

TAX REVENUE TRANSFORMATION AND ECONOMIC GROWTH DYNAMICS IN NIGERIA: A COMPREHENSIVE THEORETICAL AND EMPIRICAL SYNTHESIS

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ABSTRACT

Taxation remains one of the most enduring instruments of statecraft, serving not only as a primary mechanism for public revenue generation but also as a potent policy tool for economic management, redistribution, and development. In developing economies such as Nigeria, the role of tax revenue has become increasingly prominent as governments seek to reduce dependence on volatile natural resource rents and external borrowing. This study provides a comprehensive, publication-ready synthesis of the transformation of tax revenue and its relationship with economic growth in Nigeria, grounded strictly in extant scholarly literature and institutional reports. Drawing on a wide range of empirical, theoretical, and conceptual studies, the article interrogates how tax revenue mobilization, structure, reforms, and administration interact with macroeconomic performance over time. The study adopts a qualitative-descriptive methodological approach, relying on rigorous analytical interpretation of prior empirical findings, theoretical models of taxation, and Nigeria-specific institutional realities. The article elaborates extensively on classical and modern theories of taxation, including optimal taxation theory, fiscal sociology, and development-oriented tax frameworks, and situates Nigeria's experience within broader comparative and international contexts. Findings from the reviewed literature consistently indicate a statistically and economically significant relationship between tax revenue and economic growth, though the magnitude and direction of impact vary across tax types, time periods, and methodological approaches. Indirect taxes, particularly value added tax, are frequently associated with positive growth outcomes, while the growth effects of direct taxes are often mediated by administrative efficiency, compliance levels, and structural characteristics of the economy. The discussion highlights persistent challenges such as tax evasion, informality, weak institutions, and policy inconsistency, while also identifying reform opportunities linked to digitalization, governance improvement, and diversification strategies. The study concludes that sustainable economic growth in Nigeria is inseparable from a coherent, equitable, and efficiently administered tax system. By offering an integrated and deeply elaborated account of the tax-growth nexus, this article contributes to academic discourse, informs policy debates, and provides a robust foundation for future research on fiscal development in Nigeria and comparable economies.

Keywords: Tax revenue, economic growth, fiscal policy, Nigeria, development economics, taxation reform.

INTRODUCTION

The relationship between taxation and economic growth has long occupied a central position in economic theory, public finance scholarship, and policy discourse. From the earliest formulations of classical political economy to contemporary debates on fiscal sustainability and inclusive development, taxation has been understood as both a necessity for state survival and a potential constraint on private economic activity. In developing

economies, this dual character of taxation becomes particularly pronounced, as governments must balance the urgent need for revenue with the imperative of fostering growth, reducing poverty, and promoting structural transformation. Nigeria, Africa's most populous country and one of its largest economies, offers a compelling case for examining this balance, given its historical dependence on oil revenues, persistent fiscal challenges, and ongoing efforts at tax reform (Abu et al.,

2023; Madein, 2024).

The Nigerian fiscal landscape has undergone significant transformation over the past several decades. During the oil boom years, government revenue was overwhelmingly dominated by petroleum receipts, leading to a neglect of non-oil tax bases and a weakening of tax administration institutions. This structural dependence exposed the economy to external shocks, particularly fluctuations in global oil prices, and contributed to macroeconomic instability, fiscal deficits, and unsustainable debt dynamics (IMF, 2020). In response, successive governments have emphasized the need to strengthen domestic revenue mobilization, with taxation positioned as the cornerstone of fiscal sustainability and economic diversification (Gbeke & Nkak, 2021; Ikpesu, 2022).

Despite the centrality of taxation in Nigeria's development strategy, the empirical and theoretical understanding of how tax revenue affects economic growth remains complex and contested. On one hand, tax revenue provides the financial resources necessary for public investment in infrastructure, education, health, and security, all of which are widely recognized as growth-enhancing factors (Ashiedu et al., 2021; Dang & Bala, 2018). On the other hand, taxation can distort incentives, reduce disposable income, and potentially discourage investment and consumption if poorly designed or inefficiently administered (Mirrlees, 1971; Mankiw, 2020). The net effect of taxation on growth therefore depends on a multitude of factors, including tax structure, rate levels, compliance, administrative capacity, and the quality of public expenditure financed by tax revenue.

The Nigerian empirical literature reflects this complexity. Numerous studies have examined the impact of total tax revenue and specific tax components—such as company income tax, petroleum profit tax, customs and excise duties, and value added tax—on economic growth using time-series and panel data methods (Adeusi et al., 2020; Okwara & Amori, 2017; Osamor et al., 2023). While many of these studies find a positive relationship between tax revenue and growth, others report mixed or conditional effects, often highlighting the mediating role of institutional quality, macroeconomic stability, and revenue utilization efficiency (Agunbiade & Idebi, 2020; Omodero, 2020).

Beyond empirical findings, there remains a notable gap in the literature concerning integrative, theory-driven syntheses that connect Nigeria's tax revenue experience to broader debates in public finance and development economics. Much of the existing work is fragmented, focusing narrowly on specific tax types or econometric techniques, with limited engagement with normative theories of taxation, comparative international perspectives, or the political economy of tax reform (Brauner & Pistone, 2021; O'Neill & Galligan, 2019).

This article seeks to address this gap by providing a comprehensive, publication-ready analysis that weaves together theoretical foundations, empirical evidence, and contextual insights into a coherent narrative.

The central objective of this study is therefore to examine the transformation of tax revenue in Nigeria and its implications for economic growth, drawing exclusively on the provided references. Specifically, the article aims to: elaborate the theoretical underpinnings of taxation and growth; analyze Nigeria's tax revenue structure and reform trajectory; synthesize empirical findings on the tax-growth nexus; and critically discuss the challenges, limitations, and future prospects of tax-led development in Nigeria. By adopting an extensive and deeply elaborated approach, the study contributes to a more nuanced understanding of taxation as both an economic and institutional phenomenon in a developing country context.

Methodology

The methodological approach adopted in this study is qualitative, descriptive, and integrative, reflecting the objective of producing a comprehensive synthesis rather than generating new econometric estimates. The study relies exclusively on secondary sources drawn from peer-reviewed academic journals, scholarly books, institutional reports, and reputable policy publications included in the provided reference list. This approach is consistent with established practices in theoretical and review-based research in economics and public finance, where the goal is to consolidate knowledge, identify patterns, and develop interpretive insights grounded in existing empirical evidence (Mankiw, 2020; O'Neill & Galligan, 2019).

The analytical process involved several interrelated stages. First, the study undertook a systematic conceptual mapping of the literature on taxation and economic growth, identifying key theoretical frameworks such as classical taxation theory, optimal taxation, fiscal sociology, and development-oriented tax models (Mirrlees, 1971; Heij, 2020). These frameworks provided the intellectual foundation for interpreting Nigeria-specific studies and situating them within broader scholarly debates. Second, the study reviewed empirical works focusing on Nigeria's tax revenue and economic growth, paying close attention to methodological approaches, data coverage, tax variables examined, and reported findings (Adeusi et al., 2020; Oladipupo & Oladipupo, 2015; Otekunrin et al., 2023). Rather than summarizing these studies superficially, the analysis engaged deeply with their assumptions, interpretations, and implications.

Third, comparative and international perspectives were incorporated by drawing on studies from other developing and emerging economies, including Ghana,

Kenya, Jordan, Southeast Europe, and the Western Balkans (Egbunike et al., 2018; Metri, 2018; Owino, 2019; Luljeta & Esat, 2023; Kalas et al., 2017). This comparative dimension allowed for a richer understanding of Nigeria's experience, highlighting both common challenges and context-specific dynamics. Finally, institutional and policy-oriented sources, such as IMF reports and government statements, were used to contextualize academic findings within contemporary fiscal realities and reform agendas (IMF, 2020; Madein, 2024).

Throughout the analysis, emphasis was placed on interpretive depth rather than quantitative replication. All discussions of data trends, statistical relationships, and methodological outcomes are presented descriptively, without the inclusion of tables, charts, equations, or mathematical expressions, in strict adherence to the stated constraints. This narrative-driven methodology enables a holistic exploration of the tax-growth nexus, capturing not only empirical regularities but also theoretical nuances, policy trade-offs, and institutional considerations that are often obscured in narrowly technical analyses.

Results

The synthesis of empirical findings from the reviewed literature reveals several consistent and interrelated patterns regarding the relationship between tax revenue and economic growth in Nigeria. A dominant result across studies is the existence of a statistically significant relationship between tax revenue and measures of economic performance, typically proxied by gross domestic product growth or levels (Abu et al., 2023; Adefolake & Omodero, 2022). This relationship, however, is far from uniform, varying in strength, direction, and significance depending on the type of tax considered, the time period analyzed, and the methodological approach employed.

Studies examining aggregate tax revenue generally report a positive association with economic growth, suggesting that increases in tax collection capacity are linked to improved macroeconomic outcomes (Adeusi et al., 2020; Okwara & Amori, 2017). This positive relationship is often interpreted as evidence that tax revenue provides the fiscal space necessary for public investment and social spending, which in turn stimulate productive capacity and aggregate demand. In the Nigerian context, such spending is particularly critical given chronic infrastructure deficits, human capital challenges, and security concerns (Ashiedu et al., 2021; Dang & Bala, 2018).

When disaggregated by tax type, the results become more nuanced. Indirect taxes, especially value added tax, are frequently found to exert a positive and significant impact on economic growth (Obayori & Omekwe, 2019;

Nwobodo et al., 2022). This finding is often attributed to the broad base and relative administrative efficiency of consumption taxes, as well as their perceived neutrality with respect to investment decisions. Value added tax, in particular, has been highlighted as a key instrument in Nigeria's revenue diversification agenda, with reforms aimed at expanding coverage and improving compliance (Oseni, 2017; Omodero, 2020).

Direct taxes, including company income tax and personal income tax, present a more mixed picture. Some studies report positive growth effects, especially when revenue is effectively utilized and compliance is relatively high (Oladipupo & Oladipupo, 2015; Osamor et al., 2023). Others, however, find weak or negative associations, suggesting that high statutory rates, narrow tax bases, and administrative inefficiencies may dampen investment incentives and economic activity (Agunbiade & Idebi, 2020; Ikpesu, 2022). Petroleum profit tax occupies a unique position in Nigeria's fiscal structure, with its growth effects closely tied to global oil market dynamics and domestic production conditions (Otekinrin et al., 2023).

Another recurrent result is the importance of institutional and structural factors in mediating the tax-growth relationship. Studies emphasize that the mere increase in tax revenue is insufficient to guarantee positive growth outcomes; rather, the quality of governance, transparency, and expenditure efficiency play decisive roles (Appah & Oyandonghan, 2011; Ofoegbu et al., 2016). Weak tax administration, widespread informality, and pervasive tax evasion are repeatedly identified as constraints on Nigeria's ability to translate tax potential into sustainable development gains (Nwezeaku, 2005; Enehe, 2020).

Comparative studies further reinforce these findings by showing that Nigeria's tax-to-GDP ratio remains low relative to peer countries, despite recent improvements (Egbunike et al., 2018; Irekponor & Ebieri, 2023). This suggests significant untapped revenue potential, but also underscores the structural and institutional reforms required to harness it effectively.

Discussion

The results synthesized in this study invite a deeper discussion of the theoretical, institutional, and policy implications of the tax-growth nexus in Nigeria. From a theoretical perspective, the findings align with the core propositions of optimal taxation theory, which emphasizes the trade-off between revenue generation and economic efficiency (Mirrlees, 1971). The positive association between tax revenue and growth observed in many Nigerian studies suggests that the economy operates below the revenue-maximizing threshold implied by such models, meaning that increases in efficient taxation can enhance welfare by financing

productive public goods.

At the same time, the mixed effects of different tax types highlight the relevance of tax structure and design. The relative success of indirect taxes, particularly value added tax, reflects their compatibility with Nigeria's economic structure, characterized by a large informal sector and administrative capacity constraints (Omodero, 2020; Nwobodo et al., 2022). However, overreliance on consumption taxes raises concerns about equity and distributional justice, especially in a country with high poverty and inequality levels (O'Neill & Galligan, 2019).

The challenges identified in the literature—such as tax evasion, weak institutions, and policy inconsistency—point to the centrality of governance in shaping fiscal outcomes. Taxation is not merely a technical exercise but a deeply political and social process, embedded in state–citizen relations and perceptions of legitimacy (Heij, 2020; Brauner & Pistone, 2021). In Nigeria, historical distrust in government, perceptions of corruption, and limited transparency in public spending undermine voluntary compliance and weaken the social contract underpinning effective taxation (Appah & Oyandonghan, 2011).

Looking forward, the literature suggests several avenues for strengthening the growth impact of tax revenue in Nigeria. These include broadening the tax base through formalization and digitalization, simplifying tax laws, enhancing administrative capacity, and improving the visibility and quality of public expenditure financed by taxes (Gbeke & Nkak, 2021; Madein, 2024). Comparative experiences from other developing regions indicate that sustained progress in these areas requires long-term institutional commitment and political will (Luljeta & Esat, 2023; Kalas et al., 2017).

Conclusion

This article has provided an extensive and integrative analysis of tax revenue transformation and economic growth dynamics in Nigeria, grounded strictly in existing scholarly and institutional literature. The evidence reviewed demonstrates that taxation plays a vital and multifaceted role in Nigeria's development trajectory, with significant implications for fiscal sustainability, macroeconomic stability, and long-term growth. While increased tax revenue is generally associated with positive economic outcomes, the magnitude and durability of these effects depend critically on tax structure, administrative efficiency, governance quality, and expenditure effectiveness.

The Nigerian experience underscores the need to move beyond narrow debates about tax rates and revenue targets toward a more holistic understanding of taxation as an institutional and social process. Sustainable economic growth requires not only higher tax revenue

but also a fair, transparent, and efficient tax system that commands public trust and supports inclusive development. By synthesizing theoretical insights and empirical findings in a deeply elaborated manner, this study contributes to a richer academic understanding of the tax–growth nexus and offers a robust foundation for future research and policy reform in Nigeria and comparable developing economies.

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