International Journal of Judicial Law

A qualitative study on the effect of access to finance on the growth motivation of micro- and small enterprise owners in the Philippines

Dr. Ngwu Jerome Chukwuemeka
Department of Economics, Enugu State University of Science and Technology, Nigeria

* Corresponding Author: **Dr. Ngwu Jerome Chukwuemeka**

Article Info

ISSN (online): xxxx-xxxx
Volume: 01
Issue: 03
May-June 2022
Received: 29-05-2022;
Accepted: 14-06-2022
Page No: 06-10

Abstract
This study examined the impact of non-oil tax revenue on economic growth in West African countries. Specifically, the study sought to: examine the impact of Value Added Tax on economic growth in West Africa; examine the impact of corporate tax revenue on economic growth in West Africa; determine the impact of personal income on economic growth in West Africa. The variables used in the study were value added tax (VAT), corporate income tax (CIT) revenue, personal tax revenue (PIT) and real GDP growth and were collected over the period 1990 to 2020 from the World Bank database (WDI) 2021. A sample of five (5) West African countries namely Nigeria, Ghana, Mali, Togo and Burkina-Feso out of twenty (20) West African countries were used in the study. Generalized panel least squares was the method of data analysis. Empirical results showed that value added tax (VAT) revenue has a positive and significant impact on economic growth in West Africa; corporate income tax (CIT) revenue has a positive and significant impact on economic growth in West Africa; capital gains tax (CGT) revenue has a positive and significant impact on economic growth in West Africa and personal income tax (PIT) revenue has a positive but insignificant impact on economic growth in West Africa. This study concludes that there is a positive and significant impact of non-oil tax revenue on economic growth in West Africa. Non-oil tax revenues contribute to an average 46 percent increase in economic growth in West African countries. The study recommended that the tax authorities of West African countries engage in a complete reorganization of the corporate income tax (CIT) administrative mechanisms.

Keywords: non-oil tax revenue

Introduction

The need for African countries to improve the ratio of tax revenue to GDP has opened a debate among policy makers. The need for tax payments is a phenomenon of global importance as it affects every economy regardless of national differences (Adegbie, Salawu & Ojutawo, 2020) [1]. Taxation is an age-related event, compulsory, non-negotiable, binding and compulsorily imposed by the government on all citizens of the country regardless of religion and social status.

Tax revenues are often seen as an alternative form of sustainable financing in a stable and predictable fiscal environment to support growth and enable governments to finance their social and infrastructure needs. The current government needs a large amount of revenue to be able to carry out its duties in a viable manner, because without adequate revenue, legislation would stagnate and the standard of living of the population would be compromised. It is necessary for governments to generate various sources of revenue to increase their revenue base to enable them to finance their liabilities (Fineboy & Omodero, 2020) [6].

The purpose of government is to provide basic civic amenities, protect the lives and property of citizens, and create a favorable environment for the prosperity of individuals and organizations. However, in order for the government to fulfill these obligations, it needs to mobilize revenue through taxation of citizens and corporate organizations. So the whole point of taxes is to generate revenue that could be used to support the well-being of citizens and to regulate the economy (fiscal policy).

While taxation plays a significant role in redistributing income, protecting weak and fledgling industries, the revenue derived from it plays a key role in supporting economic growth and development (Uzoka & Chiedu, 2018) [19].

West Africa is one of the most linguistically diverse parts of the world, with hundreds of languages spoken belonging to four different language families. Since English is one of the languages spoken there, six West African countries have been classified as Anglophone, namely Gambia, Sierra Leone, Liberia, Ghana, Nigeria and part of Cameroon, while the remaining eleven countries are Senegal, Guinea-Bissau, Guinea, Cote d'Ivoire, Mali, Togo, Benin, Burkina Faso, Niger, Chad and another part of Cameroon - are referred to as Francophone. What Anglophone countries have in common is that English is spoken in a highly multilingual environment in which it has an important position as an official or national language and functions as the language of government, law, business and commerce, education and the media. However, there is not just one form of English in these West African countries; typically, a number of varieties are used side by side (Oboh, Chinonyelum & Edeme, 2018) [11]. For decades, economists have studied the factors that cause different countries to grow at different rates and achieve different levels of wealth accumulation. However, several economists agree that taxation is one of the important factors that determine a country's production capacity (Stoilova, 2017) [18]. The interest of this study is therefore to verify the impact of non-oil tax revenue on economic growth in West Africa, the significant position of variable non-oil tax revenue on economic growth, if any, and the type of tax that contributes the most to economic growth in West Africa.

Statement of the problem

African Income Statistics reports that 56 percent of West African countries are indebted to the world's international development banks to finance government budget deficits with public borrowing instead of internal income tax revenues. As of 2021, the total external public debt in West Africa was approximately 164 billion
American dollars. Nigeria and Ghana recorded the highest debt levels in the region at approximately US$79.54 billion and US$21.91 billion respectively. On the other hand, Gambia and Guinea-Bissau recorded the lowest figures of US$823 million and US$381 million respectively. Overall, the total external public debt in Africa on that date was approximately US$727. While the trend position of Nigeria's total revenue shows that Nigeria's tax-to-GDP ratio decreased by 1.0 percentage points from 7.3 percent to 6.3 percent in 2018. The highest tax-to-GDP ratio in Nigeria was 9.6 percent in 2011, with a low of 5.3 percent in 2016, while Ghana shows that Ghana's tax-to-GDP ratio increased by
1.0 percentage point, from 11.4 percent to 12.2 percent in 2015. The highest tax-to-GDP ratio in Ghana was 13.7 percent in 2017 and 14.1 percent in 2018 (Income Statistics Africa, 2016). But all these increases in Ghana's tax revenue and Nigeria's tax revenue fluctuating up and down have reduced national borrowing to countries, leading to their national debt. It means that Nigeria, Ghana, The Gambia, Guinea-Bissau and many other West African countries have not generated enough tax revenue to fund their national budgets, and this is an obstacle realize desirable and sustainable economic growth in West African countries. Reasons for the inadequacy of tax revenue generated in West African countries can be attributed to many different factors, including lack of statistical data, lackluster tax administration, double taxation, failure to prioritize taxes and endemic corruption (Gbatoi, 2017) [7]. After reviewing 51 empirical studies, it was found that there are limited studies on the impact of non-oil tax revenue on economic growth in West Africa covering 31 years in 6 countries from 1990 to 2020. Scholars such as Margareta and Åsa, (2012) [8] examined the impact income taxation on economic growth in the 25 rich OECD countries; N'Yilimon, 2014 examined the impact of taxation on economic growth in the West African Economic and Monetary Union; Oboh, Chinonyelum, and Edeme, 2018 [11] evaluated the impact of tax revenue on economic growth in selected ECOWAS countries, paying less attention to the area of research interest using a conscious cross-sectional econometric study.

Objectives of the study

The general objective of the study is to examine the impact of non-oil tax revenues on economic growth in West African countries. The specific objectives are:

1. To examine the impact of Value Added Tax on economic growth in West Africa.
2. To examine the impact of corporate tax revenue on economic growth in West Africa.
3. Determine the impact of personal income on economic growth in West Africa.

Concept literature tax revenues

Tax is a compulsory payment from companies and households to the government (Egbunike, Emudainohwo & Gunardi, 2018) [5]. Every tax must be based on the applicable law. In the absence of valid law, no statutory tax can be levied (Okafor, 2012) [12]. It is a financial charge or other charge imposed on a taxpayer (individual or legal entity) by a state or a functional equivalent of a state, usually considered the main source of government revenue to finance various public expenditures (Edame & Okoi, 2014) [3].

Economic growth

Economic growth is defined as the growth of national income or output per capita over a long period of time. It is an economic condition in which the rate of growth of the national product must outpace the rate of population growth. Economic growth is the long-term expansion of the productive potential of the economy. It means a gain in real GDP, which translates into increased national output and wealth. The market value of all products and services produced in a country during a given time period is called real GDP. Real GDP is a measure of a company's wealth because it shows how fast profits can expand and the expected return on investment (Okerekeoti, 2022) [13].

Theoretical literature

Laffer curve theory of taxation

The Laffer curve theory of taxation is a theory formalized by supply-side economist Arthur Laffer in 1974 to show the relationship between tax rates and the amount of tax revenue collected by governments. The Laffer curve describes the relationship between tax rates and total tax revenue, with the optimal tax rate maximizing total government tax revenue.
The Laffer curve states that if tax rates rise above a certain level, then tax revenue may actually fall because higher tax rates discourage people from working. If taxes along the Laffer curve are too high, they discourage taxed activities such as work and investment so much that they actually reduce total tax revenue. In this case, reducing tax rates will promote economic incentives and increase tax revenues. The Laffer curve is based on the economic idea that people will

adjust their behavior in the face of incentives created by income tax rates. Higher income tax rates reduce the incentive to work and invest compared to lower rates. If this effect is large enough, it means that at a given tax rate, further increases in the rate will actually lead to a decrease in total tax revenue. For each type of tax, there is a threshold rate above which the incentive to produce more is reduced, thereby reducing the amount of revenue the government receives.

The first presentation of the Laffer curve was made on a paper napkin in 1974, when its author was speaking to senior staff in President Gerald Ford's administration about a proposed tax rate increase amid a period of economic malaise that was gripping the country. At the time, most believed that raising tax rates would increase tax revenue.

Laffer countered that the more money is taken out of every additional dollar of income in the form of business taxes, the less money will be willing to invest. A business is more likely to find ways to shield its capital from taxation or move all or part of its operations overseas. Investors are less likely to risk their capital if a larger percentage of their profits are taken out. When workers lose more and more of their pay due to increased effort, they lose the incentive to work harder. Taken together, all of this could mean lower overall income if tax rates were to rise. Laffer further argued that the economic effects of reducing incentives to work and invest by raising tax rates would be harmful in the best of times and even worse in the midst of a stagnant economy. This theory, supply-side economics, later became the cornerstone of President Ronald Reagan's economic policies, which resulted in one of the largest tax cuts in history. During his tenure in office, the federal government's annual current tax revenue from $344 billion in 1980 to $550 billion in 1988 and the economy boomed. The Laffer curve was used as a basis for tax cuts in the 1980s with apparent success, but has been criticized on practical grounds based on its simplistic assumptions and on economic grounds that raising government revenue may not always be optimal.

Empirical literature

The link between income tax and economic growth in West African countries has attracted the attention of researchers and scholars. This section presents an empirical overview of related:

Egbuhuzor and Adokiye (2021) [4] examined the effect of indirect taxes on economic growth in Nigeria from 2003 to 2018. Specifically, the study examined the effect of Value Added Tax and Customs/Excise Tax on economic growth in Nigeria. Descriptive statistics and multiple regression were used to test the postulated null hypotheses using EViews10 statistical software. The study revealed a negative and insignificant effect of value added tax on gross domestic product. It also revealed a positive and significant effect of value added tax on the human development index. Also, revealed a positive and insignificant effect of tariffs and excise taxes on gross domestic product. Finally, the study revealed a positive and insignificant effect of customs and excise taxes on the human development index. The study therefore recommends that the government introduce a mechanism to close the loopholes in the VAT collection system, as its effect on gross domestic product is negative and insignificant.

Onuselogu and Onuora (2021) [15] examined the impact of electronic tax payment on revenue generation in Nigeria (2012-2018). The specific objectives of the study are: to determine the impact of payment of income tax by e-companies on revenue generation in Nigeria; to find out the impact of e-capital tax payment on revenue generation in Nigeria. The study used secondary data obtained from Federal Inland Revenue Service tax report and CBN statistical reports and quarterly economic reports. The collected data were analyzed using the ordinary least squares method. The results show that payment of income tax by e-companies has an insignificant positive effect on revenue generation in Nigeria at the 5% level of significance. A positive effect means that an increase in corporate income tax payment increases revenue generation in Nigeria, although the impact is statistically insignificant at 5 percent. While the payment of income tax from e-capital has a negative impact on revenue generation and was statistically insignificant at the 5% level of significance. The negative effect means that a reduction in e-capital gains tax payments will reduce revenue generation in Nigeria, although the impact is statistically insignificant at the 5 percent level. The study recommended that in order to maximize the positive effect of payment of income tax by e-companies, the Nigerian government should establish ways to sensitize companies on the importance of payment of income tax by e-companies.

Arowoshegbe and Uniamakogbo (2021) [2] examined the effect of tax revenue on the economic development of Nigeria (1995-2015). Specifically, the study aimed to determine whether there is any difference in the use of the Human Development Index (HDI) and GDP in determining the relationship. The study used exploratory and ex-post facto research designs. The methods of data analysis were ordinary least squares (OLS) regression and error correction model (ECM). Findings from the study show a positive and significant relationship between tax revenue and economic development. The result also reveals that measuring the effect of tax revenue on economic development using HDI provides a lower relationship than when the relationship is measured using GDP. This suggests that the use of gross domestic product (GDP) to measure economic development provides a concrete insight into the relationship between tax revenue and economic development in Nigeria. Both have a positive and significant relationship, but the results obtained using GDP to measure economic growth are different from the results obtained using HDI for economic development. The study recommended that policy formulation on tax revenue for economic development should be better based on the Human Development Index rather than GDP.

Adegbie, Salawu and Ojutawo (2020) [1] examined the volatility of tax revenue on economic growth in Nigeria between 1981 and 2017. Specifically, the study examined the impact of tax revenue, inflation and exchange rates on economic growth in Nigeria. This study adopted an ex post facto research design. Preliminary estimation tests were performed using Pearson's correlation and stationarity tests. Post-estimation tests included linearity, heteroscedasticity, Breusch-Godfrey series Correlation Lagrange multiplier and stability test. Data were analyzed using both descriptive and inferential statistics. The findings revealed that tax revenue volatility moderated by inflation rate and exchange rate had a significant effect on economic growth (EG) in Nigeria. This study concludes that tax revenue fluctuations affect economic growth in Nigeria. It is recommended that the government should formulate a tax policy that will promote stable tax revenue. In addition, the government should ensure prudent

application of the tax fund for infrastructure development, which would translate into economic growth.

Ngu-Kumai (2020) [10] examined the effect of capital gains tax on total tax revenue and economic growth in Nigeria (2005-2018). Specifically, the study examined the impact of capital gains tax, inflation rate and interest rate on real gross domestic product (RGDP) in Nigeria. An ex-post facto research design was adopted and secondary data were collected from the annual reports of the Federal Tax Administration, CBN statistical bulletins and the National Bureau of Statistics. A simple regression technique was adopted and analyzed using E-views to determine the effect of independent variables (capital gains tax, interest rate and inflation rate) on dependent variables (total tax revenue, gross domestic product) in 2005-2018. The findings indicate a non-significant positive relationship between capital gains tax and total tax revenue/economic growth in Nigeria. The study recommends that capital gains tax administration and collection mechanisms be strengthened to ensure that this form of tax is monitored and collected in any part of the country where capital assets are dealt with.

Conclusion

This study concludes that non-oil tax revenues have a positive and significant impact on economic growth in West Africa. Non-oil tax revenues contribute to an average 46 percent increase in economic growth in West African countries. Value added tax (VAT) and corporate income tax have a positive and significant impact on economic growth in West Africa, while personal income has a positive but insignificant impact on economic growth in West Africa. The study provided empirical evidence to support that value added tax, corporate income tax are the most important sources of revenue that can support economic growth in West Africa, while personal income is yet to be developed to contribute maximally to economic growth in Western countries Africa. The study provided empirical evidence to support the position of the Laffer curve theory of taxation, which explained that a reduction in tax rates will promote economic growth and increase tax revenue. The Laffer curve is based on the economic idea that people will adjust their behavior in the face of incentives created by income tax rates. Higher income tax rates reduce the incentive to work and invest compared to lower rates. If this effect is large enough, it means that at a given tax rate, further increases in the rate will actually lead to a decrease in total tax revenue. For each type of tax, there is a threshold rate above which the incentive to produce more is reduced, thereby reducing the amount of revenue the government receives. With the help of this theory, it is assumed that personal income tax and customs/excise income tax, which is not significant in the study, is attributed to the absence of tax rate reductions to stimulate economic growth and increase tax revenue.

Study recommendations

Based on the findings of this study, the following recommendations were made.

1. West African tax authorities should put in place a mechanism to close loopholes in the value added tax (VAT) collection system to prevent tax evasion. The proposed mechanism by the tax authorities of West African countries should include performance-based remuneration of tax officials to boost their morale and incentivize them to be more efficient and effective in the discharge of their duties. The mechanism proposed by West African tax authorities should include increasing tax incentives to encourage voluntary compliance. Again, the proposed mechanism should include continuous improvement in logistics for better record keeping, reliable transportation for tax officials and better service conditions to also mitigate the challenges faced by tax authorities.
2. West African tax authorities should engage in a complete reorganization of the corporate income tax (CIT) administrative mechanisms. Reorganization in tax administration should include punitive measures that would affect corrupt officials who refuse to remit collected tax funds. This is to reduce problems with tax evasion and avoidance of corporate income tax. This will help create a culture of good governance in the tax administration to ensure the loyalty of the population.
3. The tax authorities of West African countries should prudently manage the financial resources obtained from personal income taxes. This will help reduce routine wastage of funds. The tax authorities of West African countries should use the tax revenue to solve problems around the welfare of the citizens, such as safe drinking water, poor quality road network, improved health care system and education system. This will help citizens pay taxes voluntarily and generate more tax revenue for economic development.

Reference

1. Adegbie FF, Salawu RO, Ojutawo IR. Tax Revenue Volatility and Economic Growth in Nigeria; European Journal of Accounting, Auditing and Financial Research. 2020; 8(4):65-88.
2. Arowoshegbe AO, Uniamakogbo E. Impact of Tax Revenue on Economic Development of Nigeria; International Journal of Social Sciences and Management Research. 2021; 7(4):18-27.
3. Edame GE, Okoi WW. Impact of Taxation on Investment and Economic Development in Nigeria. Academic Journal of Interdisciplinary Studies. 2014; 3(4):209-218.
4. Egbuhuzor CA, Adokiye IT. Impact of Indirect Taxes on Economic Growth in Nigeria; Journal of Accounting and Financial Management. 2021; 7 (1): 1-10.
5. Egbunike FC, Emudainohwo OB, Gunardi A. Tax revenue and economic growth: A case study of Nigeria and Ghana. Economic Journal. 2018; 7(2):213-220.
6. Fineboy IJ, Omodero CO. The link between government revenue and economic growth in Nigeria; Economic and Business Journal - Riga Technical University Sciendo. 2020; 34(4):35-45.
7. Gbatoi AC. The Impact of Taxation on Growth in Sub-Saharan Africa: New Evidence Based on a New Dataset; MPRA; RePEC Munich personal archive. 2017; 2(5):12-26.
8. Margareta D, Åsa H. Income Taxation and Economic Growth: An Empirical Analysis of 25 Rich OECD Countries; Working paper, Department of Economics, University of Economics and Management, 2012.
9. N"Yilimon N. Taxation and Economic Growth: An Empirical Analysis of Dynamic Panel Data of WAEMU Countries. University of Lome MPRA. 2014; 6(1):63-70.
10. Ngu-Kumai S. Impact of Capital Gains Tax on Total Tax

Revenue and Economic Growth in Nigeria; International Journal of Advanced Academic Research Social and Management Sciences. 2020; 6(4):107-117.

11. Oboh JO, Chinonyelum OJ, Edeme RK. Tax Revenue and Economic Growth in Selected ECOWAS Countries, Evidence from the Sure Model, International Journal of Academic Research in Accounting, Finance and Management. 2018; 8(3):310-324.
12. Okafor RG. Tax Revenue Generation and Economic Development of Nigeria. European Journal of Business and Management. 2012; 4(19):49-56.
13. Okerekeoti CU. Government Expenditure on Education and Economic Growth in Nigeria, International Journal of Recent Research in Commerce Economics and Management. 2022; 9(2):126-134.
14. Onakoya AB, Afintinni OI, Ogundajo GO. Tax Revenue and Economic Growth in Africa; Accounting and tax journal. 2017; 9 (2): 11-22.
15. Onuselogu EC, Onuora V. Impact of Electronic Tax Payment on Revenue Generation in Nigeria. International Journal of Innovative Finance and Economics Research. 2021; 9(2):42-51.
16. Income statistics in Africa. Brochure Revenue Statistic in Africa AEI online, 2020. Available from http://www.aei.org/publication/taxation-and-governance-in-africa; Retrieved 17 July 2021.
17. Revenue statistics in Africa, 2016. Retrieved from http://www.oecd.org/tax/revenue-statistics-in-africa-9789264253308-en-fr.htm.
18. Stoilová D. Tax structure and economic growth: Evidence from the European Union. Administration of Contaduriay. 2017; 62(3):1041-1057.
19. Uzoka PU, Chiedu C. Impact of tax revenue on economic growth in Nigeria; International Journal of Social Sciences and Management Research. 2018; 4(7):17-24.