A DOCTRINAL AND INSTITUTIONAL REVIEW OF PERSONAL INCOME TAX LAWS IN NIGERIA (1960–2025)

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Abstract

This study investigates the enduring structural and institutional constraints affecting Nigeria's personal income tax system from 1960 to 2025, focusing on issues of equity, taxpayer compliance, and administrative efficiency. The objective is to assess the extent to which successive legislative reforms have addressed these challenges and enhanced revenue mobilisation. Adopting a qualitative doctrinal and historical research approach, the study traces the development of personal income tax legislation from the Income Tax Management Act 1961 through the Personal Income Tax Act 1993 to the Nigeria Tax Act 2025. The analysis is anchored on the Ability-to-Pay, Equity, Optimal Tax, Tax Compliance, and Institutional theoretical frameworks. The findings reveal that although successive reforms have improved legal clarity, progressivity, and the formal inclusiveness of the tax system, persistent weaknesses in institutional capacity, inconsistent enforcement, and low levels of taxpayer trust continue to undermine compliance and limit revenue performance. While the Nigeria Tax Act 2025 introduces significant innovations—particularly in expanding exemptions for low-income earners, accommodating digital and cross-border income, and promoting administrative modernisation—legislative reform alone has proven insufficient to deliver optimal outcomes without corresponding institutional strengthening. The study concludes by recommending sustained investment in tax administration, enforcement mechanisms, and trust-building measures to complement legal reforms. It contributes to the literature by offering a longitudinal doctrinal analysis of Nigeria's personal income tax regime and by providing policy-relevant insights for enhancing equity, compliance, and revenue sustainability in emerging economies.

Keywords*: Personal income tax, Nigeria, tax reform, compliance, equity, digitalisation, revenue generation.*

Background

Personal income tax constitutes one of the most significant direct tax instruments within Nigeria's fiscal and public finance framework, particularly as a major source of internally generated revenue for sub-national governments. Since Nigeria's independence in 1960, the legal framework governing personal income taxation has undergone extensive reforms aimed at improving equity, administrative efficiency, and revenue yield. Notwithstanding these reforms, the personal income tax system has remained persistently characterized by weak compliance, administrative inefficiencies, legal ambiguities, and limited responsiveness to socio-economic transformations. These enduring challenges raise fundamental questions about the adequacy and effectiveness of Nigeria's personal income tax laws over time.

In the immediate post-independence era, Nigeria inherited a colonial tax structure that was largely codified in the Direct Taxation Ordinance of 1940 and later consolidated under the Income Tax Management Act (ITMA) of 1961. Although ITMA represented an important attempt at harmonising personal income tax administration nationwide, it failed to adequately reflect the complexities of a rapidly diversifying post-colonial economy (Agbonika & Agbonika, 2015). The Act was primarily designed for a relatively narrow formal sector and did not sufficiently address regional disparities, informal economic activities, or evolving income structures, thereby limiting its effectiveness as a comprehensive tax instrument.

Subsequent legislative developments, culminating in the enactment of the Personal Income Tax Act (PITA) of 1993, sought to consolidate and modernise Nigeria's personal income tax regime. PITA unified earlier statutes and established a framework for taxing individuals, partnerships, estates, and trusts across the federation. However, despite multiple amendments since its enactment, PITA has been criticised for excessive complexity, weak enforcement provisions, and inconsistencies in interpretation and application across states (Chukwu et al., 2020). These shortcomings have contributed to persistent tax avoidance and evasion, particularly among self-employed persons and operators within the informal sector.

A major structural challenge confronting Nigeria's personal income tax system relates to the constitutional division of taxing powers between federal and state governments. While personal income tax is constitutionally assigned to states, federal involvement in lawmaking and administration has often generated overlaps, jurisdictional conflicts, and administrative inefficiencies. This fragmented governance structure has complicated compliance for taxpayers and weakened enforcement capacity for tax authorities, thereby undermining the revenue potential of personal income taxation (Odusola, 2006).

Furthermore, the equity objectives of personal income taxation have been undermined by the persistent misalignment between statutory reliefs, tax thresholds, and prevailing economic realities. For extended periods, personal reliefs and allowances under PITA failed to keep pace with inflation, rising living costs, and real wage stagnation. As a result, low- and middle-income earners often bore a disproportionate tax burden, eroding public confidence in the fairness of the tax system and weakening voluntary compliance (Ariyo, 2018).

Administrative weaknesses have further compounded these challenges.

Despite the dominance of the Pay-As-You-Earn (PAYE) system in the formal sector, overall compliance levels remain low due to inadequate taxpayer education, weak audit capacity, poor data integration, and limited use of technology. The inability of tax authorities to effectively capture non-PAYE income sources has significantly constrained the contribution of personal income tax to total government revenue (OECD, 2020).

The rapid expansion of Nigeria's informal economy and the emergence of non-traditional income streams—such as digital services, freelance work, and virtual assets—have further exposed the limitations of existing personal income tax laws. Historically, Nigeria's tax legislation has struggled to define, assess, and effectively tax such income sources, resulting in substantial revenue leakage. These developments underscore the need for a comprehensive historical and legal evaluation of the personal income tax framework to assess its adaptability to contemporary economic realities.

The enactment of the Nigeria Tax Act, 2025 represents a significant milestone in the evolution of personal income tax legislation. The Act repeals the Personal Income Tax Act and introduces wide-ranging reforms, including revised tax bands, expanded exemptions for low-income earners, new reliefs, clearer residency rules, and provisions for taxing digital and global income sources (EY, 2025; KPMG, 2025). While these reforms are ambitious, their capacity to resolve long-standing structural, equity, and compliance challenges remains largely untested and under-examined in academic literature.

Despite over six decades of legislative reforms, there is a noticeable paucity of comprehensive studies that systematically review the historical trajectory of personal income tax laws in Nigeria from independence to the present reform era. Existing studies often focus on isolated periods, specific amendments, or administrative outcomes, without offering an integrated longitudinal assessment of legal evolution, policy objectives, and implementation outcomes. This gap limits informed policy discourse and constrains evidence-based reform initiatives.

Against this backdrop, this study addresses the fundamental research problem of whether Nigeria's personal income tax laws, as they have evolved from 1960 to 2025, have effectively achieved their core objectives of equity, efficiency, administrative simplicity, and revenue adequacy. By undertaking a comprehensive legal and policy review, the study seeks to generate insights that are critical for strengthening the design and implementation of personal income tax laws in Nigeria.

2. Objective of the Study

The primary objective of this study is to critically review the evolution of personal income tax laws in Nigeria from 1960 to 2025. Specifically, the study aims to:

(i) examine the historical development of Nigeria's personal income tax legislation;

(ii) assess the effectiveness of major legislative frameworks, including ITMA 1961, PITA 1993 and its amendments, and the Nigeria Tax Act 2025;

(iii) evaluate the implications of these laws for tax equity, compliance, and revenue generation;

(iv) identify persistent legal and administrative gaps in the personal income tax system; and

(v) propose policy-relevant recommendations for strengthening Nigeria's personal income tax framework in line with contemporary economic realities and global best practices.

3. Conceptual Review and Framework

The conceptual framework for this study is anchored on the proposition that the effectiveness of personal income tax laws is a function of the interaction between legal design, administrative capacity, taxpayer behaviour, and the prevailing socio-economic environment. Personal income tax laws are conceptualised not merely as statutory instruments, but as policy mechanisms intended to promote revenue adequacy, equity, compliance, and economic efficiency. In Nigeria, persistent reforms in personal income taxation suggest an ongoing attempt to realign these objectives with changing economic realities, demographic dynamics, and global tax norms (OECD, 2020).

At the core of the framework is the personal income tax legal regime, operationalised through successive legislative instruments such as the Income Tax Management Act, the Personal Income Tax Act, and most recently the Nigeria Tax Act, 2025. These laws define taxable income, tax rates, reliefs, exemptions, residency rules, and enforcement powers. Conceptually, the clarity, coherence, and adaptability of these legal provisions directly influence the fairness and effectiveness of the tax system. Weakly drafted or outdated laws tend to increase compliance costs, encourage evasion and avoidance, and undermine public trust in the tax system (PwC, 2023).

A second key component of the framework is tax administration and institutional capacity. Even the most well-designed tax laws depend on effective administration for successful implementation. Tax administration encompasses assessment procedures, enforcement mechanisms, audit systems, dispute resolution processes, and the deployment of digital technologies. In Nigeria, administrative capacity varies significantly across states, contributing to uneven enforcement and compliance outcomes. Recent reforms emphasising digital filing systems, Taxpayer Identification Numbers (TINs), and data integration are intended to strengthen administrative efficiency and reduce information asymmetry (EY, 2025).

The framework further incorporates taxpayer compliance behaviour as a mediating variable between tax laws and revenue outcomes. Compliance is influenced by perceptions of equity, simplicity, transparency, and the credibility of enforcement. Studies indicate that when taxpayers perceive personal income tax laws as fair and well-administered, voluntary compliance improves, whereas complex laws and arbitrary enforcement foster evasion and resistance (Kirchler et al., 2020). In Nigeria's context, the dominance of the informal sector and self-employment income poses additional challenges to compliance, particularly under traditional assessment models.

Another critical dimension of the conceptual framework is equity and distributional outcomes. Personal income tax laws are expected to promote vertical and horizontal equity through progressive tax rates, appropriate exemptions, and reliefs for vulnerable income groups. However, inflation, wage disparities, and cost-of-living pressures can erode the redistributive effectiveness of tax laws if relief thresholds are not periodically adjusted. The Nigeria Tax Act, 2025 attempts to address this by expanding exemptions for low-income earners and restructuring tax bands, thereby reinforcing the equity objective of personal income taxation (EY, 2025).

The framework also recognises the role of economic structure and income composition, particularly the shift toward digital, gig, and cross-border income sources.

Modern personal income tax systems must adapt to non-traditional income streams that are not easily captured under conventional PAYE systems. The inclusion of digital asset-related income and globally sourced earnings in recent Nigerian tax reforms reflects an effort to broaden the tax base and align domestic tax laws with global developments in taxation (EY, 2025). This adaptation is critical for sustaining revenue growth in a rapidly evolving economy.

Conceptually, the interaction of these elements—legal framework, administrative capacity, taxpayer behaviour, equity considerations, and economic structure—determines personal income tax performance, measured in terms of revenue generation, compliance levels, and public confidence in the tax system. This study adopts this integrated framework to assess how Nigeria's personal income tax laws have evolved from 1960 to 2025 and whether recent reforms adequately address historical weaknesses. The framework ultimately guides the analysis toward identifying policy gaps and proposing reforms that enhance the effectiveness, fairness, and sustainability of personal income taxation in Nigeria.

4. Theoretical Review

The theoretical foundation of personal income taxation is rooted in public finance theories that explain why governments impose taxes on individual income and how such taxes should be structured to achieve equity, efficiency, and revenue sufficiency. In examining the evolution of personal income tax laws in Nigeria from 1960 to 2025, this study draws on established taxation theories that illuminate the principles underlying tax policy design, compliance behaviour, and distributive justice. These theories provide a conceptual lens for evaluating whether Nigeria's personal income tax laws have aligned with normative expectations and practical realities over time.

The Ability-to-Pay Theory constitutes the dominant theoretical basis for personal income taxation. The theory posits that individuals should contribute to government revenue according to their economic capacity, typically measured by income or wealth. Progressive personal income tax systems are justified under this theory, as higher-income earners are expected to bear a greater tax burden without sacrificing basic welfare (Musgrave & Musgrave, 2020). In Nigeria, the structure of personal income tax rates, reliefs, and exemptions—particularly under the Personal Income Tax Act and the Nigeria Tax Act, 2025—reflects an explicit reliance on the ability-to-pay principle, especially through graduated tax bands and income thresholds.

Closely related is the Equity Theory of Taxation, which emphasizes both vertical and horizontal equity. Vertical equity requires that taxpayers with higher incomes pay proportionately more taxes, while horizontal equity demands equal treatment of individuals with similar income levels. This theory is particularly relevant in assessing Nigeria's personal income tax laws, given long-standing concerns over inequitable tax burdens between formal-sector employees under PAYE and informal-sector operators who often remain outside the tax net. Contemporary tax reforms seek to address these inequities by broadening the tax base and restructuring relief mechanisms (EY, 2025).

The Benefit Theory of Taxation offers an alternative perspective, suggesting that taxes should be levied in proportion to the benefits individuals receive from public goods and services. Although less applicable to personal income tax in its pure form, the theory remains relevant in shaping taxpayer perceptions of fairness and compliance. In Nigeria, weak linkages between tax payments and visible public service delivery have historically undermined taxpayer morale and voluntary compliance. This disconnect highlights the limitations of benefit-based justification in environments where governance deficits persist (Bird & Zolt, 2020; EY, 2025).

Another important theoretical perspective is the Optimal Tax Theory, which seeks to balance revenue generation with minimal distortion to economic behaviour. According to this theory, personal income taxes should be designed to raise sufficient revenue while discouraging neither labour supply nor investment decisions. Nigeria's repeated adjustments to tax rates, reliefs, and exemptions reflect attempts to achieve this balance, although high marginal tax rates and compliance costs have sometimes incentivised avoidance and informality (Saez & Zucman, 2020). The 2025 reforms can be viewed as an effort to realign personal income tax with optimal taxation principles (EY, 2025).

The Tax Compliance Theory, particularly the "slippery slope" framework, provides insights into taxpayer behaviour in response to tax laws. This theory posits that compliance is shaped by a combination of enforcement power and trust in tax authorities. In the Nigerian context, personal income tax compliance has been influenced by weak enforcement capacity, administrative fragmentation, and limited taxpayer trust. Modern reforms emphasising digitalisation, transparency, and institutional strengthening aim to enhance both deterrence and trust, thereby improving compliance outcomes (Kirchler et al., 2020; KPMG, 2025).

The Fiscal Social Contract Theory further enriches the analysis by framing taxation as an implicit contract between the state and citizens. Under this theory, taxpayers are more willing to comply when they perceive that tax revenues are managed transparently and translated into public goods. Nigeria's historical challenges with accountability and service delivery have weakened this social contract, affecting personal income tax compliance across decades. Strengthening this contract is therefore essential for the long-term effectiveness of personal income tax laws (Prichard et al., 2020).

From an institutional perspective, the Institutional Theory of Taxation underscores the role of legal, administrative, and political institutions in shaping tax outcomes. Tax laws do not operate in isolation; their effectiveness depends on the strength of implementing institutions and the coherence of governance structures. Nigeria's federal system, which assigns personal income tax administration to states, has produced uneven enforcement and capacity disparities. Recent reforms aimed at harmonisation and digital integration reflect institutional efforts to reduce fragmentation and enhance policy coherence (OECD, 2021; KPMG, 2025).

Finally, the Modernisation Theory of Taxation explains the evolution of tax systems in response to economic development and structural transformation. As economies modernise, tax systems are expected to shift toward broader bases, improved administration, and increased reliance on direct taxes. Nigeria's gradual movement toward digital tax administration, inclusion of non-traditional income sources, and expanded taxpayer databases aligns with this theoretical trajectory. This theory provides a useful lens for assessing whether Nigeria's personal income tax laws have evolved in tandem with economic and technological change from 1960 to 2025 (IMF, 2022; KPMG, 2025).

Collectively, these theories provide a robust analytical framework for evaluating Nigeria's personal income tax laws over time. They guide this study in assessing the extent to which legislative reforms have achieved equity, efficiency, compliance, and adaptability. By situating Nigeria's personal income tax evolution within these theoretical constructs, the study contributes to deeper scholarly understanding and evidence-based tax policy discourse.

5. Methodology

This study adopts a qualitative doctrinal and historical research design to examine the evolution of personal income tax laws in Nigeria from 1960 to 2025. The choice of this methodology is informed by the legal and policy-oriented nature of the research, which seeks to analyse statutory provisions, reform trajectories, and theoretical underpinnings rather than to test numerical relationships. Doctrinal legal research is particularly appropriate for studies that interrogate the content, structure, and implications of legislation over time, while the historical approach enables a systematic tracing of legal developments within their socio-economic and institutional contexts.

The study relies exclusively on secondary sources of data, given its focus on legal texts and policy documents. Primary legal materials constitute the core data set and include statutes such as the Income Tax Management Act 1961, the Personal Income Tax Act 1993 (as amended), the Personal Income Tax Act 2004 (as amended), and the Nigeria Tax Act 2025, alongside relevant constitutional provisions, subsidiary legislation, and official guidelines issued by tax authorities. These materials provide authoritative evidence of legislative intent, scope, and structural changes in Nigeria's personal income tax regime across different reform epochs.

In addition to statutory instruments, the study draws on secondary documentary sources, including peer-reviewed journal articles, academic textbooks, policy reports from international organisations such as the OECD and IMF, technical briefs from professional services firms, and government publications. These sources are employed to contextualise legal provisions, interpret reform outcomes, and situate Nigeria's experience within broader theoretical and comparative tax policy debates. Only the most relevant sources are prioritised to ensure analytical relevance, currency, and alignment with contemporary scholarly discourse.

Data analysis is conducted using qualitative content analysis, which involves systematic examination, interpretation, and categorisation of legal texts and scholarly materials. The analysis focuses on identifying recurring themes such as equity, efficiency, compliance, administrative capacity, and adaptability to economic change. Legislative provisions are examined both longitudinally and comparatively to determine patterns of continuity, reform, and discontinuity in Nigeria's personal income tax laws. This approach enables the study to move beyond descriptive narration toward critical evaluation of legal effectiveness.

To enhance analytical rigour, the study adopts a theory-guided analytical framework, drawing on the Ability-to-Pay Theory, Equity Theory, Optimal Tax Theory, Tax Compliance Theory, and Institutional Theory. These theories provide normative and explanatory lenses for assessing whether successive personal income tax laws have achieved their intended objectives. Legal provisions and reforms are therefore evaluated not in isolation, but in relation to established principles of taxation and public finance. This theoretical anchoring strengthens the internal coherence and scholarly contribution of the study.

The historical dimension of the methodology involves a periodisation of Nigeria's personal income tax regime into key reform phases: the post-independence consolidation phase (1960–1979), the military and structural adjustment phase (1980–1992), the consolidation under PITA (1993–2010), the reform and digitalisation phase (2011–2024), and the comprehensive reform phase marked by the Nigeria Tax Act 2025. This chronological segmentation facilitates clearer analysis of reform motivations, policy shifts, and outcomes within distinct political and economic contexts.

Validity and reliability are addressed through source triangulation and consistency checks. Statutory interpretations are cross-validated with judicial commentary where available, as well as with academic and policy analyses to minimise interpretive bias. The exclusive use of authoritative legal texts and reputable academic and institutional publications enhances the credibility of findings. Furthermore, adherence to APA 7 referencing standards ensures transparency and replicability of the research process.

The study is delimited to personal income tax laws applicable to individuals, partnerships, estates, and trusts in Nigeria and does not extend to corporate income taxation or indirect taxes except where necessary for contextual clarification. While the study provides an in-depth legal and policy review, it does not employ econometric modelling or primary field data, which may be considered complementary approaches for future empirical research on tax performance outcomes.

Ethical considerations are minimal, as the study relies entirely on publicly available documents and secondary literature. Nevertheless, due academic integrity is maintained through accurate citation, faithful representation of legal texts, and objective scholarly analysis. The methodology adopted is thus considered robust and appropriate for achieving the study's objectives of critically reviewing the evolution, effectiveness, and policy implications of Nigeria's personal income tax laws from 1960 to 2025.

6. Results and Discussion

The findings from the doctrinal and historical analysis reveal that Nigeria's personal income tax laws have undergone significant structural transformation between 1960 and 2025, largely in response to changing political systems, economic pressures, and fiscal needs. From the Income Tax Management Act of 1961 to the Nigeria Tax Act of 2025, reforms have consistently aimed at improving revenue mobilisation, equity, and administrative efficiency. However, the analysis indicates that while legislative evolution has been substantial, implementation outcomes have often lagged behind policy intent, thereby limiting the effectiveness of personal income taxation as a fiscal instrument.

The study finds that early post-independence personal income tax laws were primarily designed to consolidate colonial tax structures rather than to address Nigeria's emerging socio-economic complexities. The Income Tax Management Act of 1961 succeeded in standardising tax administration nationwide but was largely narrow in scope, focusing on salaried employees and formal economic activities. This structural limitation persisted for decades, contributing to a weak tax base and reinforcing reliance on the Pay-As-You-Earn system, a finding consistent with modern analyses of tax system development in emerging economies (IMF, 2022).

A major finding of the study is the persistence of inequity in tax burden distribution, despite repeated reforms. The Personal Income Tax Act of 1993 introduced a more coherent legal framework and progressive tax rates, reflecting the Ability-to-Pay and Equity theories of taxation. However, the study reveals that inequity endured due to uneven enforcement between the formal and informal sectors. Salaried workers remained disproportionately taxed, while large segments of self-employed and informal earners operated outside the effective reach of tax authorities, corroborating earlier evidence on compliance asymmetry in developing economies (OECD, 2021).

The results further indicate that inflation and rising living costs systematically eroded the redistributive effectiveness of tax reliefs and allowances under successive amendments to PITA. Relief thresholds were often adjusted belatedly, causing real tax burdens on low- and middle-income earners to increase over time. This finding underscores a structural disconnect between tax legislation and macroeconomic realities, weakening vertical equity and public perceptions of fairness, as highlighted in recent public finance literature (Bird & Zolt, 2020).

In terms of administrative effectiveness, the study finds that weak institutional capacity has been a central constraint on the performance of personal income tax laws. Fragmented tax administration across Nigeria's federal structure produced wide disparities in enforcement, audit capacity, and compliance outcomes across states. Although reforms increasingly emphasised administrative coordination and digitisation, implementation remained uneven, lending empirical support to the Institutional Theory of taxation, which emphasises the centrality of governance structures in shaping tax outcomes (OECD, 2021).

The findings also reveal that tax compliance behaviour has been shaped more by administrative practices and trust deficits than by statutory provisions alone. Despite progressive reforms, voluntary compliance remained low, particularly among non-PAYE taxpayers. This aligns with the slippery slope framework, which suggests that compliance depends on a balance between enforcement power and trust in tax authorities (Kirchler et al., 2020). In Nigeria's case, limited transparency and weak service delivery undermined the fiscal social contract between the state and taxpayers.

A significant result of the study is the identification of structural limitations in capturing emerging income sources. Prior to recent reforms, Nigeria's personal income tax laws were ill-equipped to address income from digital platforms, freelance services, and virtual assets. This gap contributed to revenue leakage and base erosion; especially as economic activities increasingly shifted toward technology-driven models. Similar challenges have been documented in other developing economies undergoing rapid digital transformation (IMF, 2022).

The Nigeria Tax Act, 2025 emerges from the analysis as a watershed reform with the potential to recalibrate personal income taxation in Nigeria. The Act introduces revised tax bands, expanded exemptions for low-income earners, clearer residency rules, and explicit recognition of non-traditional income sources. These provisions demonstrate stronger alignment with

Optimal Tax Theory by seeking to balance revenue adequacy with fairness and economic efficiency (EY, 2025).

However, the study finds that while the 2025 reforms significantly improve legal clarity, their success will depend heavily on administrative capacity and enforcement. The expanded exemptions and reliefs may enhance equity, but they also reduce the immediate tax base, placing greater pressure on effective compliance among higher-income and globally mobile taxpayers. This finding reflects ongoing debates in tax policy regarding the trade-off between progressivity and revenue sufficiency (Saez & Zucman, 2020).

The analysis further reveals that digitalisation initiatives embedded in recent reforms—such as mandatory Taxpayer Identification Numbers and electronic filing—hold promise for improving compliance and reducing information asymmetry. Nonetheless, disparities in technological infrastructure and human capacity across states pose risks to uniform implementation. Without sustained institutional investment, these reforms may reproduce existing inequalities in tax administration outcomes (OECD, 2021).

From a theoretical standpoint, the findings confirm that Nigeria's personal income tax reforms have consistently drawn on the Ability-to-Pay and Equity theories, but with limited success in practice due to weak institutional support. The disconnect between normative tax principles and administrative realities reinforces the relevance of Institutional and Fiscal Social Contract theories in explaining Nigeria's tax performance over time (Prichard et al., 2020).

The study also finds that political economy factors have played a significant role in shaping reform outcomes. Resistance from powerful economic actors, electoral considerations, and administrative inertia have often diluted reform effectiveness. This explains why some reforms achieved symbolic legislative success without corresponding improvements in compliance or revenue generation, a pattern observed in comparative tax reform studies (Bird & Zolt, 2020).

Overall, the results suggest that Nigeria's personal income tax laws have evolved incrementally rather than transformationally. While legislative sophistication has increased, fundamental challenges relating to enforcement, compliance culture, and institutional trust persist. This finding challenges assumptions that frequent legal reforms alone are sufficient to improve tax performance, underscoring the need for holistic reform strategies.

The discussion further highlights the importance of aligning tax reforms with broader governance and service delivery improvements. The effectiveness of personal income tax laws is closely linked to citizens' perceptions of government accountability and value for money. Without visible improvements in public service delivery, enhanced compliance is unlikely to be sustained, consistent with Fiscal Social Contract theory (Prichard et al., 2020).

In sum, the study finds that Nigeria's personal income tax laws between 1960 and 2025 reflect a gradual progression toward equity, inclusiveness, and modernisation, culminating in the Nigeria Tax Act, 2025. However, the realisation of these objectives remains contingent on administrative strengthening, digital capacity building, and renewed efforts to rebuild taxpayer trust. These findings provide critical insights for policymakers seeking to enhance the effectiveness and sustainability of personal income taxation in Nigeria.

Contribution to Knowledge and Policy

This study makes a substantive contribution to knowledge by providing a comprehensive longitudinal doctrinal analysis of Nigeria's personal income tax laws spanning over six decades, from 1960 to 2025. Unlike much of the existing literature, which tends to focus on isolated reforms, administrative outcomes, or narrow timeframes, this study systematically integrates legal evolution, policy intent, theoretical foundations, and institutional realities within a single analytical framework. By tracing the progression from the Income Tax Management Act of 1961 through the Personal Income Tax Act of 1993 to the Nigeria Tax Act of 2025, the study deepens scholarly understanding of how personal income tax laws in Nigeria have evolved incrementally rather than transformationally.

In doing so, it demonstrates that repeated legislative reforms have largely succeeded in improving legal clarity, progressivity, and formal inclusiveness, yet have fallen short of achieving sustained improvements in compliance and revenue mobilisation due to persistent institutional and governance constraints. This longitudinal perspective fills a critical gap in tax policy literature by showing how historical path dependencies, federal governance structures, and administrative capacity limitations continue to shape contemporary tax outcomes in emerging economies.

In addition, the study advances theoretical and policy-relevant insights by empirically grounding established taxation theories—particularly the Ability-to-Pay, Equity, Optimal Tax, Tax Compliance, Institutional, and Fiscal Social Contract theories—within the Nigerian context. By explicitly linking legal provisions to taxpayer behaviour, administrative capacity, and trust in public institutions, the study moves beyond purely normative analysis to offer a more holistic explanation of personal income tax performance. The examination of the Nigeria Tax Act, 2025 further contributes original knowledge by providing one of the earliest doctrinal assessments of its implications for equity, digital income taxation, and compliance in Nigeria.

The study underscores that legislative modernisation, including the recognition of digital and cross-border income, is a necessary but insufficient condition for effective taxation without complementary investments in administration and governance. These insights not only enrich academic discourse on tax reform in developing economies but also provide a transferable analytical framework for policymakers and researchers examining the interaction between tax law design, institutional capacity, and compliance outcomes in comparable jurisdictions.

Conclusion

This study set out to critically review the evolution of personal income tax laws in Nigeria from 1960 to 2025, with particular emphasis on equity, efficiency, compliance, and administrative effectiveness. Drawing on doctrinal legal analysis, historical review, and established taxation theories, the study concludes that Nigeria's personal income tax regime has experienced substantial legislative transformation but only modest improvements in practical outcomes. Successive reforms—ranging from the Income Tax Management Act of 1961 through the Personal Income Tax Act of 1993 to the Nigeria Tax Act of 2025—reflect sustained policy efforts to modernise personal income taxation and align it with global best practices.

The findings demonstrate that while the legal framework has progressively incorporated principles of ability-to-pay, progressivity, and inclusiveness, persistent structural and institutional constraints have limited the realisation of these objectives. In particular, disparities in tax administration capacity across states, the dominance of the informal sector, weak enforcement mechanisms, and limited taxpayer trust have undermined compliance and revenue mobilisation. Consequently, personal income tax has remained under-utilised as a stable and equitable source of public revenue despite its theoretical significance.

The enactment of the Nigeria Tax Act, 2025 represents a notable attempt to address historical deficiencies through clearer legal provisions, expanded exemptions for low-income earners, recognition of emerging income sources, and enhanced digitalisation. However, the study concludes that legislative reform alone is insufficient to transform personal income tax performance. The effectiveness of the current regime will depend largely on institutional strengthening, administrative coordination, and the rebuilding of the fiscal social contract between the state and taxpayers. Overall, the study contributes to tax policy discourse by demonstrating that sustainable improvement in personal income taxation requires a holistic approach that integrates law, administration, and governance.

9. Recommendations

The study's recommendations may be organised under three interrelated reform domains: legal, administrative, and governance reforms. From a legal reform perspective, the study underscores the importance of ensuring that the personal income tax framework remains responsive to economic realities and emerging income patterns. Periodic adjustment of tax thresholds, reliefs, and exemptions should be institutionalised to reflect inflationary pressures and changing costs of living. Such recalibration is essential to preserving the redistributive role of personal income tax and safeguarding low- and middle-income earners from unintended tax burdens, thereby strengthening vertical equity. In addition, policymakers should ensure that evolving income sources—including digital, gig, and cross-border earnings—are comprehensively captured through clear statutory guidance and regulatory instruments. Aligning Nigeria's personal income tax rules with international standards on digital taxation and enhancing cross-border cooperation will help curb base erosion and reduce revenue leakages in an increasingly globalised economy.

With respect to administrative reforms, the study highlights the need for sustained institutional capacity building, particularly at the state level where personal income tax administration is largely decentralised. Continuous professional training of tax officials, enhanced audit and compliance monitoring capabilities, and the harmonisation of administrative practices across states are critical to achieving consistent enforcement and reducing disparities in compliance outcomes. Furthermore, tax administration digitalisation should be deepened beyond formal legislative provisions. While reforms have introduced electronic filing systems and taxpayer identification mechanisms, their effectiveness depends on reliable digital infrastructure, integrated data systems, and robust cybersecurity safeguards. Strategic investment in interoperable tax databases, coupled with collaboration between tax authorities, financial institutions, and digital platforms, would significantly improve income traceability and limit opportunities for evasion. Administrative reforms should also prioritise tax base expansion through the structured integration of informal sector operators, using simplified assessment procedures and presumptive taxation models that enhance compliance without imposing disproportionate administrative burdens on small and micro enterprises.

In terms of governance reforms, the study emphasises the central role of trust, transparency, and accountability in fostering voluntary compliance. Governments should strengthen mechanisms for transparent reporting and communication on how personal income tax revenues are utilised in public service delivery. Clear and consistent communication can reinforce the fiscal social contract between the state and taxpayers, thereby improving compliance culture and long-term revenue sustainability. In addition, evidence-based policymaking should be embedded within the governance framework. Future research should complement doctrinal and legal analyses with empirical and behavioural studies to assess the real-world impacts of the Nigeria Tax Act, 2025 on compliance behaviour, equity outcomes, and revenue performance. Such insights will be essential for refining policy interventions and ensuring the long-term effectiveness and legitimacy of Nigeria's personal income tax system.

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EFFECTS OF EXTERNAL DEBT, OIL EXPORT AND FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH IN NIGERIA

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Abstract

The sustainability of Nigeria's economic growth has come under scrutiny due to its significant reliance on oil exports and mounting external debt. Foreign direct investment (FDI) has been viewed as a possible engine for economic growth and diversification. Thus, the impacts of external debt, oil export and FDI on economic growth in Nigeria are examined in this study. Time series data was utilized spanning 43 years between 1981 and 2023 to analyze the dynamic relationships between external debt, oil exports, FDI, and economic growth. The empirical process includes preliminary analysis (descriptive analysis; pre-test: unit root test [using ADF test]; cointegration test [ARDL bounds test]); model estimation (ARDL model) and post-estimation test. Following the empirical analysis, it was found that economic growth was positively and significantly impacted by external debt and FDI in Nigeria. Similarly, it is discovered that oil export has a beneficial impact on economic growth, indicating its potential as a catalyst for economic expansion and diversification. The findings have significant ramifications for decision-makers who want to support Nigeria's sustainable economic development and prosperity. Based on the foregoing outcomes, the study recommends that the government should give careful external debt management first priority which would entail a thorough evaluation of the project, open reporting of debt, and a dedication to keeping debt-to-GDP ratios within reasonable bounds. The government should also look into value-added potential in the oil industry, and efforts should be made to draw in more FDI.

Keywords: *Economic growth, External debt, Foreign direct investment (FDI), Gross domestic product, Oil export.*

Introduction

Economic growth, often measured by changes in Gross Domestic Product (GDP), is a critical measure of the financial outcomes of a nation. In Nigeria, dynamics as attributed to external debt, oil exports, and foreign direct investment (FDI) have remained central via its economic discourse. External debt has historically served as a tool for financing developmental projects; however, its mismanagement often leads to debt overhang, thereby stifling economic growth

(Siddique, Malik, & Hussain, 2019). Simultaneously, oil exports, which contribute a remarkable portion of Nigeria's revenue, expose the economy to volatility due to fluctuating global oil prices (Odularu, 2020). Furthermore, FDI, a potential driver of economic development through inflows of capital and technology transfer, remains inconsistent in achieving expected growth outcomes (Adegbite & Olayemi, 2021).

External debt, when strategically managed, can catalyze economic development by bridging the gap between domestic savings and investment needs. However, Nigeria's experience shows that excessive borrowing without productive utilization often leads to a vicious cycle of debt servicing, reducing the resources available for critical infrastructure projects (Ezeaku, Obasi, & Okonkwo, 2021). Nigeria's GDP performance shows that its highest growth between 1985 and 2019 occurred in 2004, reaching 33.74%, while the lowest point was recorded in 1987 with a contraction of –10.75%. Over the past ten years, the growth of the economy has weakened, falling to –1.62% in the year 2016 and later slipping into two consequent periods of unimpressive and negative growth cycles, indicating a recession (World Bank, 2019; Idehi & Uzonwanne, 2021).

The country's reliance on external debt, oil exports, and fluctuating FDI inflows highlights a conceptual gap in understanding how these factors collectively influence economic growth. Despite significant external borrowing, with the debt stock growing up to $41.69 billion in 2022, concerns persist about the sustainability and longevity of the debt and its impact on resource allocation for productive investments (World Bank, 2023). The foreign debt burden pushes the available finance from international investment toward servicing or alleviating outstanding payment obligations with huge-interest rates. This, in turn, reduces the funds available within the economy, leading to decreased productivity and resulting in sluggish or stagnant economic growth. Such conditions pose a challenge, as they constrain and undermine the positive impact that FDI could have on the economy (Akinola & Ohonba, 2024).

Simultaneously, the overdependence on crude exportation leaves Nigeria's economy particularly open to world price changes, which complicates fiscal planning and reduces economic stability (Ezeaku *et al.,* 2021). Over dependence on oil revenues in funding the nation's budget can result in economic stagnation or persistent shortfalls (chronic budget deficits) for budget financing. Any significant shock in the international oil trade, leading to movement in oil prices, would directly and adversely impact Nigeria's economy, as a decline in oil revenue would follow (Efanga, Ugwuanyi, & Ogochukwu, 2020). Existing studies such as Adegbite and Olayemi (2021) individually examine external debt, oil exports, and FDI, creating a gap in understanding their combined impact on Nigeria's GDP. FDI, for instance, drives capital but its oil and gas concentration limits broader economic transformation. Inadequate policies and weak institutions further hinder leveraging these tools for robust growth. Addressing this gap is crucial for better policy formulation. Understanding the interplay of these factors is vital for sustainable growth. Enhanced debt management, revenue diversification, and improved investment climate can mitigate adverse effects. Based on the foregoing, the study wants to evaluate the combined influence of external debt, oil exports and FDI on economic growth. The following hypotheses were tested:

H_{01}: External debts have no significant effect on GDP in Nigeria.

H_{02}: Oil exports have no significant effect on GDP in Nigeria.

H_{03}: FDI does not have a huge impact on GDP in Nigeria.

Literature Review

Conceptual Review

External Debt

External debt is described as the part and portion that is related to a nation's debt obtained from the provision by external entities, e.g., international corporations, governments, or financial institutions. Countries typically seek external borrowing to cover budget deficits, develop infrastructure, recover from natural disasters, or refinance existing debt obligations (Idehi & Uzonwanne, 2021). According to Ogbonna *et al.* (2021), Foreign debts are loans from oversea entities, i.e., global businesses, governments, and institutions. These debts, along with their interest, must be repaid in the same currency they were borrowed. To provide an accurate financial picture, outstanding debt to foreign creditors must be measured (Ogbonna, *et al.,* 2021). Nigeria's foreign debt started during the pre-independence era when the country secured its first sum of $28 million in loan capital from the World Bank to finance railway construction (Idehi & Uzonwanne, 2021). Idehi and Uzonwanne (2021) report that Nigeria's external debt stood at about $150 million by 1960. Besides pursuing developmental plans, the pressure of sustenance of government officials' indulgent lifestyle once again pushed the foreign debt of the country to $1 billion by 1971 (Ogbonna, *et al.,* 2021).

Oil Export

Oil export involves the sale and transportation of crude and refined petroleum products from one province to another, playing a pivotal role in the global energy trade and significantly influencing the economies of oil-producing nations. Countries with substantial oil reserves, such as Nigeria, Saudi Arabia, and Russia, often rely on oil exports as primary revenue sources, funding government expenditures, infrastructure projects, and social programs (Ezeaku, Obasi, & Okonkwo, 2021). The dynamics of oil export are governed by international market supply and demand, with factors like geopolitical stability, production levels, technological advancements, and environmental regulations playing critical roles. Organizations such as the Organization of the Petroleum Exporting Countries (OPEC) are organized to coordinate and harmonize hydrocarbon regulation in constituent nations to stabilize oil markets, ensuring efficient and uniform fuel reserves to consumers, stable income to producers, and equitable returns on petroleum investment (Odularu, 2020).

Foreign Direct Investment

Investments among less industrialized nations are heterogeneous in nature, whether domestic or foreign. A key external investment avenue is Foreign Direct Investment (FDI), which involves direct capital inflows from multinational companies (MNCs) headquartered in developed countries (Oyegoke & Aras, 2021). FDI serves an essential function in boosting industrial growth by providing access to capital, technology, managerial expertise, and global markets. Capital inflows from abroad, also known as Foreign Direct Investment (FDI), refer to funding provided by private persons, businesses, or governments across national borders, where the investor gains direct ownership and control over business operations (El-Rasheed & Bello, 2022). They further posited that this direct control distinguishes FDI from FPI, entailing the possession of assets such as equities and debt securities, with no direct role in management decisions. Unlike portfolio investments, describing passive ownership of financial assets, FDI involves effectual management and ownership in business activities, often in the form of new business establishments, mergers, or acquisitions. Developing countries, including Nigeria, often seek to attract FDI to stimulate industrialization, create employment opportunities, and enhance productivity

Economic Growth

According to Ebimobowei (2022), Economic growth reflects the growth in the value of commodities generated within a country's border over a specified duration. It can be employed in assessing the overall economic size and development of a nation. Economic growth is typically regarded as a macroeconomic variable, representing the increase in the aggregate measure of products created domestically within a given timeframe, commonly one year (Rabiu & Adaramola, 2021). The GDP growth rate provides a pointer that can be noted about a nation's economic growth. While it is often measured annually, it may likewise be assessed in three-month intervals as well. GDP encompasses the entire domestic & international trade balances, administrative expenditures, investments, private inventories, and construction spending, with exports included and imports deducted (El-Rasheed & Bello, 2022).

Theoretical Framework

The study is anchored on two theories namely, the debt overhang theory and resource curse theory. The debt overhang theory posits that as soon as the debt of a nation outweighs its repayment ability, the burden of servicing the debt can impede economic growth and stifle capital funds invested (Gordon & Cosimo, 2018). As described by Bongumusa, Irrshad, and Lorraine (2022), Sachs (2002), and Krugman (1988), Debt overhang arises when the loan obligations of a state are so substantial that a significant portion of its current GDP are directed towards credit assurance, discouraging investment income will be allocated to repaying creditors (Krugman, 1988; Ogbebor and Aigheyisi, 2019). According to Ogbebor and Aigheyisi (2019), when debt overhang occurs, the government may raise taxes on the private sector to generate funds for debt repayment. However, this approach discourages private investment and limits government spending on infrastructure, as resources are redirected toward servicing debt instead of productive activities. Consequently, both private and public investments decline, leading to reduced economic output and overall economic downturn (Ogbebor & Aigheyisi, 2019).

Coined by Richard Auty in 1993, the resource curse theory, sometimes called the paradox of plenty, highlights how resource-abundant countries frequently fail to maximize their natural endowments for economic development. It highlights how governments in such nations often fail to effectively address public welfare needs despite abundant resources (Akinleye, Olowookere, & Fajuyagbe, 2021). Although it is logical to expect improved development outcomes following the discovery of natural resources, countries endowed with abundant resources frequently face increased conflict and authoritarian rule, coupled with lower stable economic conditions and less growth-oriented than their resource-poor counterparts (Ebimobowei, 2022).

Empirical Review

Fadare, Oladipo, and Agama (2025) examined the analysis of the relationship between fluctuations in international crude oil prices and the trajectory of Nigeria's economic growth over the significant 27-year period spanning from 1996 to 2022. Their findings revealed that oil price uncertainty and rapid change negatively impacts economic growth, posing threats to the Nigerian economy. Adebanjo, Banchani, and Sanusi (2023) used a robust regression model and simulation to show that a $1 billion increase in FDI leads to approximately $3 billion in Nigerian GDP growth, confirming FDI's positive impact. Ajayi, Anifowose, and Ekwere (2023) explored the effect of FDI on external economic factors like export expansion, openness to trade, growth in external debt, foreign portfolio inflows, exchange rate movements, and inflation. Their regression analysis revealed that while exchange rates significantly influenced Nigeria’s economy, other factors including FDI did not show a statistically significant impact. Uwaleke, and Ibrahim (2022) examined the interrelation of external debt servicing and development in Nigeria between 1981 and 2020, using the Auto-Regressive Distributed Lags (ARDL) model. Their findings revealed a negative but statistically insignificant nexus between external debt servicing and economic growth.

Manasseh *et al.* (2022) extended the analysis to Sub-Saharan Africa (SSA), investigating the interactional effects of governance, foreign debt, and debt volatility on development across 30 SSA countries from 1997-2020. It was discovered that external debt and its volatility detrimentally and significantly impacted economic growth, confirming the hypothesis that excessive borrowing results in financial instability. Babuga and Naseem (2022) investigated the enduring relationship between fluctuations in oil prices and economic expansion in Sub-Saharan Africa (SSA), including Nigeria. Using the Dynamic Heterogeneous Panel Pooled Mean Group (PMG) estimation method, their study found that there exists a threshold level beyond which rise in petroleum prices ceases to contribute positively to economic growth. When oil prices rise above this threshold, they can negatively impact economic performance. This finding supports the argument that over-reliance on oil revenue exposes economies to volatility and uncertainty. Osintseva (2022) explored the reliance of economic growth in oil-producing states on key oil-related variables such as levels of output, price changes, and shifts in oil export structures. Using regression analysis, the study found that significant impacts on economic growth were attributed to the fluctuations in oil prices, However, effects vary depending on the economies size and structure.

Adekunle, Adeniyi, and Orekoya (2021) explored the non-linear dynamics of the external debt-economic growth nexus between 1981 and 2015. Using a threshold regression approach, their study established that external debt promotes economic growth only to a specific limit, after which additional borrowing becomes counterproductive, acting as a tax on future investments. The study further demonstrated that excessive external debt servicing exerts a crowding-out effect on domestic investment. Ogbonna *et al.* (2021) analyzed how external debt management affects the economic growth situation in Nigeria through the analysis of yearly time-series data from 1986 to 2018. Their study utilized multiple regression analysis, incorporating variables such as real gross domestic product (RGDP), foreign loan, external debt servicing, balance of payments, and exchange rates.

The study discovered that debt servicing and external debt significantly influenced economic growth, while the exchange rate did not exhibit a statistically significant effect. Ugwuanyi *et al.* (2021) found that debt management that is external positively and significantly contributed to growth in Nigeria. Their research indicated that the external borrowing by the Nigerian authorities should be directed towards projects with economic payoffs rather than expenditure on consumption. Akinleye, Olowookere, and Fajuyagbe (2021) focused on evaluating the role of oil revenue in shaping Nigeria's economic growth over the years 1981–2018. The findings revealed that oil revenue and previous levels of economic growth had a positive impact on real GDP, whereas petroleum profit tax, inflation, and exchange rate exerted a detrimental effect and impact on growth both in the short and long term.

Methodology

The research employs an ex-post facto design, appropriate for analyzing historical data and identifying relationships among economic variables. The sample population comprises all economic indicators related to Nigeria's foreign debt, oil exports, FDI, and GDP. The data were collected from reputable sources which include the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), and World Bank's World Development Indicators (WDI). A purposive sampling technique is applied, focusing on a series of periodic data points ranging between 1981 and 2023. The time horizon was selected to reflect the impact of significant aggregate-economic events, including the 2016 recession, fluctuations in global oil prices, shifts in foreign investment inflows, and Nigeria's increasing external debt burden.

A combination of econometric techniques is used to examine the interactions of external debt, oil exports, FDI, and Nigeria's growth together. This investigation used a time series data approach in accordance with its empirical data structure. The analysis includes preliminary analysis, model estimation (autoregressive distributed lag (ARDL), modelling (technique) and post-diagnostic testing (Breusch-Pagan LM test).

Measurement of Variables

The study assessed how external debt, oil exports, and foreign direct investment (FDI) influence Nigeria's economic growth, with GDP used as the dependent variable. Exchange rate and labour were employed as control variables to capture the possibility of specification bias.

Table 1: Measurement of Variables

Dependent Variable	Proxy/Measurement	Definition	Source
Economic Growth	Growth of real Gross Domestic Product (GDP)	Real GDP is the aggregate value of goods and services produced in Nigeria, adjusted for inflation.	CBN, NBS, World Bank
Independent Variables	**Proxy/Measurement**	**Definition**	**Source**
External debt	Total External Debt Stock (USD)	The total amount of outstanding debt whether	CBN Statistical Bulletin

		privately or publicly owed to foreign creditors.	
Oil Exports	Oil Revenue (USD)	The total earnings of crude oil and petroleum products exports.	CBN Statistical Bulletin
Foreign Direct Investments	Net FDI Inflows (USD)	The net inflow of investment capital from foreign investors into Nigeria.	WDI
Exchange rate	Naira/Dollar exchange rate	Unit of Naira required to exchange for one US Dollar.	CBN Statistical Bulletin
Labour	Active population	Number of people actively involved in economic activities.	WDI

Authors Compilation (2025)

Model Specification

This study adapts the Solow growth model as an underpinning model. The Solow growth model is one of the neoclassical growth models that demonstrates how productive inputs (such as labour, capital, and technological progress) determine output over time (*t*). Thus, the essential variables in the Solow growth model are output – *Y*(*t*); capital – *K*(*t*); labour - *L*(*t*) and technical-know-how or knowledge - *A*(*t*). All the variables are function of time (*t*). Thus, the Solow's production function is formulated as:

$$Y(t) = f\big(K(t), L(t), A(t)\big) \quad (1)$$

Based on the foregoing, the Solow growth model can be utilized to analyse the effect of external debt (*EXD*), oil export (*OXP*) and foreign direct investment (*FDI*) on production development. Taking external debt and FDI as capital in addition to oil export, and using total active population for labour force (*LB*) as labour, the modified Solow's output equation for the study is presented as follows:

$$Y(t) = f(EXD(t), OXP(t), FDI(t), LB(t)) \quad (2)$$

Consolidating all the competing variables with real GDP (an indicator of output performance) as the dependent variable while external debt, oil exports, and foreign direct investment (FDI) are the core independent variables. Besides, to account for any possible specification bias, exchange rate and labour force (using active population for labour) are taken as the control variables. Thus, using equation (3.2) as the baseline function, the functional form of the mode is specified as follows:

$$GDP_t = f(EXD_t, OXP_t, FDI_t, EXCHR_t, LB_t)$$

Where:

GDP_t represents Nigeria's Gross Domestic Product at time *t*

EXD_t represents external debt at time *t*

OXD_t represents Oil Exports at time *t*

FDI_t represents Foreign Direct Investment at time *t*

$EXCHR_t$ represents Naira/Dollar exchange rate at time *t*

LB_t represents labour force at time *t*

t = 1981 … 2023 (annual time series)

Following the pre-estimation test, the ARDL ($p, q_1, q_2, q_3, q_4, q_5$) Error Correction Model (ECM) specification is given as:

$$\Delta GDP_t = \theta + \sum_{i=1}^{p} \alpha_i \Delta GDP_{t-i} + \sum_{i=1}^{q_1} \beta_{1i} \Delta EXD_{t-i} + \sum_{i=1}^{q_2} \beta_{2i} \Delta OXP_{t-i} + \sum_{i=1}^{q_3} \beta_{3i} \Delta FDI_{t-i} + \sum_{i=1}^{q_4} \beta_{4i} \Delta EXCHR_{t-i} + \sum_{i=1}^{q_5} \beta_{5i} \Delta LF_{t-i} + \emptyset ECM_{t-i} + \epsilon_t \quad (4)$$

As shown in equations (3.4), the ARDL short-run coefficients are represented by α_i, β_{1i}, β_{2i}, β_{3i}, β_{4i}, β_{5i}, at various lags ($i = 1, 2, 3, \ldots q$).

To captures the long-run form, equation (3.4) can be modified as follows:

$$\Delta GDP_t = \theta + \sum_{i=1}^{p} \alpha_i \Delta GDP_{t-i} + \sum_{i=1}^{q_1} \beta_{1i} \Delta EXD_{t-i} + \sum_{i=1}^{q_2} \beta_{2i} \Delta OXP_{t-i} + \sum_{i=1}^{q_3} \beta_{3i} \Delta FDI_{t-i} + \sum_{i=1}^{q_4} \beta_{4i} \Delta EXCHR_{t-i} + \sum_{i=1}^{q_5} \beta_{5i} \Delta LB_{t-i} + \psi GDP_{t-1} + \vartheta_1 EXD_{t-1} + \vartheta_2 OXP_{t-1} + \vartheta_3 FDI_{t-1} + \vartheta_4 EXCHR_{t-1} + \vartheta_5 LB_{t-1} + \epsilon_t \quad (5)$$

As shown in equations (3.5), the ARDL long-run coefficients are given as ϑ_1, ϑ_2, ϑ_3, ϑ_4, ϑ_5. More specifically, the long-run specification is expressed as follows:

$$GDP_t = \phi_0 + \phi_1 EXD_t + \phi_2 OXP_t + \phi_3 FDI_t + \phi_4 EXCHR_t + \phi_5 LB_t + \mu_t \quad (6)$$

In double-log specification, equation (3.6) is specified as follows:

$$log(GDP_t) = \phi_0 + \phi_1 log(EXD_t) + \phi_2 log(OXP_t) + \phi_3 log(FDI_t) + \phi_4 log(EXCHR_t) + \phi_5 log(LB_t) + \mu_t \quad (7)$$

Based on the specification of equation (7), the estimates obtained are elasticity.

ϕ_0 = intercept coefficient

ϕ_1 = Partial slope elasticity coefficient of *GDP* with respect to *EXD*

ϕ_2 = Partial slope elasticity coefficient of *GDP* with respect to *OXP*

ϕ_3 = Partial slope elasticity coefficient of *GDP* with respect to *FDI*

ϕ_4 = Partial slope elasticity coefficient of *GDP* with respect to *EXCHR*

ϕ_5 = Partial slope elasticity coefficient of *GDP* with respect to *LB*

ε_t = The error term, accounting for factors that influence GDP but are excluded from the model

Results and Discussion

Descriptive Statistics

The descriptive analysis offers the statistical properties of the variable as summarised in Table 2. The variables include: external debt, oil exports, and foreign direct investment (FDI), Gross Domestic Product (GDP) for economic development measures, exchange rate (EXCHR) and labour (*LB*).

Table 2-: Summary Statistics

Realization-: *T* = 43 (1981 – 2023)

	Variable					
Statistics	**GDP**	**EXD**	**OXP**	**FDI**	**EXCHR**	**LB**
Obs.	43	43	43	43	43	43
Mean	10.445	6.629	7.017	0.376	3.724	18.083
Maximum	11.260	10.550	10.390	2.180	6.470	18.655
Minimum	9.690	0.850	1.970	-1.670	-0.490	17.520
Std. Dev.	0.551	2.183	2.722	1.103	2.036	0.341
Skewness	0.1861	-0.7009	-0.6610	-0.0339	-0.8073	-0.0189
Kurtosis	1.4326	3.2254	2.0202	1.9161	2.4546	1.8072
Normality Test:						
Jarque-Bera	4.6496	3.6114	4.8512	2.1131	5.2032	2.4923
p-value	0.0978	0.1644	0.0884	0.3476	0.0742	0.2876

Source: Authors' computation (2025)

Table 2 presents the summary statistics. It could be observed that GDP, EXD, OXP, EXCHR and LB demonstrate low level of variability in their distributions for the given realization. The foregoing is attributed to the fact that the standard deviations (a measure of variability) of the variables are below the respective averages. Therefore, it could be deduced that the aforementioned variables are likely to exhibit high predictive capacity. However, foreign direct investment (FDI) exhibits high variability having the standard deviations above the average, thus, suggesting low forecasting power in FDI. Meanwhile, all other competing series except GDP, demonstrate a negatively skewed (long-left tailed) pattern of distributions, suggesting high occurrences of small observations relative to the medians of the variables. However, GDP exhibits positively skewed (long-right-tailed) pattern of distributions, suggesting higher output occurrences relative to the median of the variables Meanwhile, except for external debt (EXD), relative to a normal distribution, all other variables exhibit a flat-topped (platykurtic) shape, indicated by kurtosis coefficients that are less than 3.0. However, EXD tends to be peaked (leptokurtic) relative to the normal distribution with kurtosis coefficients being above the margin of 3.0. Given the Jarque-Bera statistics, other competing variables, all the variables demonstrate normal distribution "having insignificant Jarque-Bera (JB) statistics with the respective *p*-values above 0.05 level of significance". Thus, the variables demonstrate the normality assumption for the application of ordinary least squares estimation method.

Pre-Tests

Unit Root Tests

Prior to the evaluation phase, to determine the stationarity status of the investigated variables, the unit root test was conducted. The stationarity of each variable establishes whether or not its moment features (such its mean and variances) remain constant. A non-trending feature in the data is indicated by a stationary variable. Furthermore, the effects of shocks or unforeseen events (such as international crises, policy regime changes, and socioeconomic pandemics, among others) may be long-lasting for a non-stationary variable. Nonetheless, a stationary variable implies that shocks to the variable will only have a transient effect.

To test for the unit root, augmented Dickey-Fuller (ADF) was used and is reported by Table 3. It could be seen from the analysis that the series involving *GDP*, external debt (*EXD*), oil export (*OXP*) and exchange rate (*EXCHR*) are integrated of order one *meaning* they follow *I(1)* process since the variables are insignificant in level form specification of the unit root tests. Thus, the technique of "first differencing" was applied in order to make the series to become stationary. Based on the foregoing, the impact of impulses to the variables may have a long-term memory in the presence of non-stationary conditions. However, FDI and LB series demonstrate integration of order zero *i.e.* they follow *I(0)* process since the variables demonstrate significant stationary in level form specification. The foregoing suggests that impulses or shocks to the variables may have short-term impact. Consequently, the unit root test results obtained for the models advocate the conditions for the use of bounds co-integration test, as proposed by Pesaran, Shin and Smith (2001), to examine the presence or otherwise of linear combination or connection which is for a long period within the variables in the model

Table 3-: Unit Root Test Results
Realization-: *T* = 43 (1981 – 2023)

		Level Form					
Specification		**GDP**	**EXD**	**OXP**	**FDI**	**EXCHR**	**LB**
Constant	*t*-stat.	-0.1890	-1.0688	-1.2345	-2.1650	-1.9576	-0.6917
	p-value	**0.9318**	**0.7190**	**0.6506**	**0.2216**	**0.3038**	**0.8374**
Constant & Trend	*t*-stat.	-1.9668	-1.8608	-1.2959	-2.8255	-1.6477	-5.6858***
	p-value	**0.5997**	**0.6563**	**0.8754**	**0.1966**	**0.7565**	**0.0002**
None	*t*-stat.	2.6557	2.2169	2.3232	-1.9621**	2.2391	3.0270
	p-value	**0.9975**	**0.9927**	**0.9943**	**0.0486**	**0.9931**	**0.9991**
		First Difference Form					
Specification		**Δ(GDP)**	**Δ(EXD)**	**Δ(OXP)**	**Δ(FDI)**	**Δ(EXCHR)**	**Δ(LB)**
Constant	*t*-stat.	-4.0208***	-4.9109***	-6.6425***	-	-5.4830***	-
	p-value	**0.0032**	**0.0002**	**0.0000**	-	**0.0000**	-
Constant & Trend	*t*-stat.	-3.9241**	-4.7444***	-5.6911***	-	-5.7222***	-
	p-value	**0.0198**	**0.0023**	**0.0002**	-	**0.0001**	-
None	*t*-stat.	-2.3588**	-4.4112***	-5.4005***	-	-4.2843***	-
	p-value	**0.0195**	**0.0000**	**0.0000**	-	**0.0001**	-
Order: *I*(*d*)		I(1)	I(1)	I(1)	I(0)	I(1)	I(0)

Source: Authors' computation (2025)

*Note: ***, ** & * denote statistical significance at 1%, 5% and 10%* at levels. **Δ** = First difference operator

Cointegration Test

Following the test outcomes of the variables stationarity, the subsequent phase is to investigate whether a long-term connection exists within the variables in the study's model. Thus, ARDL bounds cointegration test was applied, which is suitable for models with combined orders of integration (I(0) and I(1)) of variables. The table 4 demonstrates the outcome of the bounds test. Evidently, the variables demonstrate long-run relationship or linear combination in the presence of non-stationarity for the given model. Bounds test yielded significant test statistics (F = 7.7368) exceeding the reference point at the upper bounds, *I(1)*, at 1% level of significance, thus, suggesting a very strong linear combination of the variables. Thus, the cointegration test results indicate no existence of spurious relationships in the model. Thus, the response and policy variables in the model have the likelihood to converge equilibrium in the long-term in which economic agents operate at optimum capacity.

Table 4-: Bounds Co-Integration Test Results

Model	***F*-stat.**	**Sig.**	**I(0)**	**I(1)**
GDP	7.7368***	1%	3.06	4.15
		5%	2.39	3.38
		10%	2.08	3.00

Source: Authors' computation (2025)

*Note: ***, ** & * denote statistical significance at 1%, 5% and 10%* at levels. I(0): lower bound; I(1): lower bound.

Model Estimation

Following the study's structure, the variables of the ARDL estimation approach was utilized following the pre-estimation test results. Moreover, the analysis revealed compelling evidence of a significant linear combination and cointegrating relationship among the variables under investigation. The model was estimated to include both long-run and short-run coefficients. (see appendix).

Table 5 presents the estimated outcomes of the model. The optimum lags selected for the model estimation yielded the least AIC (Akaike information criteria) of -6.6350 at the lags of 2, 5, 5, 5, 5 and 5 for each of *EXD*, *OXP*, *FDI*, *EXCHR* and *LB* respectively (*see* appendix for details: optimal lag selection). As shown in Table 5, the coefficients (γ = -0.5208, p = 0.0003) of the *ECT* term (error correction mechanism), is negatively and statistically significant. In line with expectations, the speed of adjustment coefficients all lie between -1 and 0 for a convergent or equilibrium condition in the long-period. The foregoing implies that the economic output performance (*GDP*) adjusts to *GDP*, *EXD*, *OXP*, *FDI*, *EXCHR* and *LB* over the long-term period, under conditions of full productive capacity of the economy. It could be put that about 52.08 percent of the deviation from the long-run equilibrium from the previous period was rectified in the present period. The foregoing suggests a moderately quick adjustment process in which economic growth reacts to variations in policy variables in the model.

Table 5-: Model Estimation Results
Sample: *T* = 43 (1981 – 2023)

Response Variable	Ln(GDP)
Model Selection Criterion	**AIC**
	-6.6350
Optimum Lags	(2,5,5,5,5,5)
Short-run Estimates	
Speed of Adjustment:	
ECT_{t-1}	-0.5208*** (0.0003)
Adjusted R-Squared (short-run)	0.9654
Long-run Estimates	
C	-9.4451*** (0.0073)
Ln(*EXD*)	0.2265*** (0.0013)
Ln*(OXP)*	0.1439*** (0.0067)
Ln(*FDI*)	0.2307*** (0.0002)
Ln(*EXCHR*)	-0.3557*** (0.0030)
Ln(*LB*)	1.2278*** (0.0002)
Model Diagnostics	
Serial Correlation Test (BG-LM)	
F-Stat.	48.0702 (0.1055)
Heteroscedasticity Test – ARCH (5)	
F-Stat.	2.0429 (0.1056)
LM Stat. (*T**R-squared)	9.0257 (0.1080)
Normality Test	
Jarque-Bera	1.7384

(0.4193)

Source: Authors' computation (2025)

Note: ***, ** & * *denote statistical significance at 1%, 5% and 10%* at levels. Meanwhile, values in parentheses are *p-values* of the respective coefficients and statistics. Ln = natural logarithm operator.

Tests of Hypotheses

Hypothesis 1 – H$_0$: External debt has no significant effect on GDP in Nigeria.

EXD → $(\emptyset_1)$ GDP: As shown in Table 5, long-run estimation results show that changes in external debt (*EXD*: $\emptyset_1$ = 0.2265; *p* = 0.0013 < 0.01) exert positive statistically strongly significant effect on *GDP* (economic growth) in Nigeria in the long-run when the economic agents are functioning at optimum capacity. The rate of the statistical significance state indicates the rejection of the null hypotheses, *i.e.*, $H_0: \emptyset_1 = 0$ is rejected. Moreover, it could be observed that the partial slope coefficients ($\emptyset_1$ = 0.2265) indicate that the responsiveness of *GDP* is significantly inelastic with respect to *EXD* having partial coefficients being below one.

Hypothesis 2 – H$_0$: Oil exports have no significant effect on GDP in Nigeria.

OXP → $(\emptyset_1)$ GDP: As shown in Table 5, long-run estimation results show that changes in oil export (*OXP*: $\emptyset_2$ = 0.1439; *p* = 0.0067 < 0.01) exert positive statistically strongly significant effect on *GDP* (economic growth) in Nigeria in the long-run when the economic agents in the column are functioning at optimum capacity.

The statistical significance state of the foregoing empirical test: The statistical significance of the preceding empirical test indicates the rejection of the null hypotheses, *i.e.*, $H_0: \emptyset_2 = 0$ is rejected. Similarly, it could be observed that the partial slope coefficients ($\emptyset_1$ = 0.1439) indicate that the responsiveness of *GDP* is significantly inelastic with respect to *OXP* having partial coefficients being below one.

Hypothesis 3 – H$_0$: FDI have no significant effect on GDP in Nigeria.

FDI → $(\emptyset_1)$ GDP: As shown in Table 5, long-run estimation results show that changes in foreign direct investment (*FDI*: $\emptyset_3$ = 0.2307; *p* = 0.0002 < 0.01) exert positive statistically strongly significant effect on *GDP* (economic growth) in Nigeria in the long-run when economic agents in the column are functioning at optimum capacity. Due to the statistical significance found at the tests, it indicates the rejection of the null hypotheses, *i.e.*, $H_0: \emptyset_3 = 0$ is rejected. Similarly, it could be observed that the partial slope coefficients ($\emptyset_1$ = 0.2307) indicate that the responsiveness of *GDP* is significantly inelastic with respect to *FDI* having partial coefficients being below one.

Meanwhile, exchange rate (*EXCHR*: $\emptyset_4$ = -0.3557, *p* = 0.0030 < 0.0) yielded negative and statistically significant effect on GDP in an inelastic fashion. The foregoing suggests that depreciation of Naira against the US Dollar adversely and significantly affect GDP in Nigeria. On the other hand, labour (*LB*, $\emptyset_5$ = 1.2278, *p* = 0.0002 < 0.01) yielded positive statistically significant effect on GDP in Nigeria. *GDP* appears to be elastic with respect to *LB* having elasticity coefficients being above one.

Post-Estimation Tests

As shown in Table 5, the serial correlation test using the Breusch-Pagan LM test (*F* = 48.0702, *p* = 0.1055); heteroscedasticity using the autoregressive conditional heteroscedasticity [ARCH] test (*F* = 2.0429, *p* = 0.1056; LM-stat = 9.0257, *p* = 0.1080), normality test using Jarque-Bera statistic (stat = 1.7384, 0.4193) yielded insignificant results (*i.e.* *p*-values > 0.05), suggesting, respectively, the absence of serial correlation, presence of homoscedasticity and existence of normality in the residuals of the estimated model.

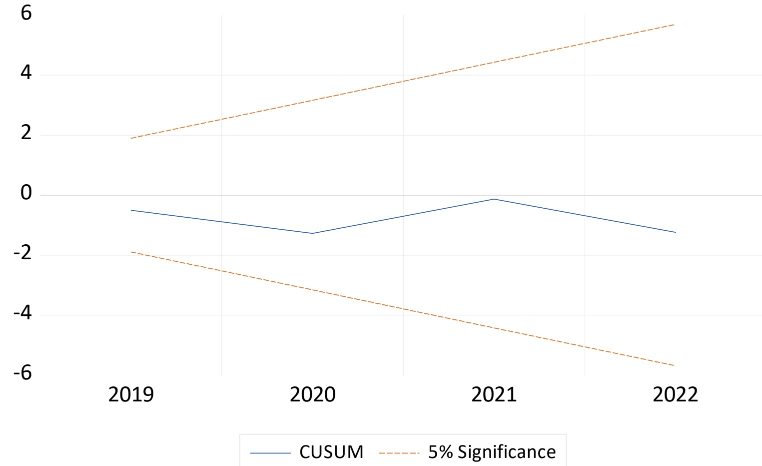

Fig. 4.1-: Model Plots of Cumulative Sum (CUSUM) of Recursive Residuals

Moreover, using CUSUM test criterion, Fig. 4.1 displays the result of the stability test of the estimated model. Evidently, the plot falls within the critical bounds throughout the realization (sample period) at 5% level of significant. Hence, the estimated model is considered be structurally stable in the estimates over the sample period. In all, the post-diagnostic tests results suggest that the estimates obtained as regards the effects of external debt, oil exports, and FDI on Nigeria's economic growth are efficient and valid for inferences and policy implication.

Summary of Hypotheses Testing Results

Table 6 presents a summary of the significance tests of the estimated model, showing the results of the study's hypotheses tests.

Table 6: Tests of Hypotheses Summary

Effects of external debt, oil exports, and FDI on Nigeria's economic growth		
	Null Hypothesis (H_0)	**Stat. Sign.**
1.	External debt has no significant effect on GDP in Nigeria	+ Significant ($p < 0.01$)
2.	Oil export has no significant effect on GDP in Nigeria	+ Significant ($p < 0.01$)
3.	Foreign direct investment (FDI) has no significant effect on GDP in Nigeria	+ Significant ($p < 0.01$)

Source: Authors' computation (2025)

Discussion of Findings

Following the empirical results, it was observed that external debt was an important determining factor of economic growth in Nigeria. The foregoing suggests that effective utilization of foreign loans has the tendency to accelerate the development of the economy. The aforementioned empirical outcome corroborates the findings obtained in Adekunle, Adeniyi, and Orekoya (2021), Ogbonna *et al.* (2021) and Ugwuanyi *et al.* (2021) that foreign debt significantly impacted on economic growth. However, insignificant relationships between external debt and economic growth were revealed in Idehi and Uzonwanne (2021), Akanbi, Uwaleke, and Ibrahim (2022).

Empirical outcome revealed that oil export showed a statistically significant positive effect on economic growth in the long-run when economic agents were functioning at optimal capacity in Nigeria. The foregoing result is consistent with Akinleye, Olowookere, and Fajuyagbe (2021), Efanga, Ugwuanyi, and Ogochukwu (2020), Obisike, Onwuka, Okoli, and Udeze (2020) and Aminu and Raifu (2019) that asserted that oil export substantially and beneficially influenced Nigeria's economic development.

Results revealed that FDI was positively and significantly associated with GDP in Nigeria in the long-period. Theoretically, a positive interaction is expected exist between foreign direct investment and output growth. FDI is key determinant of the real sector in Nigeria. Similarly, El-Rasheed and Bello (2022); Alabi (2019) and Adebanjo, Banchani, and Sanusi (2023) revealed that FDI had a positive influence on economic growth.

Conclusion And Recommendations

Nigeria's external debt, oil exports, and (FDI) all have favourable and notable relationships with economic growth. Thus, external debt, oil exports, and (FDI) are essential catalysts for the progress of Nigeria's economy. However, excessive debt can cause problems with debt servicing, crowding out other important expenses and possibly impeding economic progress, even while external debt might supply the money needed for development projects. Nigeria has a strong reliance on oil exports, however because of this, the nation is vulnerable to fluctuations in global oil prices, which may impact economic stability and growth. However, foreign direct investment (FDI) can aid economic development and diversity through the injection of capital, technology, and management experience. Following the essential empirical findings, the study has put forward the following recommendations in accordance with study's findings:

i. Nigeria should put in place a debt sustainability framework that guarantees borrowed funds are used for initiatives with good economic returns; the government should give careful external debt management first priority. This would entail a thorough evaluation of the project, open reporting of debt, and a dedication to keeping debt-to-GDP ratios within reasonable bounds.
ii. Nigeria should invest in industries like manufacturing, services, and agriculture to diversify its economy away from oil exports. By diversifying its sources of income, the nation would become less susceptible to changes in the price of oil globally. To increase income and provide employment, the government should also look into value-added potential in the oil industry.
iii. By boosting infrastructure, offering incentives to foreign investors, and strengthening the business climate, efforts should be made to draw in more FDI. Nigeria might become a more appealing location for foreign direct investment by streamlining regulatory procedures, maintaining security, and fostering economic stability. In order to improve local capabilities, the government should also prioritize industries with significant development potential and support technology transfer and capacity building.

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ENVIRONMENTAL ACCOUNTING AND FINANCIAL PERFORMANCE OF LISTED NON-FINANCIAL COMPANIES IN NIGERIA.

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Abstract

This study examines the influence of environmental accounting practices on the financial performance of non-financial companies listed on the Nigerian Exchange Group from 2019 to 2023. Specifically, the study breaks down environmental costs into three categories: energy cost, security cost, and health and safety cost, and explores their connection with key financial performance measures: return on assets (ROA), net profit margin (NPM), and return on capital employed (ROCE). Grounded in stakeholder theory, the research employs an ex post facto design and relies on secondary data from 46 intentionally chosen non-financial firms. Through panel least squares regression, the results indicate that security cost has a statistically significant but negative impact on ROA, implying that substantial spending on security adversely affects profitability. In contrast, energy cost and health and safety cost do not display any significant effect on ROA. Likewise, the analysis demonstrates that none of the components of environmental costs significantly influence NPM or ROCE, suggesting that such expenditures do not provide immediate financial advantages regarding profitability or capital allocation. The findings emphasize the limited ability of environmental costs to explain financial results, indicating that these investments may be motivated more by compliance and risk management rather than by strategic financial benefits. The study suggests that companies should streamline security-related expenses, embrace a long-term view on environmental investments, and that regulatory bodies should implement standardized environmental reporting frameworks. These measures would increase corporate transparency, enhance environmental accountability, and encourage sustainable business practices within Nigeria's non-financial sector. The study enriches the literature by offering disaggregated perspectives on the effects of environmental costs across various financial indicators.

Keywords: *Environmental Accounting, Energy cost, Security cost, ROA, NPM, ROCE, Health and Safety Cost.*

Introduction