FINANCIAL DEVELOPMENT AND TAX REVENUE IN EVOLVING MARKETS: EVIDENCE FROM NIGERIAN

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ABSTRACT

The paper deals with the impact of tax revenue on emerging markets' financial development but focuses on Nigeria as a crucial growing economy. Over the years, scholars have investigated the effect of tax revenue on economic growth and the extent to which financial development affects tax revenue. This reverse kind of study is yet to build good literature. Hence, the total annual market capitalization as the proxy for financial development in Nigeria is used in the study. The independent variables include tax revenue, foreign direct investment and inflation. This study's secondary data span from 2000 to 2019 and are analyzed using various econometric tools. The various diagnostic tests to confirm the normality of the regression model specified for the study provide evidence of the model normality and error freedom. The impact analysis is carried out with multiple regression techniques, and the results reveal that tax revenue impacts significantly and positively on Nigeria's financial development. The findings also show that FDI has an insignificant positive influence on economic growth while the inflation rate appears enormously hurtful to that effect. The study proposes supports for tax revenue drive both from the government and the citizens. The study also encourages the government to create a favorable political and economic environment for FDI inflows as well as to ensure inflation rate is continuously minimized.

Keywords: Financial development, Tax revenue, Market capitalization, FDI, Inflation

JEL Classification: E44, H20

INTRODUCTION

Tax revenue plays a vital role to stimulate and sustain the general economic performance of a nation. It is one of the greatest and easiest income springs, from which the government generates revenue without much struggle. Omodero & Dandago (2019) noted that the government needs tax revenue for efficient public service delivery. That means a decline in tax revenue could lead to macroeconomic challenges (Loganathan et al., & Mardani, 2017). It behooves on government to make available sufficient public goods and services for the citizens, and it is an obligation on the part of the citizens to pay tax as at when due. The payment of tax by citizens is part of their civic responsibility and loyalty to the government (Omodero & Dandago, 2019). Therefore, it is usually hurtful to an economy where tax evasion is experienced due to underground economic activities and corruption (Omodero, 2019; 2020). Over the years, Nigeria has witnessed a high rate of informal sector operations, resulting in evading tax with impunity (Omodero, 2019). The more significant percentage of the population that evade tax have the feeling that the practice is legal and serves as the best response to lack of good governance in Nigeria (Ibadin & Eiya, 2013). Notwithstanding the ugly scenario, studies have shown that tax