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Literature Review of Taxation and Debt Servicing in Nigeria

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ABSTRACT

Nigeria has been considered among the nations in the world with high debt profile. The sources of revenue generated to finance the debt profile have not been fully harness, most especially the tax revenue among others that can be used to relief the debt and enhance economic growth. This has been a great source of concern by the academia, policy maker, and government. This study is aim at determining the extent to which changes in direct taxes as a sources of revenue as it is in developed nation can be generated to settle the Nigerian debt burden. However, there is limited or no studies on the relationship between the direct taxes and debt burden in Nigeria. This is the focus of this study. The study is a new way to look at crucial factors effecting direct taxation and debt burden in Nigeria. The methodology used in this study is descriptive that review the literature on direct taxes and debts. The study is also limited to literature review that needs further research by proposing a conceptual framework onthe relationship between taxation and debt profile in Nigeria. The conclusion of the study is that taxation as a source of revenue in Nigeria have been under-utilized even though, it has the capacity to generated huge revenue to reduce and even pay off debt burden of the Nigerian government, and expenditure to promote economic growth. Hence, taxation need to be harness properly, as it is in other developed world, to enable government finance and pay offits debts, expenditure and promote economy growth and development.

1. INTRODUCTION

Nigerian Paris club debt was successfully renegotiated in 2005 when oil prices were high in return for single digit payment during president Olusegun Obasanjo second term between 2003 to 2007. The accumulated debt was majorly eliminated, possibly because of high oil prices.

Subsequently, the price per barrel of crude oil was set as a basis or bench mark for government expenditure in Nigerian. At any given point in time the oil prices went up more than the target, the excess goes to the special fund accounts established by the government. Alternatively, the reverse is the case when the price of oil is low. Unfortunately, the fund was greatly depleted during the period of great depression and economic downturn in 2008 and also during the murky situations under Yar'Adua and Jonathan administration (Campbel, 2019).

This shows that the government of Nigeria depends mainly on revenue coming from crude oil to finance buck of its budget since early 1970s. At present, crude oil generate more than half or over 90 percent of Nigerian foreign exchange. Hence, the budget of Nigeria depends on the mercy of world crude oil price in the international market to finance its budget. Ironically, the prices of crude oil have been fluctuating and becoming lower than it was before in Buhari's administration, leaving his government with no or few options; as to either decrease expenditures to match the revenue generated or go for loan to cover the short fall in revenue realized. However, everyone knows that reducing expenditure or its growth is always very hard for the government (Ahmed, 2019). It is pertinent to note that, it is not only the federal government that borrow, but state governments also does, but whenever, the state governments are bankrupt, it is the responsibility of the federal government to bail them out from their financial distress. At this time of covid-19 where crude oil prices are very low in the international markets, and the subsequent reduction in the crude oil production, the Nigerian government had no other alternative than to borrow.

Presently, according to the finance ministry, the federal and state governments have collected so much loan that servicing the loans is becoming difficult and consumes over 69 percent of the their total revenue generated. Garbashehu media assistant to the presidency was quoted as saying,"it would appear that the country might be heading for a fiscal crisis if urgent steps are not taken to halt the negative trends in setting targets and target realization in tax revenue." (Ahmed, 2019). Analysts warned that the deficit budget in 2019 could worsen the debt crisis of the country and hit about N27 trillion by December 2019. Apart from that, the current 2020 budget has a deficit of over N2 trillion which is currently being finance with loans (Nelson, 2019; *Ojokunle, 2019)*.

Nelson (2019) opined that the government of Nigeria is prepared to collect additional loans of N2.1 trillion in 2020 budget and spend a woofing sum of N2.45 trillion in only servicing debt. While, Mohammed (2019)

commented and I quote *"We are now back again, in my country, the level of debt is worrying, but it is happening all over, for Africa, if that is the way we want to go, we need to sit down and have a better conversation about all the asks of a growing economy; that needs to be inclusive."* He further commented, "Despite exiting the debt trap about a decade ago, we are back to that inglorious era. I advise we borrow less, block revenue leakages, and expand our income generation through taxation and other means. But most importantly, governments must be accountable," (Nelson, 2019).

Ojokunle (2019) opined that "As the threat of debt vulnerability continues, a coordinated domestic revenue expansion through taxation and others with simultaneous fiscal prudence as suggested in the last MPC meeting still remains the key to addressing the weak fiscal position of the economy." Moreover, Zainab Ahmed the Minister of finance concluded that the debt level in Nigeria is not the major challenge, insteadsourcing enough revenue to cover expenditure of governance as an option to debt collection is the main challenge. In addition, the president of Nigeria publicly question the tax authority on its inability to generate the target tax revenue assigned to the organization since 2015 fiscal year. This is in the bit to see that Nigeria is able to raise enough revenue to settle its debts as well as it expenditure devoid of borrowing. It is in line with this aspiration that this study is carried out to developed a model in order to assess taxation as a source of revenue generation in relation to debt servicing in Nigerian with the aim of advising the government on the way to meet and possibly exceed it revenue targets

For sometimes now, the Nigerian government have realized the significance and importance of taxation as an alternative to crude oil revenue, and has accorded the much needed attention in tax policies reviews. This led to the introduction and upward review of personal income tax, petroleum profit tax, capital gain tax, company income tax, value added tax, excise tariffs, education tax in Nigeria (Kantudu & Kaka, 2009). Thisreview was carried out with the intention of expanding the revenue base of the nation, and to effectively cater for the infrastructural needs, and socio-economic development quest in the country as well as to service debt. Thus, taxation is said to serve as vital means or instrument of fiscal policy that affects generation of revenue and some economic activities in the nation.

Unfortunately, Jhingan (2002) opined that effectiveness of taxation in curtailing conspicuous consumption and other wasteful expenditure of the richer classes does not hold water in Nigeria. The richer are acquiring and accumulating properties and paying less or no tax while the poor are getting

poorer and paying more tax. Hence, there is no tangible improvement in our infrastructural facilities and debt repayment services as a result of low tax collection, because the rich keep evading tax and so huge tax revenue are lost. The government on its part, don't know the appropriate tax system to use in ascertaining the optimal tax rate that is need to generate enough revenue to meet the infrastructural needs of the nation, debt repayment services, and socio-economic development of the country as a whole (Micheal *et al*., 2018).

However, constant reliance on the oil revenue for political, social, infrastructural, economic development, and debt servicing in the country has become worrisome as the price of crude oil continues to decline below the budget benchmark. Hence, the need for Nigeria just like other developed countries in the world to resort to exploring taxation as a mean of generating enough revenue to finance debt and its expenditure. This concern prompted this study to propose a model to look at taxationand debt servicing in Nigeria.

Many literatures review have considered the relationships between direct taxation and economic growth and development in Nigeria. For example, Cornelius *et al.* (2016), Micheal*et al.*(2018), Ogundana *et al.* (2017) and Olugbenga and Rafiat (2015). This shows that fewer or no study have been conducted on taxation and debt servicing in Nigeria. Seeing this gap, this research seeks to develop a conceptual model to consider taxation and debt servicing in Nigeria. Theliteraldiscovery of this paper is required to create awareness to the government for the purpose of promoting and improving tax system in Nigeria, in order to enhance tax revenue to serve as a source of debt and expenditure financing by the government. This will also improve economic growth and developmental goals. Furthermore, the paper will contribute to literature on taxation and debt servicing. It will also extend the frontier of knowledge, most especially in the field of taxation and debt servicing.This study is made up of introduction, the second section is bordered on literature review on meaning and types of taxation in Nigeria and debt servicing, section three is concern with the conceptual framework and research methodology and lastly, section four which is the concluding part.

2. CONCEPTS

2.2. Direct taxation

Atkinson (1977) defined direct tax as "those taxes that may be adjusted to the individual characteristics of the taxpayer. Therefore, conventional

income taxes can be classified as direct taxes and same may be said of most taxes on assets and wealth as long as there are potentials for adjustments for the characteristics of owners." In another words, direct taxes are taxes that are being charged directly on the wages and profit of person and companies by the government. This type of tax is classified into personal income tax, company income tax, petroleum profit tax, capital gain tax and education tax (Kantudu & Kaka, 2008). Adegbie, Nwaobia and Osionowo (2020) concluded that taxation is significant and positive in influencing economic growth and development in Nigeria, and recommends that government should as a matter of priority sustain the present unflinching commitment towards enhancing tax revenue, make sure that education tax is judiciously utilized strictly for the growth and development of education sector. Thus, direct taxes are taxes that are levied compulsory on the income of persons and companies. The burden of this type of tax cannot be shifted directly to the consumer, as such it is borne by the taxpayer. The components of direct tax in Nigeria are personal income tax, petroleum profit tax, capital gain tax, companies' income tax and education tax. Direct taxes are classified and discuss as follows:

2.2.1. Petroleum Profit Tax (PPT)

The Act responsible for the regulation of petroleum profit tax is the Petroleum Profit Tax Act of 1959 as amended in 2007. Even though, the law was introduced in 1959 to capture the beginning of crude oil exportation from Nigeria as at that period (Nwadighoha, 2007).According to Odusola (2006), Petroleum Profit Tax (PPT) is a tax created for the upstream operations in the oil and gas sector of the economy. It is designed to capture royalties, rent, margins and profit-sharing portion related to crude oil mining, prospecting and exploration leases. This type of tax is important and significant source of tax revenue in Nigeria in terms of its share of total revenue, and it contributes 70 percent and 95 percent of the share of government total revenue and foreign exchange.Section 8 of Petroleum Profit Tax Act (PPTA) states that "every industry engaged in petroleum operations is under an obligation to render return, together with properly annual audited accounts and computations, within a specified period of time after the end of its accounting period." Petroleum profit tax has to do with the assessment and deduction of income tax coming from crude oil exploration and operations in the Nigeria (Ikeokwe & Micah, 2019; Nwezeaku 2005).

Anyanwu (1993) opined that Petroleum Profit Tax is determined, deducted and remitted to government coppers by corporate organization licensed to engage in petroleum extraction, production and operationsof

its profit of every accounting year end, usually, from January to December. The income of the corporate entity in every accounting period is the sum of; the revenue realized from sale of all chargeable oil within the accounting period, the total value of chargeable oil sold at that particular period, the value of chargeable natural gas and other proceeds of the corporate entity at that given time incidental to and coming from any one or more of its crude oil exploration and operations (obtaining, winning and transportation of crude oil on behalf of a company or by the company in Nigeria, from its own account by any mining, drilling, extracting and other like operations, which does not included refining at a refinery, in the process of carrying the business by the entity engaged in such operations, and other operations that are incidental there to and any other disposal of chargeable crude oil on behalf or by the corporate entity.

Orermade (2006) argued that for Petroleum Profit Tax purposes, crude oil disposal is determine by the actual price of crude oil sold out by the oil producing companies in the international market for the purposes of petroleum profit tax, even though, the value of the oil disposed must have to be compared with the posted price of the crude oil and if the valued of the crude oil disposed is lower than the posted price, then tax is calculated based on the posted price because it is higher. In addition, sales of gas and sales of crude oil for local refining are valued at the actual amount realized on sale. Thus, Petroleum Profit Tax may be rightly referred to as any tax paid on the income generated by corporate organization that are engaged in the exploration, production and extraction of crude oil to the government copers at a particular period of time.

2.2.2. Personal Income Tax (PIT)

Personal income tax is the tax collected by the government from the income arising from employment or business topersons from the informal or formal sectors. Thus, those in employment are charged tax on their salaries and wages earned, popularly known as Pay AS You Earn (PAYE). Those in trade and businesses are charged directly on the income or profit generate from the operation of their business entities. The mode of assessment is called direct assessment (Ahmed, 2019; Tanko, 2015)'. The personal income tax is the fairest revenue source relied on by federal and state governments. A well-structured personal income tax could give an important boost in progressivity to what are otherwise overwhelmingly regressive tax structures (Institute of taxation and economic policy, 2018).

Personal income tax, is a tax that is levied on the taxpayers who areeither in employment or undertaking his private business under the name of either

a sole proprietorship or partnership businesses. According to Oputa (2004), for personal income tax on revenue generation to be effectively implemented and administered it most have to be guided by Decree 104 1993 which became effective on 25th August, 2003. The law was repealed to replace the income tax management act of 1961. The intentionof the decree is to regulate and administer the operation of personal income tax on revenue generated throughout Nigeria.This shows that personal income tax are taxes paid by employees and self employed person. For self employed person, the tax is charged on the income or profit made on their businesses most especially those engage in sole proprietorship business, partnership, trust and settlement. But as for those who are in employment, they pay tax directly on the salaries and wages earned usually call Pay As You Earn (PAYE). Hence, Institute of Taxation and Economic Policy (2018) found out that personal income tax has a direct significant and positive relationship with growth of the Nigerian economy.

2.2.3. *Education Tax (ET)*

The Federal Inland Revenue Service (FIRS) is saddle with the responsibility of the assessment, collection and remittance of education tax from all companies operating in Nigeria as stated in the Education Tax Fund Act. The Education Tax Fund was established by Education Tax Act No. 7 of 1993 which was amended in 22nd December, 1998 by the Act No. 40, which gave the powerto FIRS to charge 2% tax on assessable profits of all corporate organizations in Nigeria. Thus, the assessment, collection and remittance of the tax to the education tax fund began in 1994. Hence, the determination of tax was clearly stated in the Petroleum Profit Tax Act and Companies Income Tax Act. This amendment led to the establishment of an intervention agency called Education Trust Fund saddle with the duties of managing projects to improve the standard of Educational sector in the country (Tech., 2011). Adegbie, Nwaobia and Osionowo (2020) defined education tax as a tax compulsory levied on the adjusted/assessable income of corporate organization at 2 percent in addition to companies' income tax and concluded that education tax influences the growth and development of education sector in Nigeria.

Tertiary Education Trust Fund is responsible for the management and administration of the tax charged by the Act, and share the money generated to all educational institutions in Nigeria from the federal, state and local government areas. It is also the responsibility of the fund to monitors the projects executed with the funds allocated and disbursed to beneficiaries (Oraka *et al.*, 2017). Therefore, education tax refers to as the 2% tax paid by all companies operating in Nigeria on their profit to a fund called Education

Trust Funds for the purpose of improving the facilities, training and development, research in the educational institutions. The tax charged are allowed to be deducted as expenses of the company or tax deductible in the income statements of the companies.

2.2.4. Company Income Tax (CIT)

Corporate Income tax is a tax levied on the income of corporate organizations at the entity level in a given tax jurisdiction. Such taxes may include income or other taxes. The system of taxation in most countries levied on Companies'Income at the entity level of some types ofcorporate organizations (Adejere, 2015). Company income tax is a tax impose on the profit adjusted for tax of companies and organizations like clubs, societies, associations, co-operatives, charities and other unincorporated bodies who engaged in trading to make profit. According to Adegbite (2015), company income tax are tax charged on the profit of corporate organization as an entity that is considered to be a legal entity different from the shareholders. Moreover, Ewa, Adesola and Essien (2020) concluded that Federal Inland Revenue Service is the body entrusted with the administration and regulation of Company Income Tax Act. The Act is concern about the assessment, collection and remittance of taxes due to government from companies operating in Nigeria excluding those companies that are engaged in petroleum drilling, exploration and operation. This indicates that the Company Income Tax is charged only on the income generated by companies and does not includes the ones received by the owners and other stakeholders. So income distributed to shareholders in the form of dividend, interest on money borrowed are not subjected to company income tax.

According to section (1) of the Companies Income Tax Act 2004, "taxes are payable as specified upon profits of any company accruing in, derived from, brought into, or received in Nigeria in respect of amongst others, any trade or business for whatever period of time the trade or business may have been carried out, rent or any premium arising from a right granted or any other person for the use or occupation of any property, dividends, interest, royalties discounts, charges or annuities; any source of annual profits or gains not falling within the preceding categories, any amount deemed to be income or profits under a provision of the Act or, with respect to any benefit arising from a pension or provident fund, of the Personal Income Tax Act, fees, dues and allowances (whenever paid) for service rendered and any amount of profits or gains arising from acquisition and disposal of short term money instruments like Federal Government securities, treasury bills, treasury or savings certificates debenture certificates or treasury bonds."

The current rate of companies' income tax is 30% of assessable income. Furthermore, Section 3(1) of CITA 2004 empowers the federal Inland Revenue Board to administer, asses and collect company income tax due to government in Nigeria through its operational arm the Federal Inland Revenue Service.Hence, company's income tax is levied directly on the net profit of companies with the exception of those who are engaged in petroleum production at the rate of 30% of assessable income. Ogundan *et al.* (2017) discovered company income tax to be positive and relevant in improving economic growth and that government is yet to tap all the tax potential in Nigeria, and concluded that government should find a way of harnessing tax to enhance and generate more revenue.

2.3. Indirect Taxes

This is a tax levied on expenditure of commodities and services coming in and out of the country (Kantudu & Kaka, 2009). It is a tax imposed on transactions of goods and services irrespective of the position of both the buyers and sellers at that particular moment. The incidence of this type of taxes are partly or wholly shifted to the consumers of such commodities or services. Indirect taxes fall on taxes on transactions of commodities and services with different rates like Value Added and custom duties (import, export and excise duties) (Kantudu & Kaka, 2009).Ikeokwe and Micah (2019) defined indirect tax as a tax that are charged on commodities. In another words, indirect tax are taxes generate by the government indirectly from the sales of goods, services and imports and exports of commodities. The tax burden are always borne by the consumers of these goods which makes the tax burden to be shifted by the sellers easily unlike direct tax.

2.3.1. Custom Duties (CD)

Custom duties are taxes levied on commodities and services that are imported and exported.Adegbie, Nwaobia and Osionowo (2020) looks at custom duties as another type of taxation that has contributed to the economic growth of Nigeria and defined it as another type of indirect tax that are levied on commodities and services produced and consumed, imported and exported into the country.Ikeokwe and Micah(2019) concluded that custom duties are among the indirect tax that giveshigh yield and generate more revenue than any other indirect taxes. Nigerian Custom Service is bestowed with the responsibility of administering assessing and remitting taxes due to government. Thus, import duties are taxes levied on commodities and services broad into the country. The burden of this type of tax is shifted to consumers of those goods and services, which have the effect of raising the price of such commodities

and services in the country (Kantudu & Kaka, 2009). While, export duties are taxes imposed on the commodities produced in one country and exported to another country. The taxes tend to increase the price of such exported commodities and services abroad. The burden of the tax on export is shifted to the consumers in the foreign country in form of increased prices on such commodities that are exported. Excise duties are commodity taxes charged on manufactured goods and service sold within the country (Ikeokwe & Micah, 2019). Alternatively, it is a duty levied on specific commodities and services produced in the country which are harmful in order to discourage its consumption. Goods like cigarette, alcohol drink. These taxes are levied as fixed amount on a particular quantity of goods, or rather as a percentage of the value of goods imported into the country. This indirect tax does not only serve the purpose of raising revenue for the country but also to discourage the consumption of certain goods (Fasoranti, 2013). So, custom duties are tax charged on commodities imported into the country and those exported out of the country. The impact of this taxation normally falls on the consumers. Ikeokwe & Micah (2019) discovered import and export duties to have a positive impact on economic development of Nigeria.

2.3.2. Value Added Tax (VAT)

Value Added Tax is levied on selected commodities and services purchased by persons and corporate entities. It is also a tax on expenditure expected to be borne or paid by the final consumer of goods and services (Kantudu & Kaka, 2009). Theoretically, Ironkwe and Peter (2015) observed that Value Added Tax is a tax paid on the value which one adds to services or goods during the stages of distribution or production of those services or goods by and economic unit. VAT is a tax on the total amount spends on services or goods by the final consumer. It is assessed, charged and collected at the point where services or goods are sold out for a value during wholesale and retail trade. At any point in time, a consumer purchased and pay for a commodity or service that are subjected to VAT, the consumer must pay the supplier a price including 7.5% VAT on the price charged. In a similar vein, in the process of selling such goods or services to customers, the seller normallyadd the tax charge on the selling price (Ofurum & Ferry, 2009). There are some goods and services that are exempted from this tax in form of either exemption or zero rating in respect of such goods or services.

Therefore, for the seller to get back the amount he has paid as tax, he will raise the price at which he disposed his goods and services to cover up the tax. When services or goods are zero rated, it means such services or goods are taxable but the tax charged is nil.The rate to be charged as

Value Added Tax is7.5 percent of the total value of goods and services that are to be taxed (Ojo, 2003).The administration, assessment and collection of Value Added Tax is bestowed on Federal Inland Revenue Services in Nigeria. Value Added Tax was introduced in Nigeria by Decree 102 of 1993, which ends the era of Sales Tax Decree No. 7 of 1986 (Juliana & Okoye, 2016).

This study concurred with the definition given by Kantudu and Kaka (2009) which state that VAT is a tax on expenditure or purchases which is expected to be borne or paid at each stage of production where value have been added on the goods and services. Many studies have examined the effect of VAT on the economic growth and development in Nigeria. For instance, Ikeokwe and Micah (2019) and Ogundana *et al.* (2017) in their separate study found out that Value Added Tax has positively contributed to the improvement of Nigerian economic development. Similarly, Micheal *et al.* (2018) discovered Value Added Tax to impact positively on the revenue and economic growth.

2.4. Debt Servicing (DS)

There is no precise or fixed meaning of debt, but it is considered as the amount an individual or group of individuals owes another legally (Senibi *et al.*, 2016). A debt can technically be defined as the distribution of funds to a country in needs by a rich organization, entity, institution or nation, for consumption and economic development with the agreement to repay in future periods. A debt can be incurred from international and domestic financial markets and such borrowings by the government is always term as public debt (Adepoju *et al.*, 2007). However, debt can also be referred to as an enforceable obligation by legal action to make payment for money owed to another.

Moreover, debt obtained to be invested in some assets or infrastructure and acquire refineries, electricity, factories is called reproductive debt. Alternatively, borrowings to sponsored recurrent expenditures and wars are referred to as dead-weight debts. Debts are classified into two; foreign or external debts are debts sourced abroad from financial institutions or nations. It can also be said to be an unpaid part of foreign loans obtained for the purpose of development and support of the country balance of paymentdeficit which have not being repaid as they matured or when due (Ajibola *et al.* 2015).Foreign debt is also referred to as part of a nation total debt burden that is borrowed from lenders abroad, which could either be from governments, commercial banks, or international financial institutions (Focus Economics, 2019). In order words, foreign debt can be said to be

money organizations or government of a nation has borrowed from governments or organizations of other nations. Domestic debt which is sometimes refers to as internal debt, is referred to as a government borrowings within its boundaries in the form of bonds and treasury bills. Money borrowed from lenders whether from abroad or within, which involves interest to be paid in the same currency in which the loan is collected is called internal debt. Moreover, debt could also means something owed by one party, the borrower to a second party the lender. Thus, Elwasila (2018) discovered debt to make a positive and significant impact on economic growth and development. Similarly, Ndubuisi (2017) found external debt stock to have a positive effect on economic growth in Nigeria.

However, the Nigerian total debt seems to be at a manageable threshold of N24.34tn as at December 2018 and #27.4tn as at 31 December 2019 according to finance minister (Nairametrics, 2020). This shows that the size of the debt is at its manageable level, and the size of our economy justifies taking additional debt, as a result of the inability of the fiscal authorities to capture a significant portion of the economy into the tax net. Thus, unless the fiscal authorities can solve Nigeria's revenue problem, the country must stay off, of more debt, otherwise, the country may be heading towards a fiscal crisis.

Debt service is the payments of specific amount in respect of both the interest and the principals for the loans that exist (IMF, 2003). Debt servicing as defined by Adesola (2009) is the cash that is required for a given period of time to meet the repayment of principal and interest on a debt, and concluded that debt servicing can lead to decline in living standard, high external dependency, currency depreciation, exchange rate depreciation, rising inflation rate, and balance of payment. In order words, debt service is the payment of interest and principal due to an existing debt. Schedule debt service is a set of payment made up of the interest and principal which is expected to be made throughout the life span of the debt.

According to Samuel *et al.* (2019) debt service in Nigeria from 2018 and 2019 stood at N2,013.84tn and N2,144.01tn. Mukui (2013) discovered servicing of debt to had a negative effect on economic growth, and suggest that policies should be created to encourage foreign direct investment inflows. Ndubuisi (2017) findings also showed that servicing debt had an insignificant negative effect on economic growth and recommends that debt to be collected should be use for infrastructural development. Thus, debt can be sustain using either debt to Gross Domestic Product or debt to revenue ration with Nigerian total debt. Meanwhile, the ratio of debt to GDP is not considered as the ideal measure of debt sustainability, in a country where tax to GDP is low. In the case of Nigeria, a better measure

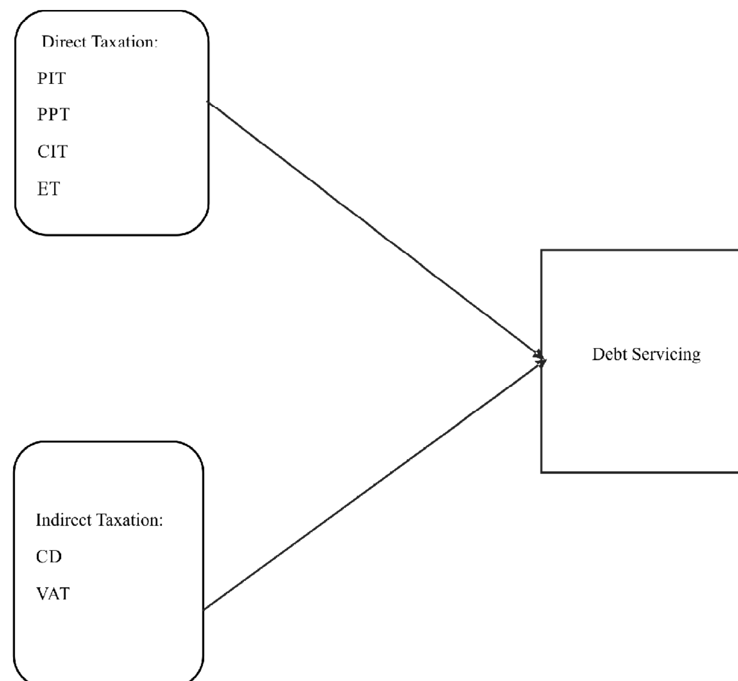
of debt sustainability is the ratio of debt service to revenue. This ratio has grown and almost reach a sorry stage in recent years. The World Bank bench mark of a nation ratio of debt service to revenue is almost 22.5%. But Nigerian ratio of debt service to revenue is over 60% which means for every N100 Earned, N60 is spend in servicing debt as at 2018 (Samuel *et al.*, 2019), and presently, it is 99% as at first quarter of 2020 (Ahmed, 2020). This is worrisome. Thus, there is the need for the government of Nigeria to explore more of tax revenue sources to enhance the revenue generation to service debts and enhance the development of the economy.

3. CONCEPTUAL FRAMEWORK

The conceptual framework is shown in fig. 3.1 below

The population of Nigeria has been increasing over the years so does the needs increases as well as our debt servicing in similar proportion, due to reduction in revenue generation by the government. However, such needs and debt servicing must to be taken into consideration if the needed economic growth and development must be achieved. To achieve this objective, Nigeria government needs to look at its tax revenue in relation to debt servicing to assist in policy formulation.

Figure 3.1: Conceptual Framework



To solve the demand of the citizens and worries about increasing debt and debt servicing by the government, tax revenue must be evaluated visa-visa the debt service. Taxation as one of the major way of generating revenue to government is gotten from companies engaged in oil and gas exploration, income from corporate organizations carrying out their operation in Nigeria, education tax, salaries and wages of individuals employees and profit from partnerships, value added tax on goods and services as well as imports, export and excise duties. In a nutshell, taxation can be said to be a fiscal liability on the income and profit of person, corporate organization, or assets to meet government obligations that are due. It is a chance to raise revenue for government to meet its expenditure and debts service to enhance the socio-economic growth and development of Nigerian economy. Similarly, it also help in the regulation of the pattern of consumption of the people of the State. Taxation is used as a medium for redistributing income in the country, and serves as a means for formulating and improving monetary and fiscal policy of the nation. Therefore, the conceptual framework shows a direct relationship between direct taxes and debt servicing in Nigeria. And a direct relationship between indirect taxes and debt servicing in Nigeria. These relationships are going to be analyze in future to see whether taxation in Nigeria can be used to service and subsequently pay off our debts and consequently, used to develop and grow our economy.

Model specification to evaluate the objectives of this study and test the hypotheses in future, the model is formulated in the following regression to capture the causality relationship between CIT, PPT, PIT, ET, CD, VAT and DS. Where, Personal Income Tax (PIT), Company Income Tax (CIT), Petroleum Profit Tax (PPT), Education Tax (ED), Custom Duties (CD), Value Added Tax (VAT) as independent variables and regressed against the Debt Servicing (DS). The functional relationship and the resultant model for this study is as follow: $Ylt = \alpha it + \beta 1CITlt + \beta 2PITlt$ **+** $\beta 3PPTlt + \beta 4ETlt + \beta 5CDlt + \beta 6VATlt\ \varepsilon it$ 3.1

Where Y represents Debt Servicing in Nigeria

α = the constant term

PIT= Personal Income Tax

CIT= Company Income Tax

PPT= Petroleum Profit Tax

ET= Education Tax.

CD = Custom Duties

VAT = Value Added Tax

β = the coefficient of the function

ε = error term.

3.2. Debt and Tax Theory of public finance

The writers of the 19c on fiscal policy theory talks about balance budgets, and they did not do it as a discovery of an analysis of economic efficiency, but instead as a matter of prudence and virtue. Thus, balanced budgets were more acceptable as a matter of fairness on the basis of 'benefit principle' of taxation as a means of compelling the citizens who are the beneficiaries of government expenditure to pay for those spending. Wicksell (1896) as cited in Fieldstein (1984) concluded that the balance budget principle motivate the political process to carefully analyze the benefits and costs of government expenditure. This is carried out by either raising taxation rate or increase in the stock of debt to finance expenditure of the government. This theory gave emphasis on the economic efficiency of debt finance and taxation.

Therefore, another area of reasoning that suggest the contrary, and concluded that any temporary raise in expenditure of government should be sponsored through loan, while increase in taxes should only finance the interest on the increments of debt at all the time. This findings begins from the observation that too much increase on the burden of taxation rely on the increase in the rate of tax. Thus, it is better for the government to have large figures of small increase in the rate of tax for sometimes to finance interest payments, than to have plenty number of little increase in the tax rate to finance expenditure at the beginning. Unfortunately, the argument refused to acknowledge that there are chance of an increase in public debt that involves an increase in excess burden on taxation. Thus, if the beginning capital stock is small than optimal (for instance, because of taxes on income from qualifying capital), the raised in borrowing of government will decreases the capital stock further. Debt financing entails a different excess burden that must be clearly recognized in the selection between taxes and debts. Similarly, if the rate of interest on public debt that is used by the government to finance increase in expenditure (or the marginal product of the capital showed by debt) is more than the rate of discount that is appropriate for intertemporal aggregation of welfare, the debt finance may involves an increase in excess burden of debt.

Thus, the merit of debt financing of a small raise in the rates of tax shall be equated with the demerit of the excess debt burden that might arises. This analysis indicates that, with plausible parameter values, the excess debt burden finance may possibly be more than the merit of avoiding a big

single tax charge and thus, resulting to temporary increase in financing government expenditure by an immediate increase in tax, which will possibly be preferred to debt financing. It is no right to have a permanent raise in expending of government and expect such expenditure to be sponsored by permanent raise in government loans. Sponsoring the increase in expenditure of government without a corresponding increase in tax will raise the government debts by similar amount of the increase in expenditure. Therefore, government should avoid additional increase of debt to finance expenditure, and look for an alternative means, either through increase in tax rate or rather exploring other taxes that have not being explored. Hence, the study uses this theory to suggest that government should look for an alternative way of raising revenue by exploring taxation rather than adding more debt burden to the economy.

4. RESEARCH METHODOLOGY

The central objective of this study is to explain the concepts of taxation in relation to debt servicing as agent of economic development in Nigeria. The researchers used the documentary research design in this study. Secondary data were collected or obtained from the journal, books, internet sources, and newspapers, magazines, World Bank Development Reports, Central Bank of Nigeria statistical bulletin, that are needed for the research.

5. CONCLUSION

For a country to experience rapid economic growth and development, that country most have enough resources that can generate revenue to grow its economy. In the absence of enough resources or where the prices of these resources (crude oil) are always fluctuating in the international market most especially in the case of Nigeria, the government has no other alternative than to resort to generation of revenue through taxation (direct and indirect taxation) in order to meet up with the needed revenue to pay its debts and foster economic growth and development. However, literature has lent a strong support that direct taxation contributed three-fourth and indirect taxation take the remaining ratio to the economic growth and development of some developed nations. Thus, the future study will examine the relationship between taxation and debt servicing in Nigeria with the view to advice the government on the need to review the tax policies aimed at improving revenue generation to effectively service and possibly pay off the national debt, and subsequently, enhance economic growth and development. Most especially in the face of constant fall in crude oil prices. The proposed conceptual framework is for future study to

depict empirically the impact of direct taxation (Petroleum Profit Tax, Company Income Tax, Personal Income Tax and Educational Income tax) and indirect taxation (custom duties and Value Added Tax) on debt serving in Nigeria.

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