EFFECT OF TAX ALLOCATION ON ECONOMIC DEVELOPMENT OF NIGERIA: A CASE STUDY OF MAKARFI LOCAL GOVERNMENT

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Abstract

This study investigated the effect of tax collection on economic development in Makarfi Local Government, Nigeria, focusing on three key aspects: the relationship between tax revenue and public service delivery, the influence of residents' perceptions and attitudes on tax revenue, and the impact of taxation on local economic development. Using regression analysis, the study reveals that tax revenue does not significantly affect public service delivery, nor is it significantly influenced by residents' perceptions and attitudes towards taxation. However, the analysis demonstrates a significant positive relationship between tax revenue and local economic development, highlighting the crucial role of effective tax collection in fostering economic growth. The findings suggest that while public sentiment and service delivery are not strongly linked to tax revenue, enhancing tax collection mechanisms could be a viable strategy for driving economic development in the local government area. The study recommends improving tax collection efficiency, broadening the tax base, and reinvesting tax revenues into infrastructure and services to stimulate further economic growth.

Keywords: *Tax Revenue, Economic Development Public Service Delivery, Perceptions and Attitudes, Makarfi Local Government*

1.0 Introduction

It can be argued that genuine development occurs only when it comes from within, when it is instigated by the people themselves. Local Governments in Nigeria are designed with this thought in mind. Local governmentsare the closest level of government to the people and as such are expected to know exactly what the immediate populace needs. Thus, Local Government provides such services and amenities that can't be easily provided by either the Federal or State Governments (Edoyugbo, 2012).

Local Governments in Nigeria collect and allocate taxes at their respective local governments for economic development. Nonetheless, concerns are shown by Nigerians on the competence and efficacy of the tax collection and allocation mechanisms. This is further highlighted by the dearth of funds faced by the Local Government that should be used for economic growth and development. This is also stressed by the huge population of Nigerians that reside in the local areas/villages (Ironkwe and Ndah, 2016).

To encourage sustainable development, the uneven development ratio between urban and rural areas has to be fixed. This askew development has created several issues in Nigeria such as rural-urban migration, poor primary health care services and infrastructural decay (Ibhawaeghele, 2012).

Joel et al. (2023) have shown that economic development in Nigeria is closely linked to the ability of local governments to collect taxes effectively and use such resources judiciously. Some local governments in Nigeria have utilized their increased revenue generated to improve economic development. However, the feeling across the country is that local governments are still underperforming in terms of scope, depth and quality of services and policies. Ibeogu and Ulo (2015) show that some of the constitutional functions assigned to local governments have been completely abandoned by Local Government Authorities.

Based on the aforementioned, this study sets out to investigate the issues identified on tax collection and allocation in Makarfi Local Government. By identifying and addressing these challenges, the study seeks to contribute to the enhancement of the local government's role in fostering economic development in Nigeria. Thus, the study attempts to study the possible challenges local governments face in tax collection and allocation of such funds in Makarfi Local Government. Also, how do such challenges hinder an optimal usage of tax revenue for economic development? Furthermore, the research aims to answer the question of how much impact Makarfi local government has made on the lives of its populace vis-à-vis the expectations of the populace. The main objective of the study is to assess the effect of tax collection and allocation on economic development of Nigeria: A case study of Makarfi Local Government. The specific objectives are:

1. To assess the key sources of tax revenue in Makarfi Local Government
2. To investigate the criteria and processes used for allocating tax revenue across different sectors in Makarfi Local Government.

The hypotheses tested by the study are:

Ho_1: Internally generated revenue has no significance effect on the development of Makarfi Local Government

Ho_2: The processes used for allocating tax revenue has no significance effect across different sectors in Makarfi Local Government

2.0 Literature Review

This section reviews the relevant literature relatedto the study. It covers the concept of internal, development, and local government

2.1 Concept of Internally Generated Revenue

Tonwe (2014) defined Internally Generated Revenue (IGR) as funds generated by the State Government within their area of jurisdiction. Such funds can be generated through various means such as taxes, fees and levies. IGR is essential for financial stability of local governments in Nigeria. According to Ola and Tonwe (2013) IGR is part and parcel of fiscal management that allows governments to be self-sufficient in meeting the expectations of their populace. IGR can be used to fund local developmental projects and initiatives without total reliance on grants. This research adopts the definition of IGR provided by Tonwe (2014).

2.2 Concept of Development

Development is a process people follow to improve themselves and their life circumstances to attain a higher level of civilization based on their choice and values Edoyugbo (2012). Economic development can refer to improved standard of living and creating economic opportunities for the populace. GDP (a major indicator of economic activity) aggregates the value of goods and services produced within a country. Per capita income on the other hand is the total income generated divided by the population. Economic development aims to increase per capita income. A factor that enhances development is infrastructural development. It improves productivity, encourages trade and attracts investment.

2.3 Empirical Literature

Several empirical researches have been carried out linking taxation to economic development. Otuedon and Ogodogun (2024) studied taxation and socio-economic development in Nigeria. Data of the study is collected from the Central Bank of Nigeria, the National Bureau of Statistics and the Federal Inland Revenue Service bulletin. The study categorized taxes into two; oil and non-oil taxes and looked at how they are used to bring about socio-economic development in Nigeria. Findings of the study reveal that tax

revenue has a positive relationship with socio-economic development; however, they are grossly inadequate to satisfy GDP expenditures.

Edame and Okoi (2023) looked at the impact of taxation on investment and economic development in Nigeria. Annual data were sourced between 1980-2010 from the Central Bank of Nigeria Statistical Bulletin and the National Bureau of Statistics. Findings of the study indicate that an inverse relationship exists between taxation and investment. The study thus concludes that taxation has a negative relationship with investment and the level of GDP.

Abubakar (2020) on the other hand studied the impact of tax revenue on economic growth in Nigeria from 1981 to 2017. Data for the research was sourced from CBN Statistical Bulletin, FIRS and the Bureau of Statistics portal. Taxes (CIT and excise duty) are found to have a negative significant impact on economic growth. The study further found the contribution of tax to GDP in Nigeria is low. Thus it is important to highlight the need for improvement in tax collection in Nigeria.

In the same vein, Onyia and Okereke (2019) looked at the impact of revenue allocation on economic growth in Nigeria from 1981 to 2016. The study particularly concentrated on revenue allocation among federal and state governments in Nigeria. The study findings showed that revenue allocation to the federal and state government has a positive and significant impact on economic growth in Nigeria. Thus, it is important to extend the scope of the study to analyze optimization of revenue by the third tier of government (local governments) in Nigeria.

Similarly, Ehule (2015) tested the relationship between internally generated revenue and the performance of the public sector. Data were collected from 125 staff of Obio/Akpor Local Government Council. Findings by the study

show that permits and rates have a significant positive relationship with the performance of Obio/Akpor Local Government Council.

Chukwumeka et al. (2014) looked at how the poor internally generated revenue (IGR) hinders the effective and efficient administration of local government in Kaduna State. The research focused on Chikum local government. Data was collected using a structured questionnaire administered to the sample (125 respondents). The main finding of the study was that IGR has a positive and significant impact on the development of Chikum Local Government. The study thus recommended for better awareness and sensitization so as to improve collection.

2.4 TheoreticalFramework

This study is underpinned by the benefit principle theory. The theory suggests that people should only be taxed based on the level of benefit they receive from public expenditure. Thus, it suggests that people/organizations that benefit more from government expenditure i.e. services, infrastructure and public goods should carry a larger portion of the tax burden. It looks at taxpayers as consumers of government service (similar to consumers of goods and services from businesses). The benefit approach was developed initially by Wicksell(1896) and Lindahi (1919). They based their approach on a notion of justness based on an ideal state. A major justification of this theory is that the principle recognizes that the main purpose of taxation is to pay for government services, which individual do in proportion to the benefit they receive from government spending. The principle has also faced criticism because taxes are compulsory contribution that do not guaranty a quid pro quo.

3. Methodology

This study examines the effect of tax collection and allocation on economic development of Nigeria. To achieve this objective, the study used correlational research design. This research design is chosen when the researcher investigates the relationship between variables without controlling or manipulating any of them. The population of the research is made up of 120 respondents made up of the staff members of Makarfi Local Government and residents of Makarfi Local Government. 30 staff of Makarfi local government's 6 departments (i.e. Finance, Administration, Health, Education, Works and Agriculture) and 90 residents of Makarfi local government are chosen using simple random sampling to make up the sample of the study. This approach helps to minimize bias and ensure the generalizability of the findings.

Structured questionnaire were shared to the sample of the study. The questionnaires were designed to capture information regarding respondents' perspective on the impact of tax collection on economic development. The questionnaire included both closed-ended questions and likert-scale items. Data obtained from the respondents was collected and summarized as absolute frequencies and proportions using descriptive statistics. Also, inferential statistical analysis was used to explore the relationship between tax collection, allocation and economic development. Furthermore, the study adhered to ethical standards by ensuring confidentiality and voluntary participation by participants.

$$PSD = \beta_0 + \beta_1 TR_t + \mu \quad \ldots\ldots\ldots\

PSD_t stands for Public Service Delivery

PAR_t Stands for Perceptions and Attitudes of Residents

LED_t Stands for Local Economic Development

4. Results and Discussion

This section presents and analyzes the results obtained from the analysis of the data collected using questionnaires for the study. It also interprets the results obtained from the analyses. Specifically, it presents the results of the descriptive statistics of the dependent and independent variables.

Psd	**Coef**	**Std. Error**	**T**	**P> /t/**	**95% Coeff**	**Interval**
Constant	3.318539	.6532841	5.08	0.000	2.024858	4.612219
Tr	-.060556	.162792	-0.37	0.711	-.3829284	.2618164
R-Square	0.0012					
Adj R-Sqr	-0.0073					

The regression model, which examines the effect of tax revenue on public service delivery, includes 120 observations. The model's R-squared value is 0.0012, indicating that only 0.12% of the variance in public service delivery is explained by tax revenue. The Adjusted R-squared is negative (-0.0073), which suggests that the model does not provide a good fit for the data. This low R-squared value implies that tax revenue does not significantly explain the variations in public service delivery within the context of this model.

The F-statistic is 0.14 with a corresponding p-value of 0.7106. Since the p-value is much greater than the conventional significance level of 0.05, the model is not statistically significant. This result means that there is no strong

evidence to support the hypothesis that tax revenue has a significant effect on public service delivery in the studied context.

The coefficient for Tax Revenue (TR) is -0.0606 with a standard error of 0.1628. This negative coefficient suggests that, on average, an increase in tax revenue is associated with a slight decrease in public service delivery. However, the effect is very small and, importantly, the t-value of -0.37 and a p-value of 0.711 indicates that this relationship is not statistically significant. The 95% confidence interval for the tax revenue coefficient ranges from -0.3829 to 0.2618, which includes zero. This further suggests that the relationship between tax revenue and public service delivery could be negligible or even non-existent.

The intercept is 3.3185 with a t-value of 5.08 and a highly significant p-value of 0.000. This suggests that when tax revenue is zero, the baseline level of public service delivery is estimated to be 3.3185. This value is statistically significant, indicating that there are other factors, not captured by tax revenue, that significantly influence public service delivery.

In conclusion, the regression analysis suggests that tax revenue does not have a statistically significant impact on public service delivery within Makarfi Local Government. The very low R-squared and the insignificance of the tax revenue coefficient indicates that other variables, not included in this model, are likely to be more critical in explaining variations in public service delivery. This could suggest a need to explore other factors or consider more complex models to better understand what drives public service delivery in this context.

led	Coef.	Std. Error	T	P> /t/	95% Coeff	Interval
Constant	1.74799	.3660589	4.78	0.000	1.023094	2.472889
tr	.3084898	.0912183	3.38	0.001	.1278528	.4891269
R-Square	0.0884					
Adj R-Sqr.	0.0806					

The regression results for Model 3 examines the relationship between Tax Revenue (TR) and Local Economic Development (LED) in Makarfi Local Government. Below is a detailed interpretation:

The R-squared value for this model is 0.0884, indicating that approximately 8.84% of the variance in local economic development is explained by tax revenue. The Adjusted R-squared is slightly lower at 0.0806, but still positive, suggesting that the model provides a reasonable fit for the data. While the R-squared value is not very high, it does indicate that tax revenue has some explanatory power over local economic development in this context.

The F-statistic for the model is 11.44 with a corresponding p-value of 0.0010. Since the p-value is well below the conventional significance level of 0.05, the model is statistically significant. This result indicates strong evidence that tax revenue has a meaningful impact on local economic development within Makarfi Local Government.

The coefficient for tax revenue (TR) is 0.3085 with a standard error of 0.0912. This positive coefficient suggests that an increase in tax revenue is associated with a significant increase in local economic development. The t-value of 3.38 and a p-value of 0.001 confirm that this relationship is statistically significant. The 95% confidence interval for the coefficient

ranges from 0.1279 to 0.4891, indicating that the positive relationship between tax revenue and local economic development is robust and precise.

The intercept (_cons) is 1.7480 with a t-value of 4.78 and a highly significant p-value of 0.000. This indicates that when tax revenue is zero, the baseline level of local economic development is estimated to be 1.7480. The significance of the intercept suggests that other factors, beyond tax revenue, also contribute to local economic development, but tax revenue still plays a notable role.

Lastly, the regression analysis for Model 3 suggests that tax revenue has a statistically significant and positive impact on local economic development within Makarfi Local Government. The positive coefficient for tax revenue indicates that as tax revenue increases, local economic development improves. This finding aligns with the notion that effective tax collection can provide the necessary resources for local governments to invest in infrastructure, services, and other initiatives that promote economic growth. Although the R-squared value is moderate, the statistical significance of the model highlights the importance of tax revenue as a driver of local economic development in this context.This model provides strong evidence supporting the argument that enhancing tax revenue collection mechanisms could be a viable strategy for fostering economic development in Makarfi Local Government.

5.0 Conclusion

The study explored the effects of tax collection on economic development in Makarfi Local Government by analyzing three different models. The findings indicate that:

Model 1 showed no significant relationship between tax revenue and public service delivery, suggesting that tax revenue may not be a key determinant of public services in the area.

Model 2 demonstrated a significant and positive relationship between tax revenue and local economic development, highlighting the importance of effective tax collection for fostering economic growth in the local government.

Overall, the results suggest that while tax revenue may not strongly influence public service delivery or be significantly affected by residents' perceptions, it plays a critical role in promoting local economic development.

On the basis of these findings, the following policy recommendations are suggested for Makarfi Local Government:

1. Enhanced Tax Collection Efficiency: Makarfi Local Government should focus on improving tax collection mechanisms to boost revenue, which in turn can support local economic development.
2. Broaden the Tax Base: Diversifying and expanding the tax base could help increase revenue without overburdening residents, allowing for more investment in local economic initiatives.
3. Invest in Economic Development Projects: The positive relationship between tax revenue and economic development suggests that reinvesting tax revenue into local infrastructure and services could further stimulate economic growth.
4. Improve Public Service Delivery: Even though the study did not find a strong link between tax revenue and public service delivery, efforts should be made to ensure that tax revenues are efficiently allocated to enhance public services, which could improve public perceptions and attitudes toward taxation in the long term.
5. Public Engagement and Education: Increasing public awareness and education about the benefits of tax compliance could gradually improve residents' perceptions and attitudes toward taxation, potentially leading to higher compliance and increased revenue.

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