxes are levied in a way which does not disrupt the individual's private activities and that he should see the revenue to which he has contributed used judiciously.

III. The tax system should satisfy the cannon of convenience. It should be convenient, social, political and economic standing of the person must be taken into consideration. The time of payment, the mo of payment should not inconvenient the tax payer.

Eckestom (1938) has said that a good tax should not impose taxes that are impossible to enforce even when people comply to tax law voluntary, the government should verify the tax payments, if not the tax becomes an invitation to break the law.

IV. The principle of Economy

This principles emphasizes that the cost of assessing and collecting a tax should be small in relation to the revenue so collected i.e. economy should be the yardstick so that the cost of collecting tax should not be excessive. For example, if the expenses incurred in the course of collecting a tax exceed even 50 percent of the yield, then such taxes do not conform to the principle of economy.

The Structure of Tax Administration in Nigeria

a) Federal Board of Inland Revenue: The Board is constituted under section (i) of Companies and Allied Matter Act 1990 to assess and collect tax for the federal government. The operational arm of the Board is called the Federal Inland Revenue Services (FIRS). Federal Inland Revenue Services (FIRS) is the operational arm of the Board in charge of assessing and collecting relevant taxes. It carries out the decisions of the Board. It is organized into five zonal offices and thirty area offices. Each district office is headed by an Assistant Director of Taxes. The Zonal Offices and their headquarters is Lagos zone (Lagos), North West Zone (Kaduna), Western Zone (Ibadan), Eastern zone (Enugu) and North East Zone (Jos).

The Assistant Director of Taxes is responsible for the assessment and collection of taxes in the zonal and area offices. Each zonal office is made up of:

i. The administrative department in charge of staff matters, office maintenance and office routine matters.

ii. The assessment department responsible for raising assessments.

iii. Collection department responsible for collection of all taxes assessed.

Taxes Available to Federal Inland Revenue Services (FIRS) are: Petroleum Profit Tax (PPT); Personal Income Tax (PIT); Company Income Tax (CIT); Withholding Tax (WHT); Capital Gain Tax (CGT); Custom & Excise Duties (CED); Value Added Tax (VAT) (Soyode and Kojola, 2006).

b) State Board of Internal Revenue: The state Board of Internal Revenue (SBIR) is the relevant tax authority for assessment and collection of tax due to the State government was established under Personal Income Act 1993 Sec85A. It also has an operational arm known as State Internal Revenue Service; also refer to as State Service.

i. Personal Income Tax in respect of Pay – As – You Earn (PAYE) and Direct Taxation (self assessment)
ii. Withholding Tax (Individual only)
iii. Capital gain tax (Individual only)
iv. Stamp duties on instrument executed by individual.
v. Road taxes
vi. Market taxes and levies (Prest, 2004)

c) Local Government Revenue Committee: Section 85 (i) of the 1993 Decree also establishes a revenue committee for each Local Government which shall have a government body comprising: The Supervisor for Finance as Chairman; Three Local Government Councilors as members; and Two other members experience in revenue matters to be nominated by the chairman of the local government on personal merits.

Revenue Available to Local Government are: Shops and kiosks rates; Tenement rates; Motor park levies; Domestic animal license fees; Slaughter slab fees; Marriage, birth and death registration fee; Wrong parking charges; Signboard and advertisement permit fees, etc (Oreawa, 1999).

Value Added Tax Administration: The Value Added Tax (VAT) came into existence in Nigeria through its enabling authority: Value Added Tax Decree 102 of 1993. However, it actually became effective on 1st January 1994. Valued Added Tax is 5% on all viable goods and services. The idea of introducing VAT in Nigeria came from the report of the study group set up by the Federal Government in 1991 to review the entire Tax system (Soyede and Kojala, 2006).

Value Added Tax was introduced to replace sales tax which had been in operation under Federal Government Legislated Decree No. 7 of 1986 but was operated on the basis of resident (Anyanwu, 1997). The rationale behind replacing sales Tax with VAT is informed by a number of factors, notably:

i. The base of the sale is narrow. It covers few categories of goods. The narrow base of the tax was seen to be negating the fundamental principle of consumption tax, which by nature is expected to cut across all consumable goods and services.

ii. The sales Tax Decree of 1986 targeted only locally manufactured goods, although this might not have been the intention of the law. Valued Added Tax is natural in this regard. Under Value Added Tax, a considerable part of the tax to be realized is from imported goods. This means under the new VAT, locally manufactured goods will not be placed at a disadvantage relative to imports.

iii. Valued Added Tax is a consumption tax and is based on the general consumption behavior of the people; the expected high yield from it will boost the fortunes of the government with minimum resistance from the payers of the tax (Soyede and Kojala, 2006).

Arguments for Value Added Tax (VAT)

It has been said that VAT is progressive in outlook hence it has numerous advantages. This includes:

i. Value Added Tax represents a shift in taxation towards expenditure rather than income and thereby solves the problem of evasion. Since it is a consumption tax, everybody consuming will pay and one only pays if one consumes.
ii. It provides an alternative source of income and will boost the federal Government revenue in the face of dwindling income from oil. This will help to sustain determined economic development.
iii. Value Added Tax provide a steady source of income for the Government and is more predictable than the oil revenue whose unstable world oil market the government has not control over. Unlike the oil revenue consumption does not fluctuate vicariously.
iv. It is argued that since Value Added Tax is a consumption tax it will reduce extravagant consumption (Ochiogu, 2003).

Administration of Value Added Tax

The Value Added Tax may be complicated to administer but it is not complex as personal or corporate income tax. There are four (4) distinct bodies on which the administration of VAT rests in Nigeria. These are:

i. The Board, Federal Board of Internal Revenue (FBIR),
ii. The Service, Federal Inland Revenue Service (FIRS),
iii. The Technical Committee
iv. The Nigeria Custom Service and
v. The VAT Directorate.

Other sub-bodies include:

i. The state Internal Revenue Service
ii. The Zonal Offices
iii. The Local Vat Offices.

Concepts of National Income

There are a number of concepts pertaining to national income. For instance Gross National Product (GNP), Gross National Product (GNP) at the market prices, Gross National Product at factor cost, Net National Product (NNP), Net National Product at Market prices, Net National Product at Market prices, Net National product at factor cost, Domestic Income or Product, private income, personal Income, Disposable Income and Real Income. These concepts are discussed below (Jhingan, 2000):

a. **Gross National Product (GNP):** Gross National Product is the total measure of the flow of goods and services at Market value resulting from current production during a year in a country, including net income from abroad. Gross National Product includes four types of final goods and services such as consumers' goods and services to satisfy the immediate wants of the people, gross private domestic investment in capital goods consisting of fixed capital inventories of finished and unfinished goods, goods and services produced by the government and net exports of goods and services i.e. the difference between value of exports of goods and services i.e. the difference between value of exports and imports of goods and services.

b. **Gross National Product (GNP) at Market prices:** When we multiply the total output produced in one year by their market prices prevalent during that year in a country, we get the Gross National Product at market prices. Thus GNP at market prices means the gross value of final goods and services produced annually in a country plus net income from abroad.

c. **Gross National Product (GNP) at Factor Cost:** Gross National Product at factor cost is the sum of the money value of the income produced by and accruing to the various factors of production in one year in a country. It includes all items mentioned under income Approach to GNP less indirect taxes. GNP at Market prices always includes indirect taxes levied by the government on goods which raise their prices. But GNP at factor cost is the income which the factors of production receive in return for their services alone. It is the cost of production. Thus GNP at market prices is always higher than GNP at factor cost. Therefore, in order to arrive at GNP at factor cost, we deduct indirect taxes from GNP at market prices**(** *Fundamental of Economics: Overview of National Income.* (n.d.). Retrieved from http://fundamentaleconomics.blogspot.com/2010/06/overview-of-national-income.html_br)

d. **Net National Product (NNP):** Gross National Product includes the value of total output of consumption goods and investment goods. But the process of production uses up a certain amount of fixed capital. Some fixed equipment wears out, its other components are damaged or destroyed, and still others are rendered obsolete through technological changes. All this process is termed depreciation or capital consumption allowance. In order to arrive at Net National Product (NNP), we deduct depreciation from Gross National Product (GNP). The word 'net' refers to the exclusion of that part of total output which represents depreciation (http://econstudents.weebly.com/uploads/8/7/4/4/8744298/national_income_complete_notes.doc_br). So NNP = GNP – Depreciation.

e. **Net National Product (NNP) at Market Prices:** Net National Product at Market Prices is the net value of final goods and services evaluated at market prices in the course of one year in a country. If we deduct depreciation from GNP at market prices, we get NNP at market prices. So NNP at market prices = GNP at market prices – Depreciation.

f. **Net National Product (NNP) at factor Cost:** Net National Product at factor cost is the net output evaluated at factor prices. It includes income earned by factors of production through participation in the production process such as wages and salaries, rents, profits etc. it is also called National Income. This measure differs from NNP at market prices in that indirect taxes are deducted and subsidies are added to NNP at market prices in order to arrive at NNP at factor cost (http://fundamentaleconomics.blogspot.com/2010/06/overview-of-national-income.html_br). This NNP at factor cost = NNP at market prices – Indirect taxes + subsidies = National Income. Normally, NNP at market prices is higher than NNP at factor cost because indirect taxes exceed government subsidies. However, NNP at market prices can be less than NNP at factor cost when government subsidies exceed indirect taxes.

g. **Domestic Income or Product: I**ncome generated (or earned) by the factors of production within the country from its own resources is called domestic income or domestic product. Domestic income includes wages and salaries, rent including imputed house rents, interest, dividends, and undisturbed corporate profits including surpluses of public sector undertakings, mixed incomes consisting of profits of unincorporated firms, self-employed persons, partnerships etc and direct taxes (http://www.newagepublishers.com/samplechapter/001753.pdf_br). Since domestic income does not include income earned from abroad, it can be also shown as Domestic Income = National Income – Net Income earned from abroad. Thus the difference between domestic incomes we get from abroad to domestic income we get national income i.e. national income = Domestic income + Net Income earned from abroad.

h. **Private Income:** Private Income is income obtained by private individuals from any source, productive or otherwise, and the retained income of corporations. It can be arrived at from Net National Product (NNP) at factor cost by making certain additions and deductions (http://www.gkbasic.com/2012/04/national-income-2012.html_br). The addition include transfer payments such as pensions, unemployment allowances, sickness and other social security benefits, gifts and remittances from abroad, windfall gains from lotteries or from horse racing and interest on public debt. The deductions include income from government departments as well as surpluses from public undertakings and employees. Contribution to social security schemes like provident funds, life insurance etc. thus private income = National income (or NNP at factor cost) + Transfer Payments Interest on Public Debt – Social Security – profits and surpluses of public undertakings.

i. **Personal Income:** According to Ande (2005) personal income is the total income received by the individuals of a country from all sources before taxes in one year. Personal income is never equal to the national income because the former includes the transfer payments whereas they are not included in national income. Personal income is derived from national income by deducting undistributed corporate profits, profit taxes and employees' contribution to social security schemes. These three components are excluded from national income because they do reach individuals. Thus personal income = National income – undistributed corporate profits – profit taxes – social security contribution + transfer payments + interest on public Debt. Personal income differs from private income in that it is less than the latter because it excludes undistributed corporate profits (http://www.gkbasic.com/2012/04/national-income-2012.html_br).

j. **Disposable Income:** Disposable income or personal disposable income means the actual income which can be spent on consumption by individuals and families. The whole of the personal income cannot be spent on consumption, because it is the income that accrues before direct taxes have actually been paid. Therefore, in order to obtain the disposable income, direct taxes are deducted from personal income **(**http://econstudents.weebly.com/uploads/8/7/4/4/8744298/national_income_complete_notes.doc_br). Thus disposable income = personal income – Direct Taxes.

k. **Real Income:** Real income is national income expressed in terms of a general level of prices of a particular year taken as base. National income is the value of goods and services produced as expressed in terms of money at current prices. But it does not indicate the real state of the economy. It is possible that the net national product of goods and services this year might have been less than that of last year. On the contrary, it is also possible that NNP might have increased but the price level might have fallen as a result of which national income would appear to be less than that of the last year (**APA:** *National Income 2012 | GKBASIC.* (n.d.). Retrieved from http://www.gkbasic.com/2012/04/national-income-2012.html_br). In both situations, the national income does not depict the real state of the country.

l. **Per Capita Income:** The average income of the people of a country in a particular year is called per capita income for that year (http://econstudents.weebly.com/uploads/8/7/4/4/8744298/national_income_complete_notes.doc_br). This concept also refers to be measurement of income at current prices and at constant prices. For instance, in order to find out the per capita income for 2008 at current prices, the national income of a country is divided by the population of the country in that year (Ande, 2005).

$$\text{Per capita for 2008} = \frac{\text{National Income for 2008}}{\text{Population in 2008}}$$

Importance of National Income Analysis

National income data are of great importance for the economy of a country. These days the national income data are regarded as accounts of the economy which are known as social accounts. These refer to net national income and net national expenditure, which ultimately equal each other. Social accounts tell us how the aggregates of a nation's income output and product result from the income of different individuals, products of industries and transactions of international trade (Aluko, 1999).

i. National income data from the basis of national politics such as employment policy, because these figures enable us to know the direction in which the industrial output, investment and savings etc change and proper measures can be adopted to bring the economy to the right path.

ii. In the present age of planning, the national data are of great importance. For economic planning it is essential that the data pertaining to a country's gross income, output, saving, consumption from different sources should be available. Without these, planning is not possible.

iii. The national income data are also made use of by the research scholars of economics. They make use of the various data of the country's input, output, income, saving, consumption, investment, employment etc which are obtained from social accounts.

iv. National income data are significant for a country's per capita income which reflects the economic welfare of the country. The higher the per Capita income, the higher the economic welfare and vice versa.

v. National income statistic enables us to know about the distribution of income in the country. From the data pertaining to wages, rent and profits we learn of the disparities in the income of different sections of the society (Babangida, 1990).

The Impact of Tax on National Income

Tax represented an important source of revenue to government of any nation. It is widely defined as a compulsory contribution made by individuals and organizations towards defraying the expenditure of government (Dandago and Alabede, 2001). National income is the total value of goods and services produced annually in a country. In other words, it is the total amount of income accruing to a country from economic activities in a fiscal year. That is national income measure the amount of money the country has available for spending on goods and services after setting aside enough money to maintain its capital stock by off-setting depreciation (Begg et al, 1997). From the above definition of tax and national income, the impact of tax on national income can be best explained as follows:

When income from the factors of production such land, labour capital and entrepreneurial and other income from dividends and rent income are taxed, the tax revenue of government increases thereby reducing the income available for individual and other productive sector of the economy. On the other hand, if the income from the above factors production is judiciously used by the government by establishing more industries and capital projects, reasonable number of people will be employed and as such much profits will be made and ploughed back to the national income there by increasing the national income figures.

Question may arise why comparing national income with tax revenue?
This is because tax revenue is an integral component of national income in that the former is proportionally related to the latter, hence, the comparison between the above variables is imperative (Anyanwu, 1997). Tax revenue can also be compared with national income because the former can be used together with monetary policy to further ascertain economic aims of the government such as full employment, manipulation of the balance of payment, fighting inflation and the stimulation of economic growth which is also part of function of national income (Graetz, 1997).

Tax in one way discourages, postpones or reduces consumption and encourages saving for private investments. If this investment are properly utilized by the private or public sector of the government by providing social needs of the people inform of employment opportunity,

building of schools, hospitals, industries etc. these will be of great assistance to Nigeria where there is mass unemployment of labour force and economic resources. With the utilization of investment made from tax, the benefits of these investments will be added back to national income thereby increasing national income figure for the fiscal year (Samba, 1982).
Tax revenue from petroleum profit through Education Trust Fund (ETF) for instance has been contributing immensely to the development of educational sector of Nigeria economy. The 2% of petroleum profit tax collected by the government is usually for rehabilitation, restoration and consolidation of the education sector of this country the ETF. With the contribution through ETF into the education sector, government has been relieved to a great extent amount which ordinarily would have been allocated to this sub-sector from consolidated revenue account, hence increase in the national income.

Methodology

Having pointed out the statement of the problem and the objectives of this study, it is important to state the methodology used to gather the data necessary for this study. The Federal Inland Revenue Service (FIRS) tax figures and the National Income figures for five (5) years were used in this study. These figures were sought from the National Bureau of Statistics. This enabled the researcher to logically obtain and analyze data required to assess the relationship between Tax Revenue and the National Income of Nigeria on one hand and Value Added Tax (VAT) and National Income on the other hand. Quantitative and qualitative analytical methods were adopted. Secondary sources of data were used.

Data Presentation and Analysis

Table A, below shows the Tax Revenue and National Income for five years.

Year	2007	2008	2009	2010	2011
National Income (in Trillion ₦) y	14	18	20	25	25
Tax Revenue (in Billion ₦) x	28	25	40	48	50

Source: National Bureau of Statistics (NBS) 2011

Using the above data, the first hypothesis can be tested by means of correlation coefficient.

A correlation between Tax Revenue and National Income Nigeria

(X)	**(Y)**	**X^2**	**Y^2**	**XY**
28	14	784	196	392
25	18	625	324	450
60	20	1600	400	800
48	25	2304	625	1200
50	25	2500	625	1200
$\sum X=191$	$\sum Y=102$	$\sum X^2 = 7813$	$\sum Y^2 = 2170$	$\sum XY=4092$

The results of further computation show that
R = 0.911
Df = 3 SL = 5%
R calculated = 0.911
R table = 0.878
Since r calculated is greater than r table the null hypothesis that states that there is no significant relationship between tax revenue and national income is rejected and the alternate accepted.

Table B, below shows that Value Added Tax (VAT) and National Income for five years.

Years	2007	2008	2009	2010	2011
National Income (in Trillion ₦) y	14	18	20	25	25
Tax Revenue (in Billion ₦) x	28	25	40	48	50

Source: National Bureau of Statistics (NBS) 2011
Using the above data, the first hypothesis can be tested by means of correlation coefficient.

A correlation between VAT Revenue and National Income in Nigeria.

(X)	**(Y)**	**X^2**	**Y^2**	**XY**
19	14	361	196	266
22	18	484	324	396
31	20	961	400	620
40	25	1600	625	1000
44	25	1936	625	1100
$\sum X=156$	$\sum Y=102$	$\sum X^2 = 5342$	$\sum Y^2 = 2170$	$\sum XY=3382$

The results of further computation show that

R = 0.911
Df = 3 SL = 5%
R calculated = 0.970
R table = 0.878
Since r calculated is greater than r table the null hypothesis that states that Value Added Tax does not significantly contribute to the Nation Income in Nigeria is rejected and the alternate is accepted.

Findings of the Study

Based on the analysis carried out in this study, the following findings were made:

i. It empirically showed that there is a significant relationship between tax revenue and the national income.
ii. The study also showed that there is a significant relationship between VAT and national income.
iii. It showed also that government could generate more revenue if revenue leakages are checked

Summary

The importance of the national income to the overall growth and development of Nigeria cannot be overemphasized. The study indicated that there is a significant relationship between tax revenue and the national income on one hand and VAT and the national income on the other hand. It showed that government could enhance its revenue profile if the various leakages are blocked and revenue generating machineries are properly strengthened.

Conclusion

This study looked at the relationship between tax revenue and the national income pointing out that there is a significant relationship between them. The study showed that government has benefited greatly from the contributions of the tax revenue to the national income and suggesting that all the revenue generating machineries should strengthened to enhance performance. The tax regulatory bodies should be empowered to enhance their supervisory functions and promote the effectiveness of tax administration Nigeria.

Recommendations

- Government should adopt more effective measures for tax administration in Nigeria. This will enhance the national revenue profile.
- Training and re-training of the workers should be embraced. Seminars, conferences, workshops on tax policies, tax control and tax administration should be organized on a regular basis.
- Government should put in place all the needed machineries to stop revenue leakages and corruption on the path tax workers.
- Government should formulate and execute relevant tax policies that will promote economic growth and development.

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