

ENHANCING PUBLIC SERVICES THROUGH TAXATION: A PATHWAY TO INCLUSIVE ECONOMIC GROWTH IN NIGERIA

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Abstract

This paper explores the role of taxation as a pivotal mechanism for enhancing public services and fostering inclusive economic growth in Nigeria. The study highlights the challenges of tax administration, revenue mobilization, and public service delivery while proposing actionable strategies for reform. With a focus on equity, efficiency, and accountability, the paper underscores the transformative potential of an optimized taxation system in addressing Nigeria's socio-economic disparities and catalyzing sustainable development

Keywords: *Taxation, Economic Growth, Public Services, Sustainable Development.*

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1. INTRODUCTION

Taxation is a cornerstone of state capacity and economic development. In Nigeria, a country with vast natural and human resources, the potential for taxation to drive inclusive economic growth remains underutilized. Despite its large population and diverse economy, Nigeria faces

challenges such as low tax compliance, inefficient tax administration, and limited public trust in the tax system. These factors constrain the government's ability to provide essential public services, including education, healthcare, infrastructure, and security. This paper examines the interplay between taxation and public service delivery, emphasizing how reforms can unlock inclusive economic growth in Nigeria.

Statement of problem

Tax revenue is an influential instrument of economic transformation and a key player in every economy globally. It is certainly not stationary but sufficiently dynamic to depict all existing and predominant economic realities in a nation. Tax revenue is the most vital and principal tool that boosts and sustains economic growth of a country (Munir & Sultan, 2016). It affords emerging countries an unwavering and foreseeable economic environment that promotes growth and conveniently funds social and physical infrastructural needs (Takumah, 2014). Taxation is the most important revenue source of the government which helps in provision of public goods and services (Omodero, Okafor, Azubike & Ekwe, 2016).

The entire essence of tax is to generate revenue that will promote the wellbeing of the citizens in a country with emphasis on stimulating economic growth and development of a nation through the provision of basic facilities for better public services by way of suitable governmental structure, and arrangements. An efficient tax system provides a strong channel to exploit internal revenue sources of a country for proper public service delivery. Public service delivery is the mechanism through which public services are delivered to the public by local, state, or federal governments and these services include provision of public education, health services, street cleaning, sewage and trash disposal (IGI Global, 2018).

Research objectives

The following objectives shall guide this paper:

- a) If the increase in taxation helps in the enhancement of public service
- b) If the tax reform will have impact on the public service enhancement

Research questions

The following objectives shall guide this paper:

- a) Will the increase in taxation helps in the enhancement of public service?
- b) Is the tax reform will have impact on the public service enhancement?

Research hypothesis

The following objectives shall guide this paper:

- a) the increase in taxation does not helps in the enhancement of public service
- b) the tax reform does not have impact on the public service enhancement

2. LITERATURE REVIEW

Concept of Taxation

Taxation is the key to promoting sustainable growth and poverty reduction (Takumah, 2014). The concept of taxation is derived from the submissions of eminent scholars like (Dandago & Alabede, 2011) among others. Dandago and Alabede (2021)acquiesced that taxation is an obligatory but non-retributive levy by the government through its agents on the profits, income or consumption of its subjects or citizens, to facilitate government's spending on public goods and services. Piana (2003) opined that taxation is an application of tax rate to a tax base. Anyaduba (2004) described taxation as a fiscal tool the government uses to generate revenue. According to Nzota (2007), taxation is a compulsory payment by the citizens to the government; it is a general obligation on the part of the tax payers; the benefits of tax may not be commensurate with the revenue and the government levies the citizens for the services provided to them. Brautigam (2008) states that if tax system is properly designed it could enhance provision of adequate infrastructures and improve public sector accountability. Appah (2010) submitted that the role of taxation in economic growth achievement is very enormous and Nigeria cannot be left behind.

However, high tax rates results in tax avoidance and evasion (Chokri, Anis, Ali & Khalil, 2017). Therefore, more taxpayers are likely to defraud or to avoid paying taxes, due to higher taxes demanded by the government. However, lower taxes reduce the likelihood of fraud and tax evasion (Chokri et al., 2017). Engen and Skinner (1992) described five ways taxes might have adverse effect on economic growth. First, higher taxes can discourage investment because firms and individuals pay these taxes from the income that could have been re-invested for business expansion and to enhance economic growth. Second, taxes may reduce growth of

labour supply by discouraging work force participation or hours of work, or individuals' ambitions to acquire higher education, skills or training.

Challenges in Nigeria's Tax System

1. Low Tax Revenue Mobilization

Nigeria's tax-to-GDP ratio, estimated at 6-8%, is among the lowest globally, reflecting underperformance in revenue mobilization compared to the African average of 16%. This low ratio limits the government's fiscal capacity to fund public services.

2. Tax Compliance and Evasion

High levels of tax evasion and avoidance undermine revenue generation. Contributing factors include a weak enforcement framework, inadequate taxpayer education, and perceptions of corruption and inefficiency in government.

3. Informal Sector Challenges

Nigeria's large informal sector, accounting for over 50% of GDP, presents unique challenges for taxation. The informal economy's opacity complicates efforts to broaden the tax base and ensure compliance.

4. Public Distrust and Accountability

Citizens' reluctance to pay taxes is fueled by the perception that tax revenues are mismanaged or diverted. Weak accountability mechanisms erode trust and discourage voluntary compliance.

Enhancing Public Services Through Taxation

1. Broadening the Tax Base

Expanding the tax base involves formalizing the informal sector, enhancing property tax systems, and leveraging technology to identify untapped revenue sources. Digital platforms, such as e-tax systems, can improve efficiency and transparency.

2. Progressive Taxation and Equity

A progressive tax system ensures that higher-income earners contribute a fair share of taxes, addressing income inequality. This approach aligns with redistributive goals, promoting social cohesion and inclusive growth.

3. Strengthening Tax Administration

Investments in modernizing tax administration, including capacity-building for tax officials, adopting data analytics, and automating tax processes, can reduce leakages and improve compliance.

4. Enhancing Public Accountability

Establishing robust mechanisms for monitoring and reporting the utilization of tax revenues fosters transparency and public trust. Participatory budgeting and citizen engagement can strengthen the social contract between the government and taxpayers.

Public Service Delivery Concept

Public service is a service which is provided by government to people living within its jurisdiction, either directly (through the public sector) or by financing provision of services (McGregor Jr., Campbell, Macy & Cleveland, 1982). Service delivery is the process of extending basic services like education, healthcare, water, housing, transport and communication where the end users are the public or local people within the country (Ray, 2007). Public service delivery has been perceived as a fundamental function of the modern governments. It evolves as one of the tools available to the governments for developmental goals implementation, and economic growth channels focusing on creating appropriate and conducive environment for economic sectors to perform optimally (Frost & Sullivan, 2012). This major responsibility propels the government to continually find a better and preferred avenues to deliver services to the people, however, there must be regulations governing public service delivery.

Public service has direct relationship with people's collective agreement shown when leaders are democratically elected to deliver public services to the citizens no matter their income status, physical capabilities and mental alertness (Anderfuhren-Biget, Varone & Giaque, 2014). The provision of public services such as health care, education, sanitation and criminal

justice is a key task of government. The effectiveness of public service delivery depends on the ability of the government to overcome the challenge of not allowing people to participate in finding solution to their public service needs. The delivery of public services in line with citizens' needs rather than the governments' should be the primary aim of every public administration. Therefore, Frost and Sullivan (2012) identified six principles underpinning effective public service delivery. They include co-creation of service clear and measurable outcomes; transparent monitoring and evaluation, accountability of public programs; strong policy/program management; rapid and lean transformation.

Public services provide the most common interface between the government and the people that are being governed. People are concerned about public services and expect to have them delivered properly. Adequate public service delivery enhances public trust and confidence in any administration and so its provision by governments depicts care for human welfare and promotes economic growth. Therefore, public services need to be delivered with integrity.

Case Studies

1. Rwanda's Tax Reform Success

Rwanda's comprehensive tax reforms, including the establishment of the Rwanda Revenue Authority (RRA) and investments in taxpayer education, have significantly increased tax compliance and revenue. Nigeria can draw lessons from Rwanda's focus on governance and accountability.

2. South Africa's Progressive Tax System

South Africa's implementation of a progressive tax regime has contributed to reducing inequality and funding essential public services. Nigeria's tax policy can adopt similar principles to enhance equity and social welfare.

Implications for Inclusive Economic Growth

1. **Poverty Reduction:** Improved public services funded through taxation can alleviate poverty by enhancing access to education, healthcare, and social protection.
2. **Economic Diversification:** Effective tax policies can reduce overreliance on oil revenues, fostering a diversified and resilient economy.

3. **Human Capital Development:** Investments in education and healthcare, financed by tax revenues, enhance labor productivity and long-term economic growth.
4. **Infrastructure Development:** Adequate taxation enables the construction and maintenance of critical infrastructure, supporting business activities and job creation.

Policy Recommendations

1. **Tax Education Campaigns:** Raise awareness among citizens about the importance of taxation and the benefits of compliance.
2. **Digital Transformation:** Implement e-tax systems to improve efficiency and reduce corruption.
3. **Strengthening Institutions:** Enhance the capacity and independence of tax authorities to enforce compliance.
4. **Promoting Accountability:** Establish transparent mechanisms for reporting tax revenue utilization and linking taxes to tangible public service outcomes.

Engaging the Informal Sector: Develop tailored strategies to integrate the informal sector into the tax net without stifling economic activities.

3. METHODOLOGY

The research design was preferred in this study because the secondary form of data employed were not under the control of the researchers but have already been captured in the archive of CBN Statistical Bulletin, 2023 edition. The tax revenue (TRV) used here as the independent variable excludes petroleum profit tax (PPT) but includes all non-oil revenues in Nigeria comprising personal income tax, companies income tax, capital gains tax, withholding tax and all form of indirect taxes (Accounting Technicians Scheme West African (ATSWA), 2021). Thus, government spending on education (EDU) and health care services (HLT) are the dependent variables. The data for all the variables (both dependent and independent) were obtained from Central Bank of Nigeria Statistical Bulletin, 2017 edition and covered a period from 1981-2017. Simple regression technique was employed for analysis with the use of e-views version 9. The rejection criterion for testing of null hypotheses is at 5% level of significance; the p-value of individual result above 5% significance level is accepted and is

rejected if otherwise. Based on Koutsoyiannis (1977) model which states that economic theory does not specify the practical form of any relationship.

Guided by the theory above, the model considered suitable for this study is specified below:

$$\text{PSD} = f(\text{TRV}) \quad (1)$$

Where=PSD=Public Service Delivery; TRV=Tax Revenue.

Hypothesis 1

$$\text{LOGEDU} = f(\text{LOGTRV}) \quad (2)$$

Where=LOGEDU= public enhancement, LOGTRV=Tax Revenue.

Expressed in its explicit form as follows:

$$Y = \alpha + \beta_1 X_1 + \mu \quad (3)$$

Where=Y=public enhancement; α = Constant; β =coefficient of the regression Equation; X=Tax Revenues ; μ = error term.

Hypothesis 2

$$\text{LOGHLT} = f(\text{LOGTRV}) \quad (4)$$

Where=LOGHLT=public goods; LOGTRV=Tax Revenue.

Expressed in its explicit form as follows:

$$Y = \alpha + \beta_1 X_1 + \mu \quad (5)$$

Where=Y=public goods; α =Constant; β =coefficient of the regression Equation; X=Tax Revenues; μ =error term.

3.1 A Prior Expectation

The A prior expectation is that tax revenue should be greater than zero implying positive contribution to public service delivery in the area of education and health care services.

4. RESULTS AND FINDINGS

Hypothesis 1: the increase in taxation does not help in the enhancement of public service goods.

Table1. Tax revenue and public service goods regression results

Dependent Variable: public enhancement goods

Method: Least Squares

Date: 12/12/24 Time: 06:07

Sample: 2024

Included observations: 37

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGTRV	1.094515	0.035411	28.023582	0.0000
C	-2.834125	0.252689	-12.97840	0.0000
R-squared	0.951784	Mean dependent var		2.632053
Adjusted R-squared	0.952354	S.D.dependent var		2.741705
S.E.of regression	0.598456	Akaike info criterion		1.791240
Sum squared resid	11.64714	Schwarz criterion		1.878747
Log likelihood	-31.11257	Hannan-Quinn criter.		1.814279
F-statistic	784.4412	Durbin-Watson stat		2.123519
Prob(F-statistic)	0.000000			

Source: Authors' Computation, 2024.

The regression results on Table 1 show the value of R to be 97.8% (square root of R-squared), this is an indication that tax revenue has a strong and positive relationship with provision of public enhancement goods in Nigeria. The result has also proved that tax revenue has been utilized to a great extent to provide public enhancement goods in the country. The value of R-squared is 95.1% which implies the extent to which tax revenue (TRV) explains the variations in public enhancement goods. In other words, it is only 4.3% that is attributable to variables outside the model. The regression result shows that the value of F-statistic is 784.44 with the p-value of 0.000 < 0.05; this result indicates that the model is a good fit and statistically significant. The Durbin-Watson is approximately 2 which show absence of autocorrelation. The Ho1 testing is based on the outcome of the t-statistics which is 28.02 while the p-value is 0.000 < 0.05; this means tax revenue has a robust and significant positive impact on public enhancement goods. Therefore, Ho, which states that tax revenue does not have significant impact on education is hereby rejected and the alternative which suggests otherwise accepted. This result is in agreement with the findings of (Okafor, 2012; Kinya, 2013; Ayuba, 2014; Takumah, 2014) among others who found positive relationship between tax revenue and economic growth in their different studies..

Hypothesis 2: the tax reform does not have impact on the public service enhancement

Table 2. Tax revenue and public service enhancement regression results

Dependent Variable: public goods

Method: Least Squares

Date: 12/12/24 Time: 06:07

Sample: 2024

Included observations: 20 after adjustments				
Variable	Coefficient	Std.Error	t-Statistic	Prob.
LOGTRV	1.554782	0.126527	12.62155	0.0000
C	-3.831028	0.439854	-8.791485	0.0000
R-squared	0.814985	Mean dependent var		1.0712453
Adjusted R-squared	0.813850	S.D.dependent var		2.612643
S.E. of regression	0.812455	Akaike info criterion		2.6528746
Sum squared resid	13.61246	Schwarz criterion		2.7514360
Log likelihood	-24.54516	Hannan-Quinn criter.		2.6754784
F-statistic	158.7452	Durbin-Watson stat		1.9812786
Prob(F-statistic)	0.000000			

Source: Authors' Computation, 2024.

The regression results on Table 2 reveal that tax revenue has a strong positive relationship with the provision public service enhancement services in Nigeria. The value of R is 94.8%, which shows the existence of a very robust correlation between tax revenue and public service enhancement in Nigeria. The R-squared of 81.4% is equally very strong. It shows that tax revenue explains about 89.8% of the changes public service enhancement while the remaining 10.2% is accountable by other factors not included in the model. F-statistic is 158.7452 and has the p-value of $0.000 < 0.05$. Therefore, the result is statistically significant and the model is appropriate for the study. The Durbin-Watson is approximately 2; showing absence of autocorrelation. Testing of Ho2 is based on the result of the t-statistics which is 12.62155 with the p-value of $0.000 < 0.05$ level of significance. Thus, Ho2 is hereby declined while the alternative suggestion is established. This result agrees with the findings of other Scholars such as (Okafor, 20120)

5. CONCLUSION AND RECOMMENDATIONS

Taxation is a vital tool for driving inclusive economic growth and enhancing public services in Nigeria. While challenges such as low compliance, a narrow tax base, and public distrust persist, strategic reforms can unlock the potential of Nigeria's tax system. By prioritizing equity, efficiency, and accountability, Nigeria can create a sustainable pathway to socio-economic development and improve the well-being of its citizens. Public service delivery indicators focused on education and health care services in the African countries is a move in the right direction. It takes a healthy nation to make wealth and education is key to economic growth of every nation. The result of this study met a prior expectation and shows that tax revenue has a strong positive relationship with provision of public service enhancement and public service goods in Nigeria. These findings have given credence to government's effort to exploit all revenue sources through taxation in the country for proper public service delivery. This will in a way prove the right application of benefit received theory in the country. However, the study has provided the following recommendations deemed necessary for more improvement in tax revenue collection and public service delivery.

The study encourages Federal Inland Revenue Service (FIRS) to devise better strategies to prevent tax evasion which has over the years led to decrease in government revenue while ensuring that all perpetrators are duly punished. All government efforts to generate revenue for adequate public service delivery should be supported by non-government organizations, firms, individuals and all stake holders in the country.

Tax revenue should be properly utilized by the government to provide a good educational system in Nigeria. The government should always consider provision of public service goods as a very important service that requires priority attention.

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