

Sensitivity of Nigeria's Taxable Capacity to Government's Tax Efforts

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Abstract

The paper examines the sensitivity of Nigeria's taxable capacity towards the tax efforts undertaken between 1980-2010. Utilizing the Ordinary Least Squares (OLS) regression statistic, the paper sought to ascertain the level of response of those variable indicators which were representative of the nation's taxable capacity, to government's tax efforts. The weak estimates of most of the major tax sources attests to their poor response to the tax measures undertaken are the stated period insensitivity to government tax efforts culminated in excess taxable capacity which was exploited over the stated period. The study reveals, that most of the variable indicators were largely unresponsive to the tax efforts undertaken, resulting in excess taxable capacity that was unexploited. The tax measures undertaken thus failed to achieve optimum aggregate tax yield. Government needs to intensify its tax efforts in order to exploit the excess taxable capacity.

I. Introduction

AVAILABLE EMPIRICAL EVIDENCE relating to Nigeria's fiscal system points to the fact that the nation has been experiencing excess taxable capacity over the years, whereby actual tax revenue tends to fall short of potential tax revenue, due mainly to structural defects in the tax system and the poor tax efforts of government (Omorogiuwa, 1988; Ariyo, 1997; Anyaduba, 2006). Such excess taxable capacity is amply reflected in the relatively low tax returns and the high level of tax evasion, which is common place in Nigeria (Ola, 1999; Nzotta, 2007). Government's inability to fully exploit the excess taxable capacity has been one of the major hindrances or constraints to the steady growth of its tax revenue base, which has had to contend even at that with the rapid increase in public expenditure. This partly explains the emergence of huge recurring unsustainable fiscal deficits which have virtually become a regular feature of the nation's fiscal landscape

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