The Effect of Pay as you Earn on Social and Economic Development in Nigeria

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Keywords: economic development, direct tax, personal income tax, social development, value added tax.

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The Effect of Pay as you Earn on Social and Economic Development in Nigeria

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Keywords: economic development, direct tax, personal income tax, social development, value added tax.

1. Introduction

Tax is a compulsory levy imposed as an instrument for economic development. Governments use tax proceeds to render their social functions, such as: the provision of goods, maintenance of law and order, defence against external aggression, regulation of trade and business to ensure social and economic maintenance (Edame & Okoi, 2014). And also use to reduce or increase flow of cash in circulation during inflation or deflation, as industries can be more easily secured with the use of tax through the means of increasing tariff on imported goods and services. The consumption and production of particular goods and services can also be checked, monitored or reduced with the use of tax (Agbetunde, 2010). Overall, tax is seen as a compulsory levy imposed by the government through its various means on the income, capital, or consumption of its subject (Mustapha, 2010). From these few explanations, it could be seen that the payment of tax is a compulsory exercise on all taxable individuals and corporate bodies.

Direct tax is a tax assessable directly on the tax payer who is required to pay tax on his income or profit while indirect tax is imposed on commodities before they reach the final consumer and is paid by them upon, not as taxes, but as part of selling price of the commodity (ICAN, 2006). Personal income tax (PIT) which forms part of direct tax refers to all taxes or levies imposed on the income, salaries and wages, profit, gratuities, etc., of individuals as well as interest and dividends from companies accruing to them. This tax is further divided into two categories: Pay As You Earn (PAYE) and direct assessment tax (Mohammed, 2017).

The PAYE directly on the individual’s income as a result of employment and the employee’s income are taxed using a graduated scale. The tax calculated is usually deducted from the source and is done by the employer who will remit the amount to the tax authorities. The second category, direct assessment tax, is a tax levied on the individual income as a result of self-employment. This part of income tax covers income from trade, business, profession, or vacation. The payment of this tax, occurs after the individual has collected his/her gross income and filed in a return on the gross income.

In a tax system, responsibility is delegated to three key entities: the tax payers whose obligation is payment of the assessed taxes promptly and accurately, tax authorities which ensure the collection of taxes for the government and the government whose duty is the imposition of taxes to finance the activities that ultimately benefit the citizens. Thus, the tripartite constituents of an effective tax system include tax administration, policy and law for effective service delivery (Olaofe, 2008).

With the recent reduction in the collection of revenue from the oil; which is the main source of the consolidated federation revenue there is the need for all the three tiers of government to look inwards. This study therefore seeks to examine the Impact of pay as you earn and social, Economic development in Nigeria for the period 2009-2018 (10 years).
II. Literature Review

a) Conceptual Review

i. Concept of Taxation

Taxation is the art or process of being taxed. It is the primary source of governmental revenue. Specifically, it is an instrument for moving resources from the private hands to the public in order to achieve some of the country’s economic and social goals (Ekine, 2011). The primary purpose of taxation is to raise revenue to meet huge public expenditure. That is, to generate or create revenue capable of financing the expenditure of government at all levels (Emmanuel and Charles 2015). Taxation is a powerful tool in the hands of the governments (federal, state or local) to achieve stated economic and social goals among which is economic growth.

Furthermore, taxation according to Musgrave and Musgrave (1980) can be used extensively in regulating the pattern of consumption resulting in economic stabilization. Taxes can be used to control anti-social behaviour such as smoking, drinking of alcohol and pool betting or gambling by imposition of higher tax rate on production of such goods (Cornelius, Ogar & Oka, 2016).

Moreover, Anyanwu (1993), Nzotta (2007) as well as Onyele & Nwokoacha (2016) submitted that the purposes of taxation include raising revenue for the government for administration purpose and improvement of the society. As such, it is believed that payment of tax is helpful to the person paying and the citizenry, since tax revenue is used to accomplish some economic and social goals of the country. Examples of countries that have used tax revenue to create prosperity include Netherland and Canada. In addition, tax system provides a path for government to bring together additional revenue besides income from other sources, which is needed or required in discharging its imperative obligation. A good system of taxation also presents itself as one of the most effective means of assembling a country’s domestic resources and it lends itself to make sustainable environment that will encourage growth and development.

Tax revenues are usually used for the provision of public goods including the defense of country against external aggression, maintenance or upholding of law and order, and regulation of trade and business environment to guarantee social and economic justice. Strictly speaking, the entire essence of taxation is to generate revenue to advance the welfare of the inhabitants of a nation with focus on promoting the growth and development of the country’s economy through the provision of essential amenities for improved public services through proper managerial system and structures. However, over the years, these benefits in Nigeria have been insignificant and revenue from taxes has been the explanation or cause of a little proportion of total government revenue in Nigeria.

ii. Concept of Pay As You Earn (PAYE)

Although all withholding taxes aim to tax income when it is earned, only withholding on wages is commonly known as pay-as-you-earn (PAYE). This tax plays an important role in nearly all national tax system. The PAYE is an important and easy-to-collect revenue item. Its claim on the resources of the tax administration is limited, particularly if return filing by employees is restricted to those who earn substantial other income or are entitled to significant special deductions, or both. A simple PAYE does not complicate the employer’s wage administration. Compliance control can focus on employers only, rather than on individual employees. Non consolidation with other income is more acceptable when other income is also subject to withholding taxation (Uwaoma & George, 2015)

The PAYE is a high-yielding revenue collector in many countries. It generates a lion’s share of the personal income tax and, in industrial countries, usually exceeds the revenue of the general sales tax or value-added tax (VAT) by an ample margin

iii. Concept of Value Added Tax (VAT)

Value Added Tax (VAT) is a consumption tax levied at each stage of the consumption chain and borne by the final consumer of the product or services. Each person is required to charge and collect VAT at a flat rate of 5% on all invoiced amount on all goods and services not exempted from paying VAT. Under Value Added Tax Act 1993, as amended. Where the VAT collected on behalf of the government (output VAT) in a particular month is more than the VAT paid to other persons (input VAT) in the same month, the difference is required to be remitted to the government on monthly basis, by the taxable person (Federal Inland Revenue Services. Information Circular No 9304). Where the reverse is the case, the tax payer is entitled to a refund of the excess VAT paid. All exports are zero-rated for VAT, no VAT is payable on exports. Everyone, whether resident in Nigeria, who sales goods or render services in Nigeria under the VAT Act as amended is obligated to register for VAT within six months of its commencement of business in Nigeria. The registration is with the Federal Board of Inland Revenue (FBIR).

Ajakaiye (2000) defined VAT as a “multi stage tax imposed on the value added to goods and services as they proceed through various stages of production and distribution and to services as they are rendered” which is eventually borne by the final consumer but collected at each stage of production and distribution chain. Ola (2001), said that, VAT is a tax paid at each stage of value added. It is a multi-stage tax which applies whenever goods and services are supplied by the producers. He also said that VAT are levied on the
value gained or added on the products before being sold, VAT is an output tax less input tax. He went further to say that VAT is one of indirect taxes collected by the government in this case the incidence of tax is borne by either the producer or the final consumer or shared by both.

iv. Taxation Principles
Business Dictionary.com defined as basic concepts by which a government is meant to be guided to designing and implementing an equitable taxation regime. These include:

1. **Board Basing:** Taxes should be spread over as wide as a possible section of the population, or sectors of the economy, to minimize the individual tax burden.

2. **Compatibility:** Taxes should be coordinated to ensure tax neutrality and overall good governance.

3. **Convenience:** Taxes should be enforced in a manner that facilitates voluntary compliance to the maximum extent possible. Bhartia (2009) noted that the time of payment, the manner of payment, the quality to be paid ought to all be clear and plain to the tax payer and every other person.

4. **Earmarking:** Tax revenue from a specific source should be dedicated to a specific purpose only when there is a direct cost – and benefit link between the tax source and the expenditure, such as the use of motor fuel tax for road maintenance and also education tax for buying educational materials. However, what we are experiencing today in Nigeria is fiscal indiscipline, corruption and misappropriation of funds.

5. **Efficiency:** Tax collection efforts should not cost an inordinately high percentage of tax revenue. This principle seems to be lacking in Nigerian tax system. World Bank Report says that for every N100 that business has to pay in taxes, they pay about N30 in compliance costs. According to the minister of finance Okonjo-Iweala, this is a waste of capital.

6. **Equity:** Taxes should equally burden all individuals or entities in similar economic circumstance. Equity Principle states that tax payer should pay the tax in proportion to his income (Anyawu (2007) “states that it is only when a tax is based on the tax payer’s ability to pay can it be considered equitable or just”. He argued that tax law should be transparent.

7. **Neutrality:** Taxes should not favour any one group or sector over another, and should not be designed to interfere with or influence individual decisions making.

8. **Predictability:** Collection of taxes should reinforce their inevitability and regularity.

9. **Restricted Exemptions:** Tax exemptions must only be for purposes (such as to encourage investment) and for a limited period.

10. **Simplicity:** Tax assessment and determination should be easy to understand by an average tax payer.

11. On both equity and simplicity principles, Anyanfo (1996) “states that it is only when a tax is based on the tax payer’s ability to pay can it be considered equitable or just”. He argued that tax law should be transparent.

v. **Personal Income Tax**
According to Anyawu (2007) Personal income tax is a levy imposed by the government of a country on its citizens, individual or entities known as the taxpayers. The levy imposed on the taxpayers is such that it varies with the level of income or profits of the taxpayers. Taxes imposed on the personal income of an individual taxpayer are termed “Personal Income Tax”. Thus, personal income tax signifies taxes imposed on the personal income of the individual. These taxes are imposed on the income of the individual on a basis of “Pay as You Earn” (PAYE) and the individual taxpayer must be an employed person and expected to file returns on a yearly basis.

vi. **Tax Reform in Nigeria**
The role of taxation in every economy cannot be over emphasized, that is why every nation is working tirelessly to have a good tax law: Ogbonna and Ebimobowei (2012) highlighted numerous tax laws being enacted in Nigeria. Here, we enumerate only nine (9) bills on tax reforms recommended by study group on the Nigerian Tax System as follows: Federal Inland Revenue Services Act 2004, Companies Income Tax Act 2004, Petroleum Profit Tax Act 2004; Education Tax Act 2004, Customs, Excise Tariffs etc. (Consolidation) Act 2004; National Surgeon Development Act 2004; and National Automobile Council Act 2004.

vii. **Economic Development**
Economic development is the sustained, concerted actions of policy makers and communities that promote the standard of living and economic health of a given area. Economic development can also be referred to the quantitative and qualitative changes in the economy.

Economic development requires collective action and large-scale, long-horizon investment. Economic development addresses the fundamental conditions necessary for the micro economic functioning of the economy. It is within the purview of government. Though it is certainly possible to have growth without development in the short or even medium-term, economic development creates the conditions that enable long-run economic growth. Jobs are a main concern of policy: for growth what matters is the number of jobs while for economic development the focus is wages, career advancement opportunities, and working conditions (Feldman & Francis, 2003).
The Malthusian theory did not regard the process of economic development as automatic. Rather, it required consistent efforts on the part of people. Dafionone (2013), noted, “that for the country to lay claim on growth and development through taxation, there must be an improvement of the quality of life of the citizens, as measured by the appropriate indices in economic social, political and environmental terms”. In Nigeria, dependency theorists’ argument explains the precarious situation we are into. Dependency theorists argue that poor countries have sometimes experienced economic growth with little or no economic development initiatives. Today, Nigeria being the number one economies in Africa cannot boast of a good education system like our sister country Ghana. Nigeria only functions as resource-providers to wealthy industrialized countries. Although opposing argument has it that growth causes development because some of the increase in income gets spent on human development such as education and health. Other theories of economic development are Adam Smith’s theory, the Ricardian theory, the Schumpeterian theory, the Keynesian theory e.t.c (Jhingan, 2002).

viii. Gross Domestic Product (GDP)

According to Adekunle and Aderemi, (2012), gross domestic product measures the monetary value of final goods and services, that is, those that are bought by the final users produced in a country in a given period of time e.g quarterly or yearly. It counts all the output generated within the borders of a country. GDP is composed of goods and services produced for sale in the market and also include some non market production, such as defence or education services provided by the government. An alternative concept, gross national product, or GNP, counts all the output of the residents of a country. Not all productive activity is included in GDP. For example, unpaid work (such as that performed in the home or by volunteers) and black-market activities are not included because they are difficult to measure and value accurately.

ix. The Effect of VAT on Social Economic Development

VAT is a consumption tax levied at each stage of the consumption chain and borne by the final consumer of the product or service. Each person is required to charge and collect VAT at a flat rate of 5% on all invoiced amounts, on all goods and services not exempted from paying VAT, under the Value Added Tax Act 1993 as amended. Where the VAT collected on behalf of the government (output VAT) in a particular month is more than the VAT paid to other persons (input VAT) in the same month, the difference is required to be remitted to the government, on a monthly basis, by the taxable person (Oserogho & Associates, 2008). Where the reverse is the case, the taxpayer is entitled to a refund of the excess VAT paid or more practically, to receive a tax credit of the excess VAT from the government. All exports are zero rated for VAT, i.e. no VAT is payable on exports. Also, VAT is payable in the currency of the transaction under which goods or services are exchanged (Umeora, 2013).

Value Added Tax (VAT) is one of the most popular taxes around the world. In sub-Saharan Africa for example, VAT has been introduced in Benin republic, Cote d’ Ivoire, Guinea, Kenya, Madagascar, Mauritius, Niger republic, Senegal, Togo and Nigeria. Evidence has shown in these countries that VAT has been an important contributor to total government revenue (Ajakaiye 2000). Shalize & Squire (1988) found that VAT accounted for about 30% of total tax revenue in Cote d’Ivoire, Kenya and Senegal in1982. Tait (1989) showed that VAT has According to Ajakaiye (2000), the impressive performance of VAT in virtually all countries where it has been introduced strongly influenced the decision to introduce it in Nigeria in 1993.

The main reason for the popularity of VAT is that it provides a buoyant revenue base that usually yields significantly more revenue than other tax on consumption. It is relatively easy to administer and difficult to avoids. The yield from VAT is a fairly accurate measurement of the growth of an economy since purchasing power increases with economic growth (Paulo 2002).

Evidence so far supports the view that VAT revenue is already a significant source of revenue in Nigeria. For example, actual VAT revenue from 1994 was #8.189 billion which is36.59% higher than the project is #6 billion for the year. Similarly actual VAT revenue for 1995 was #21 billion compared with the projected #12 billion. In terms of contribution to total federally collected revenue, VAT accounted for about 4.06% in 2004 and 5.93% in 2005. As much as #404.5 billion was collected on VAT (5.1%) of total revenue in 2015, VAT revenue of #1.97 trillion was paid to federation account for the first half of the year 2018 (CBN, 2018)

So many scholars have investigated on the issue of VAT and its contributions to the nation. Owolabi and Okwu (2011) showed that VAT revenue contributed positively to the development of the respective sectors. Izedonmi and Okunbor (2014) showed that VAT Revenue accounts and total revenue account for as much as 92% significant variations in GDP in Nigeria. A positive and insignificant correlation exists between VAT Revenue and GDP. Both economic variables fluctuated greatly over the period though VAT Revenue was more stable. Umeorah, (2013) that VAT has significant effect on GDP and also on Total Tax Revenue. Though prior research revealed that VAT as a tax has contributed immensely on the economic growth of Nigeria. However,
b) Related Theoretical Review

Apart from the obvious purpose of providing revenue, taxation aims at achieving other objectives. These are resources allocation, income redistribution, price stabilization, full employment and economic development. Based on this assertion, this work is based on the following theories:

i. The expediency theory

This theory asserts that every tax proposal must pass the test of practicability. It must be the only consideration weighing with the authorities in choosing a tax proposal. Economic and social objectives of the state as also the effects of a tax system should be treated as irrelevant. This proposition has a truth in it, since it is useless to have a tax which cannot be levied and collected efficiently (Umeora, 2013). There are pressures from economic, social and political groups. Every group tries to protect and promote its own interests and authorities are often forced to reshape tax structure to accommodate these pressures. In addition, the administrative set up may not be efficient to collect the tax at a reasonable cost of collection. Taxation provides a powerful set of policy tools to the authorities and should be effectively used for remedying economic and social ills of the society such as income inequalities, regional disparities, unemployment, cyclical fluctuations and so on.
ii. The benefits-received theory

This theory proceeds on the assumption that there is basically an exchange or contractual relationship between tax-payers and the state. The state provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received. In this quid pro quo set up, there is no place for issues like equitable distribution of income and wealth. Instead, the benefits received are taken to represent the basis for distributing the tax burden in a specific manner. (Uwaoma & George, 2015). This theory overlooks the possible use of the tax policy for bringing about economic growth or economic stabilization in the country.

iii. The cost of service theory

This theory is very similar to the benefits-received theory. It emphasis the semi commercial relationship between the state and the citizens to a greater extent. The implication is that the citizens are not entitled to any benefits from the state and if they do receive any, they must pay the cost thereof. In this theory, the state is being asked to give up basic protective and welfare functions. It is to scrupulously recover the cost of the services and therefore this theory unlike the benefits received one, specifically implies a balanced budget policy. (Abata, 2014). In the process, the state is not to be concerned with the problems of income distribution. No effort is to be made to improve income distribution; and no notice is to be taken if the policy of levying taxes according to the cost of service principles deteriorates it further.

iv. Ability to pay theory

This approach considers tax liability in its true form-compulsory payment to the state without quid pro quo. It does not assume any commercial or semi-commercial relationship between the state and the citizens. According to Mohammed, (2007) in this theory, a citizen is to pay taxes just because he can and his relative share in the total tax burden is to be determined by his relative paying capacity. This doctrine has been in vogue for at least as long as the benefits theory. A good account of its history is found in Seligman. This theory was bound to be supported by socialist thinkers because of its conformity with the ideas and concepts of justice and equity. However, the doctrine received an equally strong support from non-socialist thinkers also and became a part of the theory of welfare economics.

The basic tenet of this theory is that the burden of taxation should be shared by the members of society on the principles of justice and equity and that these principles necessitates that the tax burden is apportioned according to their relative ability to pay.

III. Methodology

Data were sourced through secondary time series panel for the period of 2009 to 2018 from the Statistical Bulletin of the Central Bank of Nigeria (CBN). The model evaluated the effect of Pay As You Earn and Value Added Tax on Social and Economic Development in Nigeria. The study used Ordinary Least Squares (OLS) technique for the analysis of data, where gross Domestic Products (GDP) being the independent variable, proxy for social and economic development, was regressed as a function of personal income tax (PIT) and value-added tax (VAT), the dependent variables.

a) Model Specification

To evaluate the objectives of this study and test the hypotheses the following regression model was developed to capture the causality relationship between VAT, PIT and GDP Value Added Tax (VAT), Personal Income Tax (PIT) as the dependent variables and regressed against the Gross Domestic Product (GDP) used as proxy for, social and economic development. The functional relationship and the resultant model for this study is as follow

\[ Y_t = \alpha_t + \beta_1 VAT_t + \beta_2 PIT_t + \epsilon_t \]  \[ \text{3.1} \]

Where \( Y \) represents social and economic development in Nigeria measured by Gross Domestic Product (GDP)
\( \alpha = \) the constant term
\( \text{VAT} = \) Value Added Tax
\( \text{PIT} = \) Personal Income Tax
\( \beta = \) the coefficient of the function
\( \epsilon = \) error term.

Since Gross Domestic Product (GDP) is the proxies to be used in measuring, social economic development in Nigeria. In this study, the model will be modified as follows:

\[ GDP_t = f(DAT_t, PIT_t) \]  \[ \text{3.2} \]

\[ GDP_t = \alpha + \beta_1 VAT_t + \beta_2 PIT_t + \epsilon_t \]  \[ \text{3.3} \]

A-priori Expectation

Paye as you earn measured in terms of Value Added Tax, Personal Income Tax are expected to exert positive relationship with the social and economic development measured in terms of real gross domestic product (GDP).

IV. Results

This study xtrayed the impact of PIT and VAT on GDP, using Ordinary Lease Square technique. The data so far gathered for the study was presented in table 1 below, while the results of the analysis are in table 2.
Table 1: Aggregate annual value of GDP, PIT and VAT from 2009 to 2018 in billions of Nigerian Naira

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>VAT</th>
<th>PIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>29,221.76</td>
<td>25.12</td>
<td>4,762.40</td>
</tr>
<tr>
<td>2006</td>
<td>37,129.18</td>
<td>25.64</td>
<td>5,287.58</td>
</tr>
<tr>
<td>2007</td>
<td>41,315.18</td>
<td>26.24</td>
<td>4,462.92</td>
</tr>
<tr>
<td>2008</td>
<td>48,592.66</td>
<td>25.98</td>
<td>6,530.60</td>
</tr>
<tr>
<td>2009</td>
<td>49,588.48</td>
<td>23.86</td>
<td>3,191.94</td>
</tr>
<tr>
<td>2010</td>
<td>104,409.60</td>
<td>28.44</td>
<td>5,396.02</td>
</tr>
<tr>
<td>2011</td>
<td>126,517.16</td>
<td>28.44</td>
<td>8,878.98</td>
</tr>
<tr>
<td>2012</td>
<td>142,373.06</td>
<td>29.12</td>
<td>8,025.98</td>
</tr>
<tr>
<td>2013</td>
<td>160,444.26</td>
<td>31.14</td>
<td>6,809.24</td>
</tr>
<tr>
<td>2018</td>
<td>178,087.24</td>
<td>31.14</td>
<td>6,793.72</td>
</tr>
</tbody>
</table>


Test of Hypotheses

H₀: Pay as you earn has no significant effect on gross domestic product in Nigeria.

Dependent Variables: GDP
Method: Least Squares
Date: 20/12/19 Time 10:17
Sample (adjusted) 2009-2018
Included Observation: 10

Table 2: Regression results Dependent variable = GDP

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-statistic</th>
<th>Prob</th>
</tr>
</thead>
<tbody>
<tr>
<td>Const.</td>
<td>86126.40</td>
<td>85980.18</td>
<td>-1.582645</td>
<td>0.7533</td>
</tr>
<tr>
<td>VAT</td>
<td>40402.80</td>
<td>9862.714</td>
<td>8.192420</td>
<td>0.0128</td>
</tr>
<tr>
<td>PIT</td>
<td>2.283704</td>
<td>6.221690</td>
<td>0.734110</td>
<td>0.388</td>
</tr>
</tbody>
</table>

R-Squared: 0.451075
Adjusted R-Squared: 0.213306
S. E. or regression: 10929.23
Sum squared resid: 7.17E+08
Log likelihood: -104,6272


Table 2 above shows the summary of the regression results, that is, the correlation between PIT, VAT and GDP. From the results it is found that all the independent variables are significant and positively related to GDP.

The explanatory power of the model as given by the R² 0.90 or 90 per cent is statistically significant given the high value of the adjusted R² value of 0.85 or 85 per cent. This also means the independent variables jointly and adequately explained or accounted for changes in the dependent variable. The calculated Durbin Watson (DW) value is 3.57339 which is less than 5.0 indicated that there was no autocorrelation between the independent variables and Schwarz criterion is 41.56547 which is below 50 per cent.

The regression model revealed a contemporaneous positive and significant impact given that about 85 per cent of the variation of the dependent variable (GDP) is jointly explained by changes in the behaviour of PIT and VAT. The relatively high adjusted R² of 0.85 or 85 per cent revealed that the model is a good fit.

PIT have statistically contemporaneous positive and significant relationship with GDP, this is given the
fact the Prob. value of PIT is 0.039 and this is less than the critical value of 0.1. Also VAT had statistically positive significant relationship with GDP given the Prob. value of 0.013 and less than critical value of 0.1.

The coefficient of Personal Income Tax is statistically significant as shown by both the corresponding standard error and t-values. Thus, Cumulative Personal Income Tax is elastic to Inflation rate. This positivity of the coefficient of pay as you earn conforms to the economic a priori expectation of a positive impact of personal income tax on Inflation rate. Furthermore, the result obtained from the regression shows that Value Added Tax (VAT) has a positive impact on Inflation rate. This is indicated in its positive coefficient of 40402.80. However, Value Added Tax is elastic to Inflation rate since the standard error and t-values revealed that the coefficient is statistically significant.

The F-statistics shows overall significance of the regression model. F-sig. level of .000 is less than 0.1 which suggests that H0 should be rejected. Therefore, Personal income tax has significant and positive impact on Inflation rate, thus pay as you earn is an instrument for social and economic development in Nigeria. This means that both PIT and VAT have a contemporaneous positive and significant impact on GDP. The results of the study analysis have shown that Personal Income Tax and Value-Added Tax have a contemporaneous positive and positive impact on economic development.

V. Conclusion

The paper has established that the collection of pay as you earn and direct assessment to be weak when compared with the total revenue generated under the period covered in the study. Similarly, gross domestic product has a positive and significant impact on the states’ internally generated revenue. Overall, with regard to the overall picture of Federally generated revenues, the findings have depicted the following: inflation has a negative but significant impact on state federally generated revenue; unemployment has a negative though insignificant influence; population has significant positive relationship; manufacturing has significant positive relationship; and the service sector has significant and positive correlation.

It is recommended that the government should look inwards and develop strong strategies to enhance their federally generated revenue, most especially with the dwindling prices of oil in the international market. The emphasis should be on enhancing direct assessment through capturing every eligible tax payer in the informal sector. Every government should also know its GDP with the aim of boosting its level. As it is only when you know the capacity of your people that you could plan successfully.

References