

TAX REVENUE AND NIGERIAN EXTERNAL PUBLIC DEBT

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Abstract: The study ascertained how tax income affected Nigeria's foreign state debt. The assessment of the effects of value-added tax, corporation income tax, customs and excise duty, and petroleum profit tax on Nigeria's external public debt was one of the main goals. Secondary data were gathered during a 23-year period (2000–2023) from annual reports and accounts provided by the Federal Inland Revenue Service and the Central Bank of Nigeria (CBN). In order to ascertain the properties of the model variables, the study employed descriptive statistics. At the 0.05 level of significance, the influence of the independent variables on Nigeria's external public debt was estimated using Ordinary Least Square (OLS) multiple regression. The results of the OLS regression analysis demonstrated that the external public debt was significantly and negatively impacted by the Petroleum Profit Tax (PPT), and Company Income Tax (CIT). The study did find, however, that value added tax had no appreciable effect on Nigeria's external public debt. Overall, these results suggest that tax collection has helped Nigeria's external public debt decline. Accordingly, the study came to the conclusion that tax revenue had an impact on Nigeria's foreign debt during the study period. Therefore, the report suggested that rather than using tax money on pointless, poorly thought out, and profit-free enterprises, the government should utilize it to immediately pay down the national debt.

Keywords: Petroleum profit tax, Personal income tax, and External debt

Introduction

National worldwide incur debt whilst the quantity of cash amassed from taxes and different sources is inadequate to pay for expenses associated with government. In line with Ezeabasili, Isu, and Mojekwu (2011), those international locations borrow due to the fact they're unable to provide the vital quantity of home savings to interact in profitable endeavors that strengthen sustainable improvement. For example, Nigeria, like other growing nations, has experienced monetary difficulties at domestic, which have been made worse by using the current drop in crude oil charges globally. Because of these boundaries, borrowing from outside resources is now a vital addition to home assets for you to close the revenue hole (Omolayo, John, Ekundayo, and Doorasamy, 2021). Because of the low degree of home financial savings, low tax revenue, and terrible forex income, using public debt to fulfill the problems of economic improvement in Nigeria has come to be necessary

and impossible to keep away from (Onakoya and Ogundade, 2017). But, there has been a global paradigm shift in the direction of using taxes as an alternative shape of sales advent which will address these problems.

Accordingly, Kundt, Misch, and Nerre (2017) noted that the primary method of accomplishing the sustainable development goals (SDGs) in developing nations is the mobilization of domestic resources, primarily through an equitable, transparent, and effective tax system. Adegbe and Faboyede (2014), who believed that taxes provide a counterbalance to aid dependence in developing nations and give the fiscal dependability and sustainability required to support growth and development, further support this reality. Macroeconomic data indicate that the Nigerian economy has remained in a deep sleep, in need of significant change as well as restoration and recovery from the crisis. Therefore, a well-designed tax system presents itself as one of the best ways to mobilize a country's internal resources and helps to foster the conditions necessary to support economic development and progress (Ogbonna and Ebimobowei, 2011).

It is far a fact that most growing international locations struggle to elevate the capital important to fund huge infrastructure projects that guide sustainable development. As a result, they frequently need to look for out of doors investment, which has traditionally furnished many growing nations with a digital financial platform to manipulate their economies (Aladejana, Okeowo, Oluwalana, and Alabi, 2021). As an end result, as growing nations must break out the circumstance of debt accumulation if you want to attain sustainable financial progress, the majority of those nations are currently in prefer of "favourable debt."

Similar to this, Kundt, Misch, and Nerre (2017) emphasized that one of the important approaches to perform the sustainable improvement dreams (SDGs) in developing countries is to mobilize home resources through an equitable, obvious, and efficient tax structure. Consequently, the reason of this look at is to analyze how Nigeria's overseas debt is tormented by the petroleum profit tax, employer profits tax, value delivered tax, and customs and excise responsibility. This will assist tell policy method so as to maximize performance and successfully sell sustainable monetary increase. Very few studies, like the ones through Nwaobia, Ogundipe, and Adejumo (2021), Kaka (2021), and Ntekperend Olayinka (2020), have been conducted in Nigeria presently. That is to say, there is a constrained research on Nigerian tax sales and governmental debt. therefore, there's a need for studies that can assist determine the effect that tax sales has had on Nigeria's stage of debt in recent years.

The main objective of the study is to ascertain the impact of Tax revenue on external public debt in Nigeria (2000-2023). The specific objectives include;

1. To determine the effect of petroleum profit tax on external public debt in Nigeria.
2. To ascertain the effect of company income tax on external public debt in Nigeria.

Review of Related Literature

Tax Revenue

The principle dreams of the Nigerian tax gadget are to guide and enhance the social and financial nicely-being of Nigerians. This may be performed immediately via the development of new and progressed tax guidelines, or not directly through the right and green use of tax sales for the development and welfare of the population. for

this reason, the tax system changed into imagined to lessen the kingdom's economic distortion as a way to accomplish these dreams through the earnings earned. in line with the 2008 Presidential Committee on countrywide Tax coverage, a few additional expectancies for Nigeria's tax machine.

Offiong (2016) states that the Petroleum Profit Tax Act of 1959 (No. 15) was the legislation that first imposed the tax on oil corporations that conducted upstream operations in Nigeria. This act has undergone numerous revisions since it was first introduced in order to maintain compliance with the Nigerian government's mandate to generate enough money for the government. It was changed for the first time in 1967, then again in 1970, 1973, and 1979. It has to do with the rents, royalties, margins, and components of profit-sharing from leases related to prospecting, exploration, and oil mining.

Similarly to oil and gas exploration, it is supplemented by means of lively contractual preparations between multinational oil companies and the Nigerian country wide Petroleum agency: the Joint running settlement and the manufacturing Sharing Contracts. The Federal government implemented tax incentives for gas exploitation, gasoline improvement, and gasoline usage activities as a way to decrease the growth of the oil and gasoline industry and so boom destiny sales streams (CITN, 2014). Gas usage activities are subject to taxation under the provisions of the Company Income Tax Act, whilst gas exploitation and development activities are governed by the Petroleum Profit Tax Act. Company Income Tax Festus and Samuel (2007) contended that there is no meaningful correlation between company income tax and economic growth in Nigeria. The reason for this is that tax revenue plays a relatively insignificant role in stimulating economic activities and growth, largely due to inadequate administration, negative public perception, and unwelcome imposition. Furthermore, tax revenue has no bearing on civic duties or government services.

Their research also showed that while more efficient and effective tax administration raises revenue yields, tax evasion and avoidance are still a problem because of legal loopholes. Conversely, people believe that if they give up their own resources to the government in the form of taxes, they will be rewarded by the government using the money it receives to improve their welfare, according to Adedeji and Oboh (2010). But the public money has been dubiously mismanaged by the administration and tax collectors.

The collectors are highly skilled at manipulating and diverting tax revenue. Since there is now little proof of taxes paid, taxpayers are not encouraged, which contributes to the declining tax collection as it stands. There are more instances of tax evasion as a result of these factors. According to Usman (2018), a lot of firms underreport their income and use tax loopholes to pay the minimal amount of taxes, hence CIT and other taxes in Nigeria are not at their ideal levels. The 1993 implementation of the Education Tax, which levies a 2% (percent) tax on corporations' assessable profit, essentially raised the rate of company income tax. However, the tax is calculated differently and independently. Investors have expressed disapproval of this tax, among other levies, as it has raised their burden and served as a deterrent to investment (Somorin, 2015).

External Public Debt

The truth that borrowing promotes boom has lengthy been understood. Real resources are transferred to emerging nations through overseas capital, which helps close a selection of disparities in savings, forex, and generation that hinder these nations' development. Because borrowing is so critical from this attitude, many

economists have recommended for multiplied aid to emerging countries so that it will hasten their fee of progress. less developing countries (LDCs), whose economies are now characterized by means of low or bad boom charges, ought to benefit from becoming more indebted through external borrowing, in keeping with the theories recommend via Higgins (1959), Pearson (1969), and Symonds (1970). This would permit those economies to attain good enough sustained increase. According to them, less growing international locations' (LDCs') external borrowing is essential and fills within the gaps of their very own resources in a manner that is beneficial. The share of a kingdom's debt that comes from bilateral and multilateral foreign assets, which includes foreign governments, economic groups, and businesses, is referred to as its outside debt. The government, businesses, or individual households may be the debtors (Amassoma, 2016). According to Purwanto and Mangeswuri (2011), foreign debt, or loans, constitutes a percentage of a nation's overall debt that is acquired from creditors outside the nation. This type of debt might take the shape of money borrowed and acquired from many foreign countries, private banks, foreign governments, or international financial organizations like the World Bank and the IMF. In a similar vein, Kiminyei (2018) asserts that government debt is accrued through borrowing on both local and foreign markets to fund domestic investments in social services, industrial and infrastructure development, and overall economic growth. In a similar vein, Ateyah (2017) said that debt originates from money borrowed, either domestically—from local banks or the nation (internally)—or internationally—from loans obtained from overseas markets.

Empirical Review

This study determined the Effects of Tax Revenue and External Debt on Economic Growth in Nigeria. The study relies mainly on secondary data gathered from various issues of statistical bulletin of the Central bank of Nigeria, the budget office of the federation (BOF) and Office of the Accountant General of the federation. The data consist of annual time series from 2006 to 2022. The study adopts External Debt from World Bank Group of Creditors (WBGC) as proxy for external debt and Value Added Tax (VAT) as proxy for taxation. The data collected were analyzed using Simple and Multiple regression analysis methods of Ordinary Least Square technique with the aid of SPSS. Test of statistical adequacy, such as the t-statistic, F-statistic, adjusted R-square, Durbin-Watson were executed to find the relative acceptability, significance of the variables and the dependability of model estimation factors. Analysis of variance (ANOVA) was used to test the hypothesis. The study revealed that Tax Revenue and External Debt have positive and significant effect on Gross Domestic Product (GDP) in Nigeria. The study concluded that there is significant effect of Value Added Tax on Gross Domestic Product (GDP) in Nigeria. Also there is significant effect of External Debt from World Bank Group of Creditors on Gross Domestic Product (GDP) in Nigeria. .Nwaobia, Ogundipe and Adejumo (2021) investigated the impact of tax collections on Nigeria's foreign debt. 235 The study's precise goals were to ascertain how Nigeria's external debt was impacted by both oil and non-oil tax collections. Ex post facto research design was used in the study, which made it possible. Secondary data for the 39-year period between

1981 and 2619 will be gathered from the Central Bank of Nigeria Statistical Bulletin. Both descriptive and inferential statistics were used in the data analysis. To determine the relationship between Nigeria's foreign debt, non-oil tax revenue, and oil tax revenue, ordinary least square regression analysis was used. The analysis's findings showed that Nigeria's foreign debt was impacted by both oil tax and non-oil tax earnings.

Kaka (2021) assessed the impact of government tax revenue on Nigeria's public debt. The study's precise goals were to ascertain how Nigeria's public debt was affected by tax and non-tax revenue. Secondary data was gathered between 2010 and 2019 from the Debt Management Office, the National Bureau of Statistics, and the Central Bank of Nigeria Statistical Bulletin. Descriptive statistics were used to evaluate the data and determine the properties of the model variables. Variance Inflation Factor (VIF), which is used to test for the presence of multicollinearity, was determined to be less than 10 and within an acceptable range. A multiple regression model with an ordinary least squares (OLS) approach was employed to calculate the statistical relationship between the independent and dependent variables. The analysis discovered that Nigeria's national debt is negatively impacted by both tax and non-tax revenue.

Atolagbe and Abiodun (2021) examined how macroeconomic factors affected Nigeria's tax receipts. Finding out how trade liberalization and six (6) macroeconomic variables affected Nigeria's tax income between 1981 and 2019 was the study's main goal. Trade liberalization served as a stand-in for (b) trade openness. The exchange rate, inflation rate, per capita income, foreign direct investment, GDP share of mining, GDP share of petroleum, and GDP share of agriculture were the control variables. The study aimed to ascertain the following specific effects: the relationship between domestic tax revenue and trade openness with other control variables; the effect of external tax revenue on trade openness alongside other macroeconomic variables; and the effect of total tax revenue on trade openness with other control variables. Data from secondary sources, including the Central Bank of Nigeria, was gathered for the years 1981–2019. The time series data were analyzed using the Error Correction Model (ECM) and Autoregressive Distributed Lag (ARDL). When the other model variables were held constant, a unit increase in both total tax revenue and domestic tax revenue was seen. The outcome further demonstrated that the macroeconomic control variables that were shown to be the predictors of both domestic and international tax revenues were the GDP share of mining and petroleum, the GDP share of agriculture, foreign direct investment, per capita income, exchange rate, and inflation rate.

Amah (2021) studied the relationship between taxation and Nigerian economy. The observer's unique goals have been to determine how Nigeria's financial increase changed into impacted by means of the value delivered tax (VAT), petroleum earnings tax (PPT), and business profits tax (CIT). GDP (gross home product) became used as a proxy for Nigeria's monetary increase. Advantage-acquired concept served because they have a look at its basis. Time series statistics for the years 1999–2017 have been obtained from the Federal Inland revenue service and the important bank of Nigeria, the usage of an ex-submit facto research design. The evolved hypotheses had been assessed at the 5% level of importance the use of a more than one regression approach primarily based on

regular least squares. The OLS test results confirmed that, in Nigeria, VAT had a terrible affiliation with GDP, but PPT and CIT had a fantastic and sizable link with GDP.

Odogu, Obalokumo, Odoko and Dadowei (2021) examined the effect of tax revenue on human development index in Nigeria. Specifically, the study sought to determine the effect of person income tax on human development index; the effect of petroleum profit tax on human development index and effect of company income tax human development index in Nigeria. The data needed for the analysis of the study was obtained from the official publication of Federal Inland Revenue Services and Central Bank of Nigeria for the period 2005 - 2017. Granger causality Test was employed to test the statistical relationship between the research variables. Findings revealed that the components of tax revenues employed in this study have positive and significant effect on human development index in Nigeria.

Efanga, Umoh and Etim (2020) investigated the empirical relationship between tax revenue and economic development in Nigeria using Autoregressive Distributed Lag (ARDL) approach. Specifically, the study sought to evaluate the impact of company income tax (CIT), Petroleum Profit tax (PPT) and impact of custom and excise duty on economic development in Nigeria. Fixed capital formation was used in the study as a stand-in for economic progress. The World Bank and Federal Inland Revenue Publications provided the time series data, which covered the years 1981 through 2019. For data analysis, Autoregressive Distributed Lag was employed. Diagnostic tests include the Breusch-Godfrey, auto-correlation, heteroskeaticity, normality, unit root, stability, and normality tests. Additionally, a serial correlation test was run to confirm and corroborate the validity of the empirical findings. The analysis's conclusion demonstrated that PPT and CIT significantly and favorably impacted Nigeria's fixed capital formation. On the other hand, customs and excise duties showed a notable and adverse effect on Nigeria's gross fixed capital formation.

Ntekpere and Olayinka (2020) examined the affect of tax revenue on public debt and capital expenditure in Nigeria. The study specifically sought to find the effect of value added tax income tax, petroleum profit Company Custom and excise duty on tax and public debt and capital expenditure in Nigeria. The data for the study was obtained from the Central Bank of Nigeria Statistical Bulletin for the period, 1999 to 2018. Analysis of data was performed using the following techniques namely: descriptive statistics, unit root test, co-integration test using Bounds Test and Vector Error correction model. The study concluded that the following factors had an impact on external debt: petroleum profit tax, company income tax, value added tax, and customs and excise duty. These factors all had positive and significant effects on external debt as well as negative effects on Nigeria's public external debt. In order to decrease national debt, it was suggested that fiscal authorities strengthen the efficiency of Nigeria's tax system by closing loopholes and ensuring compliance.

Kaka and Ado (2020) investigated the link between indirect tax, oil receipt and debt on foreign reserves in Nigeria. The study specifically sought to determine the effect of direct taxes, indirect taxes, oil revenue and total debt on Nigeria's foreign reserve from 1980 to 2019. Data for the study were collected from Federal Inland



Revenue Service, Central Bank of Nigeria Statistical Bulletin and Debt Management Office. The data was analyzed using descriptive statistics to determine the model variable's attributes, including its mean, standard deviation, minimum, and maximum. The variance inflation factor (VIF) was used to determine whether multicollinearity existed and revealed that the explanatory variables fell within a reasonable range. Utilizing multiple linear regression anchored on OLS, the statistical significance of the research variables was estimated. Regression analysis results showed that Nigeria's foreign reserves are significantly and negatively impacted by both direct and indirect taxes. Furthermore, it was discovered 237 that while total debt and oil revenue have a beneficial impact on Nigeria's foreign reserves, it is not statistically significant.

Andi (2019) investigated the effect of tax revenue, investment and foreign debt on poverty level in Indonesia. The specific objectives of the study were to examine the effect of tax revenue, investigate and foreign debt on poverty level for the period 2002-2019. The Ministry of Trade and Industry and the Central Agency on Statistics provided data for the study. Inferential statistics were obtained using descriptive statistics, and hypotheses were tested at the 5% significance level. Regression analysis results indicated that tax revenues and investigation levels had a significant and favorable impact on Indonesia's poverty rate. These findings suggest that poverty in Indonesia rises in direct proportion to levels of investment and tax income. The study also found that Indonesia's poverty rate was significantly and negatively impacted by foreign debt. This suggests that as Indonesia's foreign debt rises, so does her degree of poverty.

Methodology

Model Specification

The study adopted Multiple Regression Model (MRM).

MRM is stated as: $y = f(b_1x_1, b_2 x_2)$ i

Explicit representation of the baseline model in order to determine the correlation between tax and external public debt depends behaviourally on the explanatory variables (elements of tax revenue). Hence, such behavioural relationship is stated in the equation below:

$EXPD = \beta_0 + \beta_1PPT + \beta_2CIT + U_t$ ii

It can also be expressed as

$Log EXPD = \beta_0 + \beta_1Log PPT + \beta_2Log CIT + U_t$iii

Where:

EXPD = External Public

PPT = Petroleum profit Tax

CIT = Company Income Tax

β_0 = Constant

$\beta_1 \beta_2$ =Slopes of Coefficient of the explanatory variables

U_t =Error term

Log = Natural log

The data gathered from secondary sources was analyzed using a quantitative methodology in this study. Descriptive statistics were used to analyze the data and identify the properties of the research variables. Using E-views 9.0, linear multiple regression based on ordinary least square (OLS) was utilized to assess the proposed hypotheses at the 0.05 level of significance. The conventional probability values (P-values) connected to the regression outcome served as the foundation for the decision rule that directed the investigation. The following decision criteria served as the study's guidelines:

Decision rule: Accept the alternate hypothesis and reject the null hypothesis if the p-value is less than the chosen level of significance (5%). Otherwise reject alternate hypothesis.

Data Analysis

ime series data obtained on the variables of the study for the period of 23 years (2000-2023) were presented on table 1 for external public debt (EXPD); Petroleum Profit Tax (PPT); Company Income Tax (CIT).

Table 1: Descriptive Statistics

	LogEXPD	LogPPT	LogCIT	T
Mean	38.419566	15.363357	12.667428	
Median	31.689241	12.705322	10.011257	
Maximum	48.180523	32.461746	15.212466	
Minimum	23.214634	11.563688	8.842238	
Std dev.	20.804562	3.286914	3.249442	
Skewness	0.1332700	0.535324	0.566978	
Kurtosis	0.532544	1.357856	0.663748	
Jarque - Bera	23.443612	5.383277	3.436633	
Prob	0.003614	0.000001	0.000031	
Observations	23	23	23	

Source: Author's E-views Output, 2024.

The findings of the descriptive analysis for the Petroleum Profit Tax (PPT) and External Public Debt (EXPD) were displayed in Table 1. Value Added Tax (VAT), Custom and Excise Duty (CED), and Company Income Tax (CIT) for the years 1998–2021. The findings indicated that the average values of petroleum profit tax (PPT), company income tax (CIT), and external public debt (EXPD) were 15.363357, and 12.667428, respectively. PPT, and CIT had maximum values of 32.461746, and 15.212466, respectively, and minimum values of 11.563688, and 8.842238. During the study period, the highest and lowest values of EXPD were 48.180523 and 23.214634, respectively.

The rates at which the following taxes varied from their respective predicted values: petroleum profit tax (PPT), company income tax (CIT), external public debt (EXPD), 3.249442, and 2.1084557. Additionally, it was found

that the skewness coefficients of EXPD, PPT, and CIT, were all positively skewed, with respective values of 0.1332700, 0.535324, and 0.566978. It follows that these variables' distributions (EXPD, PPT, and CIT) had a long tail to the right but clustered to the left. The likelihood values are, in order, 0.000001, and 0.000031, PPT, and CIT were less than 0.05 level of significance; hence, showing that the null hypothesis of normal distribution was rejected

Test of Hypotheses

Table 2: OLS Regression Results

Dependent Variable: EXPD

Method: Least Squares

Sample: 1999 2022

Included observations: 23

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.998456	0.137652	29.04757	0.0000
LogPPT	-0.663883	0.132848	-4.99731	0.0023
LogCIT	-0.433628	0.183239	-2.36646	0.0066
R-Squared	0.685288	Durbin-Watson stat	1.88265	
F-statistic	25.2238			
Prob(F-statistic)	0.00000			

Source: Author's E-views Output, 2024.

Interpretation of Regression Result

The results in Table (2) demonstrated that the corresponding coefficient values for PPT, and CIT, were -0.663883, and -0.433628, respectively, and the P-values were 0.0023, and 0.0066, respectively. The researcher rejected the null hypothesis in light of these findings and came to the conclusion that PPT, and CIT had a negative and significant influence on Nigeria's foreign public debt, guided by the previously mentioned decision rules. These findings suggest that, during the study period, there was an inverse association between all of these variables and Nigeria's foreign debt.

R-Squared = 0.685288 suggests that changes in Petroleum Profit Tax (PPT), and Company Income Tax (CIT), account for approximately 69% of changes in EXPD, while factors that are not included as variables in the study's model but have the potential to affect EXPD in Nigeria account for 31%. The Durbin Waston statistical value of 1.88265 indicates that autocorrelation is not present because it is near to 2. Furthermore, the F statistic value (25.2238) is high, indicating that the variables together account for a considerable portion of Nigeria's foreign public debt. The results of the hypothesis test served as the foundation for discussions that were held in accordance with the study's particular goals.

Hypothesis One

Significant effect of Petroleum Profit Tax on External Public Debt in Nigeria

The outcome shown in table (2) made it abundantly evident that the P-value for hypothesis one (1) is (0.0023). The P-value is within the permitted significant level of 0.05% according to the previously mentioned decision rule. Thus, the researcher's conclusion is that Nigeria's foreign public debt was significantly and negatively impacted by the petroleum profit tax (PPT). Given that a higher PPT is anticipated to result in a lower external debt for Nigeria, this conclusion is consistent with the researcher's earlier expectations. Furthermore, the study's outcome is consistent with that of Nwaobia, Ogundipe, and Adejumo (2021), who investigated the impact of tax revenue on Nigeria's foreign debt. According to a previous study, Nigeria's foreign debt was significantly influenced by the money collected from oil taxes.

Hypothesis Two

Significant effect of Company Income Tax on External Public Debt in Nigeria

Hypothesis two regression analysis resulted in a p-value of -0.0066 and a coefficient of -0.433628 with regard to CIT. The researcher came to the conclusion that CIT had a large and adverse effect on the external public debt based on these findings. This outcome also matches the researcher's earlier hypothesis, since a rise in Nigeria's corporate income tax ought to generate a decline in the country's debt. The outcome of this investigation, however, differs from that of Ntekperere and Olayinka (2020), who looked at how tax collection from tax 241 affected Nigeria's national debt and capital spending. According to a previous study, Nigeria's foreign public debt was positively and significantly impacted by corporation income tax.

Conclusion and Recommendation

The current economic situation in Nigeria has necessitated the need for government to generate adequate revenue from taxation with the realization that over dependency on crude oil earnings can no longer sustain public expenditure due to the decline in price of oil in recent years. The study looked at how tax revenue affected Nigeria's foreign public debt over a 23-year period, from 2000 to 2023. The regression analysis's findings showed that PPT, and CIT, all had a negative and significant influence on the country's external public debt. These results suggest that tax income has played a substantial role in Nigeria's reduction of its foreign public debt. Based on the results obtained from the regression analysis, the study concluded that tax revenue has significantly influence external public debt in Nigeria.

Based on the output from the study, the following recommendations were made;

1. The government should make sure that the money collected from the petroleum profit tax is used for worthwhile projects like capital expenditures that support economic growth and pay down the nation's debt.
2. Rather than investing in unsuccessful endeavours, the government might directly pay off its external debt using tax proceeds from corporate income tax.

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