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Rentierism and Taxation: Competing or Complementing Decimals in Nigeria's Economic Growth?

Dr. Andrew Aondohemba Chenge, Ph.D.[1],
Dr. Paschal Nchedochukwu Mba, Ph.D.[2]

[1]Department of Public Administration, Federal University Wukari, Nigeria.
[2]Department of Public Administration, Veritas University Abuja, Nigeria.

Abstract

The economies and polities of countries dependent on oil are rapidly and relentlessly shaped by the influx of windfall revenue that sets them apart from other states. Rentier oil-states have a legacy of overly-centralized political power, strong networks of complicity between public and private sector actors, highly uneven mineral-based development subsidized by oil rents and the replacement of domestic tax revenues and other sources of earned income by oil rents. Nigeria is a classic example of a rentier oil-state with a disastrous development experience. The study aims to examine the rent-tax relationship and its impacts on Nigeria's economic growth. It is anchored on the resource curse theory. A documentary research design was used for the study. Thus, data was obtained from reports and publications of relevant government and non governmental agencies. Data analysis was done using content analysis. The study revealed that the rent-tax relationship in Nigeria has been competitive rather than complementary. It also established that the competitive zero-sum nature of the rent-tax relationship has adversely affected economic growth in Nigeria. The study identified policy measures such as increased inter-sectoral co-operation, building public trust for tax compliance, tax reforms for purposive balancing, and review of tax expenditure as prerequisites for improving tax revenue and in effect, the rent-tax relationship in Nigeria's economy.

Keywords: Development, economic growth, Gross Domestic Product, oil rents, rentierism, taxation.

Introduction

Rentier oil-states are peculiar in nature and maintain a functional structure that is distinct from other states. While they share many of the development patterns of other developing countries, especially mineral exporters, the economies and polities of countries dependent on oil are rapidly

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and relentlessly shaped by the influx of windfall revenue in a manner that sets them apart from other states. Oil rents mold institutions more dramatically than development specialists ever imagined or even seem to understand. This is especially true if oil exploitation coincides with modern state-building, as has so often been the case. Where this historical coincidence occurs, rentier oil-states become marked by especially skewed institutional capacities (Karl, 1997; 1999; Omeje, 2007; Ross, 2001).

The initial bargaining between foreign companies anxious to secure new sources of crude and local rulers eager to cement their own bases of support-whatever their mutual benefits-leaves a legacy of overly-centralized political power, strong networks of complicity between public and private sector actors, highly uneven mineral-based development subsidized by oil rents and the replacement of domestic tax revenues and other sources of earned income by oil rents. In effect, this alters the frameworks for decision-making in a manner that further encourages and reinforces these initial patterns, producing a vicious cycle of negative development outcomes (Barma, 2014; Herb, 2005; Karl, 1999; Malik, 2017; Roll, 2011; Rosser, 2006a; 2006b).

Nigeria is a classic example of a rentier oil-state with a disastrous development experience (Bevan, Collier, & Gunning, 1999; Mahler, 2010; Sala-i-Martin & Subramanian, 2003). Oil revenues per capita in Nigeria increased from US$33 in 1965 to US$325 in 2000, but income per capita has stagnated at around US$1,100 in Purchasing Power Parity (PPP) terms since its independence in 1960 putting Nigeria among the fifteen poorest countries in the world. Between 1970 and 2000, the part of the population that has to survive on less than US$1 per day shot up from 26% to almost 70%. In 1970, the top 2% had the same share of income as the bottom 17% but, in 2000, the same share as the bottom 55%. Clearly, huge oil exports have not benefited the average Nigerian (Sala-i-Martin & Subramanian, 2003; Van der Ploeg, 2010; 2011).

Although Nigeria has experienced rapid growth of physical capital at 6.7% per year since independence, it has suffered a declining Total Factor Productivity (TFP) of 1.2% per year. Capacity utilization in manufacturing hovers around a third. Two thirds of capacity, often owned by the government, thus goes to waste. Successive military dictatorships have plundered oil wealth and Nigeria is known for its anecdotes about transfers of large amounts of undisclosed wealth. Oil wealth has fundamentally altered politics and governance in Nigeria. It is hard to maintain that the standard Dutch disease story of worsening competitiveness of the non-oil export sector fully explains its miserable economic performance. Instead, exchange rate policy seemed to be driven by rent and fiscal imperatives and relative price movements were almost a by-product of the resource boom (Sala-i-Martin & Subramanian, 2003; Van der Ploeg, 2010; 2011).

The over-reliance on oil rents as a mainstay of virtually all economic activity tends to put the needs of the oil industry above the non-oil sectors. It also creates deficiency of productive linkages and the dominance of fiscal ones; generates extreme partiality for highly capital-intensive heavy industry coupled with a structural bias against other sectoral activities; and increases the primacy of the state in the ownership and disposition of oil rents (Karl, 1999).

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Objectives of the study

The study aims to examine the rent-tax relationship and its impacts on Nigeria's economic growth. Specifically, the study aims to:

1. Analyze the rent-tax relationship in Nigeria's economy.
2. Assess the impact of resource rents and tax incomes on economic growth in Nigeria.
3. Proffer policy measures to improve the rent-tax relationship in Nigeria's economy.

Conceptual review

Rentier state

The concept of the rentier state, or the rentier economy, applies to a country that relies on substantial external rent in the form of sale of oil, other solid mineral extractives or natural resources, for state revenues (Schwarz, 2012). They incorporate only a fraction of society in the production of rents, whilst, with the government acting as the principal recipient of the wealth, the majority engage in its distribution and utilization (Beblawi cited in Zicchieri, 2006). Rentier economies then become 'allocation' states, distributing the rents they accrue, uninhibited by the need for revenues from productive economic sectors (Hvidt, 2011; Luciani, 1990). Rentier states thus employ an 'expenditure policy' with little interest in diversifying their economies or forming a coherent economic development programme (Gray, 2011; Puranen & Widenfalk, 2007; Sandbakken, 2006; Zicchieri, 2016)

Taxation

Taxation is the imposition of compulsory levies on individuals or entities by governments. Taxes are levied in almost every country of the world, primarily to raise revenue for government expenditures, although they serve other purposes as well. Musgrave (cited in McLure, Nuemark & Cox, 2023) maintain that taxes have been used as instruments for resource allocation, income redistribution and economic stability. In modern economies, taxes are the most important source of government revenue. They differ from other sources of revenue in that they are compulsory levies and are unrequited-that is, they are generally not paid in exchange for some specific thing, such as a particular public service, the sale of property, or the issuance of public debt. While taxes are presumably collected for the welfare of taxpayers as a whole, the individual taxpayer's liability is independent of any specific benefit received (Kiser & Karceski, 2017; McLure, Neumark & Cox, 2023).

Economic growth

To meet the constantly growing needs of the population, human society is forced into a process of constant renewal of production of various material goods and services. This constant renewal of the production process is associated with distribution, exchange and consumption. Economic growth includes changes in material production and during a relative short period of time, usually one year. In economic theory, the concept of economic growth implies an annual increase of

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material production expressed in value, the rate of growth of GDP or national income (Ivic, 2015; Raisova & Durcova, 2014; Rodrik, 2013).

Review of related literature

The nature and character of rentier states

The concept of the rentier state goes back to Mahdavy's study of pre-revolutionary Iran. It was particularly expanded upon by Beblawi and Luciani (cited in Mahler, 2010) who classified a rentier state as a state in which at least 40% of the total government revenue consists of economic rents. These rents can be defined as "the excess over the return to capital, land, and labor when these factors of production are put to their next best use" (Dunning, 2008: 39). According to the rentier state theory, the two central effects of dependence on economic rents are economic inefficiency and, as a consequence, the obstruction of socioeconomic development (Beck, 2007). With regard to the political effects, the rentier state theory proposes that (oil) rents have a stabilizing effect on authoritarian rule (Beblawi &Luciani; Mahdavy, both cited in Mahler, 2010; Ross, 2001).

Rentierism and natural resource dependency are not the same thing, though in practice they are highly correlated. Natural resource dependency is measured as the share of natural resource exports as a percentage of GDP. Rentierism, by contrast, is measured by the percentage of rents in government revenues. Beblawi's definition of rents is widely followed. Rents come from abroad and accrue to the government directly, and only a few are engaged in the generation of this rent (wealth), the majority being only involved in the distribution or utilization of it (Beblawi, 1996). Also of importance is that not only do a few people produce the wealth, but the wealth is the result of a windfall that is very largely independent of any efforts made by citizens of the rentier state (Herb, 2005).

The oil and gas exporting states of the Middle East and North Africa (MENA), especially the resource-rich Arab Gulf monarchies, have long served as the archetypes of rentier state theory, a framework for describing the political economy of countries dependent upon income (rents) from external sources (Gause, 1994; Gengler, Shockley & Ewers, 2021; Ross, 2012). By this model, the role of the state is to collect revenues from the sale of natural resource and to pass on a portion of this wealth to citizens to buy their political loyalty, while being unaccountable for how it allocates remaining rents (Jenkins, Meyer, Costello & Aly, 2011; Peters & Moore, 2009; Richter & Steiner, 2007). Rentier leaders are theorized to further dampen pressures for political accountability by investing resource wealth in creating supportive patronage networks, buying out merchant elites, co-opting civil society groups, and funding repressive institutions (Chaudhry, 1994; Crystal, 1990; Gengler, Shockley & Ewers, 2021; Heydeman, 2004).

The most telling indicator of declining rentier state in capacity is the loss of fiscal control, measured by overspending and soaring debt as well as the inability of the rentier states to reform themselves. This is because the states degenerate into sophisticated mechanisms to transfer resources from the primary sector to politically influential urban groups, especially as windfall gains provoke a type of "feeding frenzy" to capture the super-normal profits (Dunnings, 2008;

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Omeje, 2016). The political competition for resource rents (when combined with the often non-transparent mechanisms for distributing them) have important efficiency costs (Karl, 2007).

Significance of taxation in rentier states

From the viewpoint of government fiscal management, in developing countries large resource rents may have the same negative impact as massive foreign aid inflows. As described in the aid fungibility literature (e.g. Devarajan & Swarrop, 1998; Gupta, Clement, Pivovarsky & Tiongson, 2003), resource wealth may relieve governments of tax collection pressures and reduce fiscal discipline. It is natural that populists tend to pander to the insatiable wish of citizens to reduce taxes. Bacon (2001) and Limi (2006) maintain that oil-producing countries are likely to charge lower domestic gasoline prices, implying that natural resource rents obtained from upstream royalties are subsidizing domestic downstream consumption.

However, the presence of rents in an economy poses a distinctive threat to the capacity of government to control societal actors-and itself. Scholars widely credit Hussein Mahdavy with defining a "rentier state" as one that gathers a major portion of its revenues from "foreign individuals, concerns, or governments"-in other words, unearned income (cited in Mosbacher, 2021). For decades, the experiences of most resource-rich states have been characterized by endemic corruption and systemic abuse of the newfound wealth for the personal gain of those in the privileged class.

Karl (1997) hypothesized that increasing government dependence on resource revenues creates a distinct atmosphere for a country's institutions: what Karl termed the "petro-state." With external rents from oil exports replacing domestic tax revenues in a country's fiscal system, the priorities of government actors rapidly shift to the economic accumulation and subsequent political distribution of rents. Subsequently proper governance practices and healthy economic competition are replaced by a framework of overly-centralized power based on corrupt patronage networks. In the process, public spending orgies crowd out private businesses and the state quickly dwarfs the market economy (Mosbacher, 2021).

Indeed, rentier states are defined by their dependence on external resource/ mineral rents-in this case, an enclave externally-oriented oil industry, which alienates the state from the society. Such 'parasitic' states are believed to be captured by predatory (petro) elites, and aloof from the people, partly because they do not rely on their taxes and are therefore not accountable to them. Also because the petro-state and ruling elite depend on the externally earned rents that are often concentrated in a few hands, the dominant power relations promote a particular kind of oil political economy that feeds corruption and subverts democracy and development. In such contexts, the prevailing political logic is the concentration of power in a few hands or in the hands of a single individual that personalizes state power over the ultimate prize-the oil state (Obi, 2011).

Theoretical framework

The theoretical framework which the study is anchored on is the resource curse theory. The resource curse theory serves as shorthand for conveying the multifaceted economic, political and

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social challenges facing countries with abundant natural wealth. In the simplest form of the problem, countries rich in natural resources have been found to grow more slowly than their resource-poor comparators at similar levels of income (Barma, 2014; Frankel, 2012; Sachs & Warner, 2001). Although most scholars recognize that the resource curse probably operates through a variety of mechanisms, there is a general split in the literature between those who find an economic explanation (through the Dutch disease effect), and those who propose that natural resources have a corrosive effect on key political institutions (through the rent seeking effect). While these effects are not mutually exclusive, much of the past research has either focused on, or sought to establish the relative importance of, one of these mechanisms (Moss, 2011).

In applying the theory, the study maintains that the rentier state hinges on the fact that natural resources yield a windfall income stream that resources the state directly in lieu of taxes (Mahdavy; Beblawi & Luciani cited in Barma, 2014; Ross, 1999). These extraordinary rents reduce the fiscal need for non-resource taxation-indeed, resource revenues have been shown to displace other forms of taxation or revenue (Knack, 2008). In turn, by limiting a government's need for other forms of revenue generation, natural resource rents dilute the need for the administrative apparatus necessary to collect taxes and can lead to the erosion of institutional capacity building (Moore, 2004), and consequently slow growth and development (Barma, 2014).

Methodology

A documentary research design was used for the study. Thus, data was obtained from reports and publications of government agencies like the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), and Federal Inland Revenue Service (FIRS), as well as non government agencies such as the Organization of Petroleum Exporting Countries (OPEC), Africa Tax Administration Forum (ATAF), African Union Commission (AUC), and the Organization for Economic Cooperation and Development (OECD). Data analysis was done using content analysis.

Discussions and findings

Rent-tax relationship in Nigeria's economy: Competing or complementary?

Nigeria relies more on oil than it does on taxes or any other forms of revenue to run its economy. Since discovering oil in 1956, Nigeria has become heavily reliant on oil revenue for survival (Alutu, 2019). It is Africa's largest oil producer and the world's 12th largest oil-producing country (EITI, n.d.; Izuaka, 2023). It has realized over US$ 600 billion in oil revenues since 1960, a figure greater than the resources used by the Marshall Plan in rebuilding Europe after World War II (Ushie, Adeniyi & Akongwale, 2013). Nigeria's oil sector presently contributes 85% of total exports and 65% of government's revenues (EITI, n.d).

The importance of the oil sector in Nigeria, however, appears to be declining from 9.77% of GDP in Q1 of 2019 to 5.19% of GDP in Q4 of 2021 (Sasu, 2023). Figure 1 reveals that oil sector

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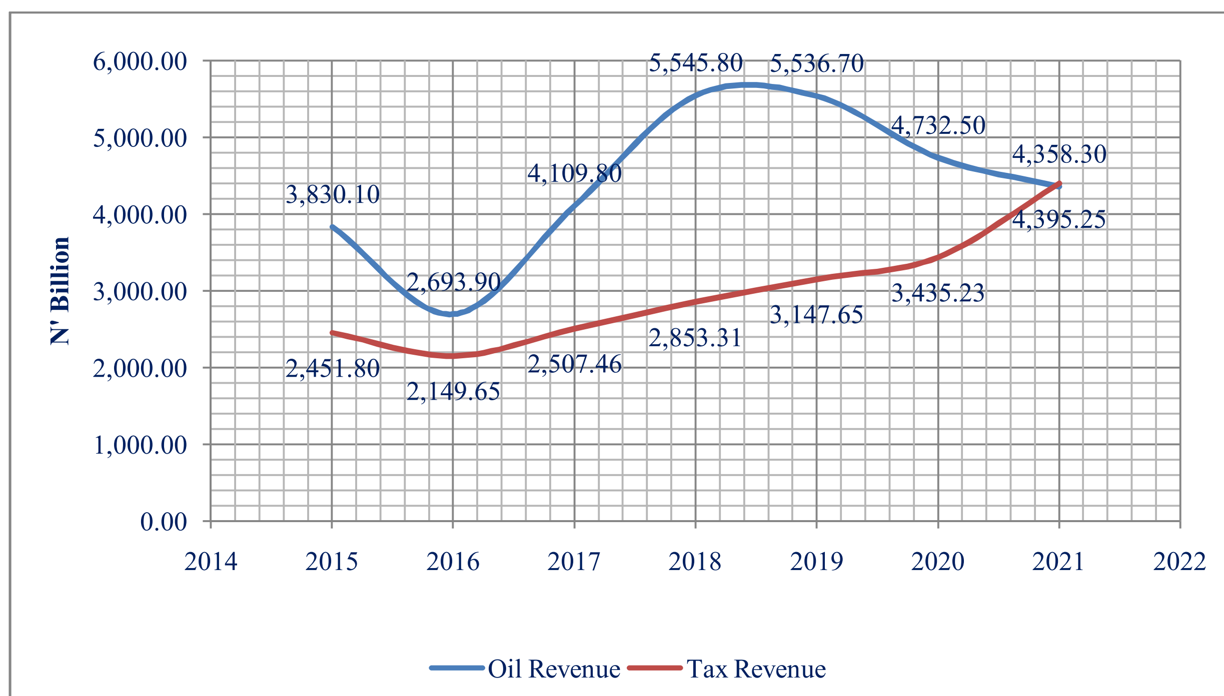
earnings were above non-oil tax revenues for most of the years. Between 2015 and 2021, oil revenues peaked in 2018 (₦5.54 trillion against non-oil tax revenue of ₦2.8 trillion) but continued to fall to ₦5.53 trillion in 2019, ₦4.7 trillion in 2020 and ₦4.35 trillion in 2021. Non-oil tax revenue, from 2018 to 2021, was ₦2.8 trillion, ₦3.1 trillion, ₦3.4 trillion and ₦4.39 trillion respectively, resulting to a difference of 32%, 28%, 16% and -0.4% for the respective years. Non-oil tax revenue exceeded oil revenue in 2021 (Figure 1).



Source: FIRS Statistics/ Reports, 2021; CBN Statistical Bulletin, 2021.

Figure 1: Oil revenues versus tax revenues in Nigeria (2015-2021) [N' Billion]

For the most part of 2021, Nigeria's Federal Government received more revenue through non-oil taxes than it did from oil, yet the country is far from reducing its longstanding reliance on oil revenue which has been promised but unfulfilled by consecutive presidents since 1999. The government earned the bulk of its income from non-oil sources (constituting 59.5% of total federally collected revenue) in the 12 months through December 2021, marking the first time that non-oil revenue has eclipsed oil revenue since the oil boom in 1973. The government's retained non-oil tax revenue, which is cash generated from sources like Company Income Tax (CIT), Value Added Tax (VAT), Customs and other related tax sources summed to ₦4.39 trillion in the period compared with ₦4.35 trillion generated from oil (CBN, 2021; FIRS, 2021) (Figure 1).

Non-oil tax revenue, though higher than oil revenue, however, remains insufficient to fund the annual budget and is only now the main income source of the government because oil revenues have slipped due to lower oil prices and production levels. Oil revenues have more than halved from around ₦4 trillion in 2014 to about ₦2 trillion in 2016 (Akinmurele, 2022). This was actually the turning point for non-oil tax revenues which continued to maintain a steady rise from ₦2.1 trillion in 2016, to ₦2.5 trillion in 2017, to ₦2.8 trillion in 2018, to ₦3.1 trillion in 2019, to ₦3.4 trillion in 2021 and ₦4.39 trillion in 2021 (Figure 1), thus giving non-oil tax income the room to emerge as a more dominant source of revenue in the economy.

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Impact of oil resource rents and tax incomes on economic growth in Nigeria

Although non-oil tax revenue has increased, the actual amount generated from this source is still insufficient to pay for the government's expenses, indicating that Nigeria's future after oil is still uncertain. Non-oil tax revenue, at ₦4.39 trillion in 2021 (Figure 1), could only cover a paltry 36.1% of the Federal Government's total expenditure of ₦12.16 trillion in the period. Most of that expenditure was instead funded by oil revenues and debt, which came to ₦7.77 trillion accounting for 63.9 percent of total expenditure (CBN, 2021).

Nigeria won't be able to demonstrate that its dependency on oil has been decreased until the majority of its spending is covered by non-oil tax sources. The sole change in the non-dependence on oil earnings is a shift to borrowing. Also to note is that, non-oil tax revenue did not need momentous improvement to surpass oil revenue which had already recorded significant decline in the past few years. Thus, the 2021 emergence of non-oil tax revenue as dominant government revenue can be said to be largely caused by the fall in oil revenue prompted by the reduced global oil prices and declining crude oil production volumes in Nigeria (Table 1 & 2).

Oyedele (cited in Akinmurele, 2022) admitted that some progress was being made with boosting non-oil tax revenues, especially as it concerns certain tax reforms like the increase in VAT, although he argued that an economy still recovering from a brutal pandemic should not be overtaxed. CIT contributed the bulk of the cash to non-oil tax revenues in 2021, with ₦1.75 trillion, 2.7 percent more than the amount that was budgeted. The VAT pool also surpassed the target set in the budget by 2.3 percent to deliver ₦2.07 trillion. Companies declared higher taxes in 2021 compared with 2020 as profitability rebounded. Other smaller categories of non-oil tax earnings for 2021 summed to ₦573.4 billion [CGT, stamp duty, EDU, NITDEF, NITDEF e.t.c.] (FIRS, 2021).

The rise in non-oil tax receipts is a factor that helped Nigeria to escape the COVID-19 induced economic disruptions that caused the GDP growth rate to drop to -1.92% in 2020 (NBS, 2021). The 2021 fiscal year witnessed a GDP growth rate of 3.4%, in spite of the declining performance of the oil sector (Figure 2). Although an impressive index, when compared to previous years down to 2015 (See figure 2), the GDP growth rate can still be considered low when compared to GDP statistics of the country in 2002, 2004 and 2009 when oil revenues had remarkable contributions that put GDP growth rate at 15%, 9% and 8% respectively (Macrotrends, 2023).

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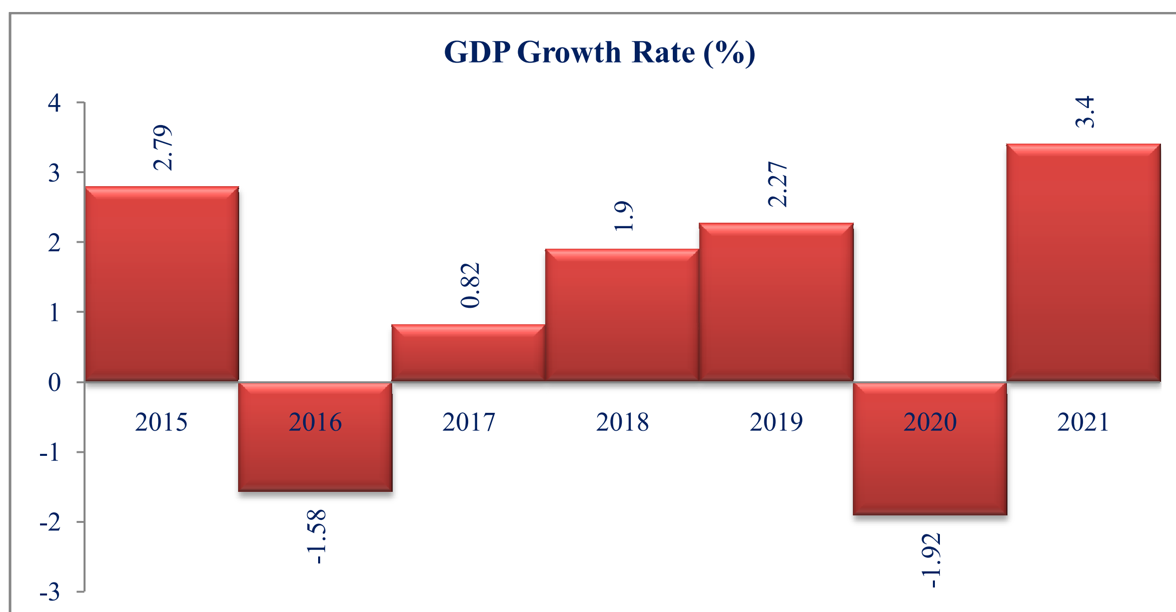

Source: NBS, 2021.

Figure 2: Yearly GDP growth rate in Nigeria (2015 -2021)

Nigeria has suffered great economic losses as a result of its over-dependence on oil rents. The volatile nature of commodity prices has meant that Nigeria had to suffer revenue and growth shocks at various times. The mid-2014 oil decline was the latest of the recurring episodes of volatile business cycles. This recent experience shares similarities with the oil collapse of 1981-82 to 1986 and the sharp decline recorded in 2009 shortly after the 2008 global financial crisis when oil prices fell from over $100 to $60 within a year (Alutu, 2019).

The outcome of Nigeria's over-dependence on oil became even more visible when a full recession was recorded by the third quarter of 2016 (Figure 2; Table 1 & 2), after two consecutive quarters of negative growth. The collapse in global oil prices caused substantial reduction in government revenues, and as a result, government budgets were under great strain. Debt levels skyrocketed in response to the need to boost income, leading to rising absolute debt levels since 2010. The stock of external debt quadrupled and the stock of domestic debt tripled in less than ten years. The sustainability of rising debt has become a problem. The interest payments on debt have increased to 87% in 2021 (Tunji, 2023). This constrained revenue space resulting from the high debt burden is amongst reasons why the authorities are performing poorly in budget execution.

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Table 1: Nigeria crude oil price statistics [US$/Barrel]

Month	2015	2016	2017	2018	2019	2020	2021
January	48.81	30.66	55.01	69.68	60.39	66.68	54.87
February	58.09	31.7	46.39	66.67	64.89	58.45	62.48
March	56.69	37.76	52.13	74.72	67.67	32.29	65.62
April	57.45	41.59	52.94	72.37	73.08	14.28	64.3
May	65.08	47.01	50.57	77.64	73.65	27.9	67.83
June	62.06	48.46	47.42	75.38	66.74	40.3	73.46
July	57.01	45.25	49.01	74.72	66.24	44.1	75.93
August	47.09	46.15	51.64	73.35	61.05	45.06	70.72
September	48.08	47.43	56.79	79.59	65.27	40.85	74.55
October	48.86	50.94	58.46	79.18	59.1	39.74	84.11
November	44.82	45.25	63.56	66.59	63.56	42.7	82.16
December	37.8	53.48	65.11	62	68.56	50.33	65.41

Source: CBN, 2023.

Table 2: Nigeria crude oil production statistics [1,000 b/d]

Country	2015	2016	2017	2018	2019	2020	2021
Crude oil production	1,748.2	1,427.3	1,535.6	1,601.6	1,737.4	1,493.2	1,323
Difference	(58.8)	(320.9)	108.3	66	135.8	(244.2)	(170.2)
Difference (%)	(3.3%)	(18.4%)	7.6%	4.3%	8.4%	(14.1%)	(11.4%)

Source: OPEC Annual Statistical Bulletin, 2020; 2021; 2022.

The dip in crude oil price and production (Table 1 & 2) and the resulting economic recession in Nigeria have culminated in an increased focus on revenue generation through taxation in Nigeria. Following the mandate by the Federal Government, the Federal Inland Revenue Service (FIRS) intensified its drive for tax collection and has so far reported giant strides in its collection efforts. However, the tax-to-Gross Domestic Product (GDP) ratio has continued to be low despite the reported tax revenue increase by the FIRS (Revenue Statistics in Africa, 2022). When tax revenue grows at a slower rate than the GDP, the tax-to-GDP ratio drops; when tax revenue grows faster than GDP, the ratio increases. In most instances, the ratio of tax-to-GDP stays relatively consistent because tax collection is closely connected with the rate of economic activity. Thus, the general expectation is that GDP should grow parallel to tax revenue (Maiye & Isiadinso, 2018).

However, low tax-to-GDP ratio is not an uncommon phenomenon with developing economies including Nigeria. Prior to the economic recession in Nigeria in 2016, the Nigerian GDP figures were rebased and the new figures were greatly celebrated as the news that the Nigerian GDP had grown to be the largest in Africa. Notwithstanding the reported growth, the tax-to-GDP ratio has remained at 5.5% which is relatively lower when compared to other developing economies (Figure 4). A number of factors were identified as contributing to low tax-to-GDP ratio. These factors include unorganized informal sector, narrow tax base, tax exemption and subsidy policies as well as loopholes in tax laws (Adeyemi & Adeduro, 2020; Maiye & Isiadinso, 2018).

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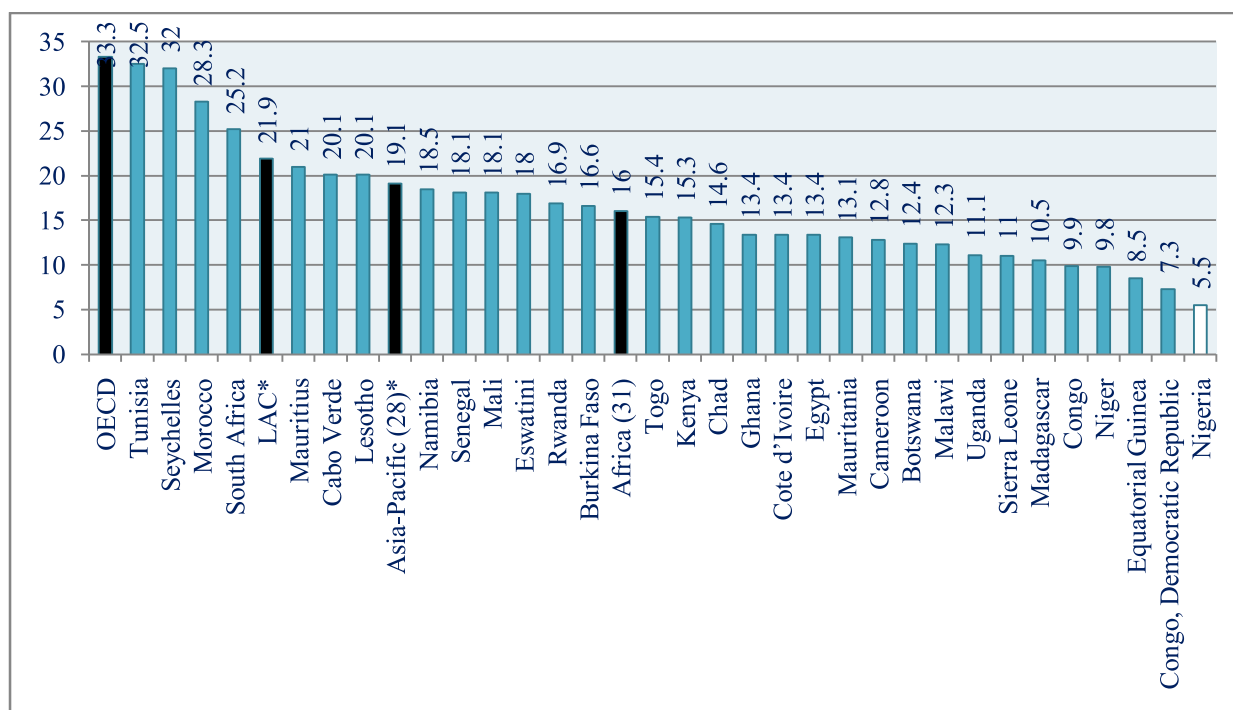

Source: Revenue Statistics in Africa (ATAF, AUC & OECD), 2022

Figure 4: Nigeria's Tax-to-GDP ratio

Figure 4 reveals that Nigeria has one of the lowest tax-to-GDP ratios in the world which makes its fiscal position vulnerable to shocks. General government revenue in Nigeria was 7.3% of GDP for 2021-less than half of the average in countries belonging to the Economic Community of West African States (ECOWAS) and nearly a third of the average of countries in Sub-Saharan Africa (SSA)-and ranked as 191st out of 193 countries in the world. Nigeria's fiscal revenue shows a declining trend mainly due to declining oil revenue over the past decade (Table 1 & 2). Non-oil tax revenue has stagnated at around 4-5% of GDP in the past decade (Figure 4). Nigeria's very low non-oil tax revenue and continued reliance on volatile (downward trend) oil revenue pose a threat to fiscal sustainability (Jung, 2023).

Policy measures to improve the rent-tax relationship in Nigeria

Oil and non-oil tax revenues tend to exhibit a zero-sum competitive relationship in Nigeria. This is because revenues from either sector haven't been used to boost the performance of the other. However, it is important to note that the two sectors are inextricably linked and therefore should be complementary to each other. Tax revenues will take a huge blow as a result of the fall in the oil prices as the oil sector has overlapping effects on all other sectors in the economy (Olukowi, 2020). Thus, a symbiotic and complementary relationship should be created where revenues generated from one sector can be used to support other sectors in the economy. An increase in oil sector activities and revenues have shown to increase CIT, VAT, Education Tax (EDT) and other non-oil related taxes paid by oil companies.

With oil revenue on a persistent decrease due to market fundamentals beyond the control of the Nigerian government, it appears to be the right time for Nigeria to look towards other sources of income apart from crude, especially considering the vulnerability of the country to movement in

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the global crude oil market. Despite the upturn in non-oil tax revenue, especially in terms of CIT and VAT, the government and its agencies need to do more in gaining the trust of Nigerians in order to encourage them to become tax compliant, as tax returns appear to be below expectations (Oyekanmi, 2021).

The non-oil tax component is at the receiving end in the rent-tax relationship and thus need to be repositioned for improved output. This points out to the need for reforms in the non-oil tax sector to bring about purposive balancing. Although there is no "one-size-fits-all" approach to tax reforms, the Nigerian tax system can take some lessons from breakthroughs in tax reforms of high tax-GDP-ratio countries and adopt similar measures to achieve a more efficient tax system. One of the most impactful of these measures is broadening of the tax base. To achieve this, there will be a need for the Nigerian Government to invest in taxpayer education, simplification of the tax system, and improved tax administration and legislation. Specifically, the Federal Government may adopt practical measures such as the expansion of the tax base to cover the large informal sector including the digital and entertainment sectors and also give taxpayers payment terms to encourage compliance rather than enforcing additional collection from already compliant taxpayers through audits and other similar measures (Maiye & Isiadinso, 2018).

The International Monetary Fund (IMF) (cited in Heady & Mansour, 2019) has also recommended measures for improving the tax system such as a systematic review of tax expenditures that would help quantify the cost of incentives and identify ways to improve the fairness of the tax system and recover lost revenue. Tax expenditures are generally defined as a reduction in tax liability compared with a ‘benchmark tax system’. They include exemptions (exclusions from the tax base); allowances (amounts deducted from the tax base before applying the tax rate[s]); credits (amounts deducted from tax liability); rate relief (a deducted tax rate); and tax deferral (a delay in paying the tax liability). To achieve this, it will be necessary for the government to maintain a comprehensive database of taxpayers' records to undertake such assessment.

Summary of findings

1. The rent-tax relationship in Nigeria has been competitive rather than complementary.
2. The competitive zero-sum nature of rent-tax relationship has adversely affected economic growth in Nigeria.
3. Policy measures such as increased inter-sectoral co-operation, building public trust for tax compliance, tax reforms for purposive balancing and review of tax expenditure should be adopted to improve tax revenues and in effect, the rent-tax relationship in Nigeria’s economy.

Conclusion

Nigeria has traditionally been a country that depends heavily on oil, with the oil industry providing the majority of its economic income as well as funding a big portion of its budget. The dominance of the oil sector in Nigeria has always been to the detriment of other sectors, from which taxes are collected, leading to low tax revenues. The recent economic disruptions in the global oil market and oil sector mismanagement, leading to declining production, have affected

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the financial and economic benefits of oil in the country. This has led to recent calls for diversification with increased priority for tax revenues. However, the tax revenue issue in Nigeria has revealed a broken social contract, which has perpetuated a culture of tax laxity and non-compliance among citizens. Since taxes remain the most reliable source of public revenue, the Nigerian state needs strategies that boost and create mutual benefits between depletable oil rents and sustainable tax revenues for improved economic growth.

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