Journal of Corporate Finance Management and Banking System
ISSN: 2799-1059
Vol : 03 , No. 04 , June-July 2023
http://journal.hmjournals.com/index.php/JCFMBS
DOI: https://doi.org/10.55529/jcfmbs.34.42.53

Tax Compliance and Economic Growth of Nigeria: The Moderating Effect of Tax Morale

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Received: 12 February 2023 **Accepted:** 28 April 2023 **Published:** 15 June 2023

***Abstract:** Getting the citizens to comply with tax payment is a herculean task for policy makers in developing economics like Nigeria. Therefore, the researchers investigated tax compliance and economic growth: Moderating effect of tax morale. The quantitative research design adopted was found to be appropriate for the quantitative research model that underpins the study at hand. Also, descriptive statistics was used to explain the study's variables. The secondary data were sourced from the Statistical Bulletin of CBN and the National Bureau of Statistics (2022). A regression analysis was adopted to analyze the data so collected. Moreover, the panel regression is a veritable for re-occurring observation of the same variable for several times or periods. While the control variables are the Gross Domestic Product (GDP) and the Human Development Index (HDI), the components of tax compliance are proxied as logged revenue and as the independent variable. Moreover, tests for robustness were run, including simple regression, to validate the result's dependability while also taking into account all of the assumptions related to regression. Findings revealed that there is a negative significant effect of tax compliance (TAXCOMPL) on economic growth (HDI) of Nigeria, there is a positive significant impact of tax compliance (TAXCOMPL) on economic growth (RGDP) of Nigeria, also, there is a significant weak moderating effect of tax morale on tax compliance and Nigeria's economic growth. In the light of the above, the researcher made the following suggestions; government should provide essential services to the people to enhance voluntary tax compliance. To motivate tax payers, policy makers should translate taxes collected into human capital development to boost economic growth.*

***Keywords:** Tax Compliance, Economic Growth, Tax Morale.*

1. INTRODUCTION

The redesigning of the Nigerian currency affected the economic activities of the nation as well as tax compliance as most Nigerians and corporate institutions found it difficult to transfer and

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withdraw money from the bank to pay for goods and services. Nigerians faced challenging moments amid the scarcity of cash and hike in pump price occasioned by poor policy implementation and compliance. Although, it was said that, the monetary policy would help boost the face value of the currency, curb corruption (vote buying and money laundering), reduce inflation, and sustain economic growth and prosperity. However, the citizens were skeptical on whether or not these were realizable given the present economic downturn and political armed-robbery in the political arena.

Consequently, the tax authority must raise tax morale in order to decrease tax evasion and avoidance. Tax morale has the capacity to increase intrinsic desire to pay taxes, demonstrating that paying taxes is motivated by more than merely following the law. Low levels of tax compliance are caused by low tax morale (Yuniadi, 2018). Prior to the Covid-19 outbreak, tax compliance in Nigeria was not very high; as a result, the impact of failure to comply is having a decreasingly negative impact on the quantity of tax revenue received.

It is crucial to understand that taxes generate a sizable portion of the government's revenue, and as a result, they have an impact on the Gross Domestic Product (GDP) and the human development index, which serve as the primary indicators of a country's economic health. According to the economic strategies the government takes, taxes' types and burdens vary. The successful submission Compliance with tax rules is often defined as accurate reporting of taxable income, accurate computation of the tax due, completion of tax returns, and prompt payment of any owed taxes (Oladele, 2021). Taxpayers' willingness to pay their taxes on time will increase as they become aware of the government's proper attention to their interests. The willingness to pay taxes is declining in a developing nation like Nigeria where the government is marked by a callous disregard for fiscal policy, corruption, a low standard of life, and deteriorating infrastructure (Adegbite & Fasina, 2019). It would be challenging for Nigerian residents to continue willingly paying taxes to the government if they devote time, effort, and other resources in doing so but do not see or feel the benefits of doing so (Victory et al, 2022). According to Michael (2022), improper handling of tax money has discouraged a lot of honorable tax payers from fulfilling their civic obligation to pay taxes. Many Nigerians are against paying any form of taxes or rates on the grounds that the government has been unfair in the provision of the amenities for which taxes are largely collected. The cumulative effect is that many decent tax payers have made the decision to never pay their owing taxes again, or to pay them at most under duress. If taxpayers believe the tax authorities to be fair, honest, informative, and helpful, acting as a service institution and considering them as collaborators rather than inferiors in a hierarchical relationship, they are more likely to pay their taxes on time and honestly.

However, complying with paying tax is a very big problems for policy makers in developing and transition economic countries like Nigeria. Contrary to acts that are unlawful, tax evasion is associated with the method of fiscal management that the government uses to implement economic policy. High tax compliance not only enhances tax receipts but also promotes economic growth (Michael, 2022). Many taxes, low tax awareness, lack of tax transparency, an ineffectual and inefficient tax collecting system, and tax responsibility are other variables that could influence people's desire to pay their taxes (Oladele, 2021). In order to fill the knowledge gap caused by the difficulties identified, the researchers looked into tax compliance and economic growth. However, the study precisely determined the impact of tax compliance

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on Nigeria's GDP, and also assessed the impact of tax compliance on the country's human development index.

Literature Review

Tax Compliance and Economic Growth

Every society in the world, both those with mature economies and those with emerging ones, depends heavily on taxes to generate cash. The tax system is a legitimate way for the government to raise additional money to fulfill its urgent duties (Oluyombo & Olayinka, 2018). The tax system is a chance for government to gather additional income needed in performing its pressing duties. A tax system offers itself as one of the most effective techniques of mobilizing a nation's financial capabilities and it lends itself to creating an atmosphere favourable to the promotion of economic progress. And provide security, social amenities, and circumstances for the economic wellbeing of society, the government must impose a tax on a person or his property (Oladele, 2021, Agbo et al. 2020). Economic growth is a rise in the output of goods and services on a consistent basis among two periods of time.

Tax Compliance and Gross Domestic Product (GDP)

According to Khadijat and Taophic (2018), growth is a rise in economic activity. Economic growth, according to them, is the process by which a country's actual per capita income increases gradually over time. It can also be understood more simply as the gradual improvement in an economy's ability to provide the goods and services necessary to boost the quantity and variety of its residents' standard of life. It is the method through which the economy gradually increases its capacity for production over time, which raises the level of national income.

Tax Compliance and Human Capital Development

According to recent study, the most crucial element of national wealth is human capital. A new area of study suggests that the development of human capital may be the key to economic expansion and growth. The fact that the impact of taxes on human capital has not yet been properly investigated or quantified is therefore somewhat surprising. The logically preceding subject has not received enough attention, despite the fact that various research that tackle tax questions of incidence, health, and growth in models with endogenous human resources have substantial insight to provide. (Oladele, 2021).

Moderating effect of tax morale on Tax Compliance and Economic Growth:

The question here is "what motivates people to act more honorably, offer accurate information, and boost tax compliance? The fundamental desire to pay taxes, sometimes known as "tax morale," is one response to this query (Yuniadi, 2018). The tax morale index gauges people's willingness to pay taxes or their sense of social responsibility as a result of doing so. What elements can boost and keep up tax morale? Strong political judgments are one of them, and they are what mostly determine tax morale (Yuniadi, 2018).

Furthermore, poor levels of tax compliance result in low tax morale, which creates development barriers, particularly those associated with economic expansion. The other factors contributing to low tax receipts include a lack of tax administration capacity. Low capacity is

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frequently a concern that leads to increased potential for tax evasion (Yuniadi, 2018). Therefore, a deeper comprehension of the factors that influence taxpayer participation in and compliance with the tax system would be beneficial for all nations and stakeholders. Growing that knowledge can inspire the creation of more efficient and adaptable tax structures that boost voluntary tax compliance. The first step in raising tax morale is to gain a better understanding of the variables that affect how people see the tax system and their desire to pay taxes.

In general, nations with higher tax burdens have better tax morale. The general trend is that countries with high tax to gross domestic product (GDP) ratios have higher tax morale, notwithstanding significant country-specific variation. This could be a sign of a positive feedback loop between effective government performance, higher tax morale, and voluntary tax compliance (as well as effective enforcement); or it could be proof of a fiscal contract between taxpayers and the state (a willingness on the part of citizens to pay taxes in exchange for effective public services, according to OECD/CAF/UN ECLAC, (2018).

Theoretical Review

Benefit Received Theory

According to this notion of income tax equality, people should pay taxes in proportion to the advantages they receive from the government. Erik Lindahl of Sweden developed this hypothesis in 1919. In accordance with this principle, the state should only tax people based on the benefits that they have received. For instance, the benefit received argument would be supported if all of the money for road building and maintenance came from gasoline taxes and tolls. More of these charges would be paid by people who use the roadway frequently, while those who merely pass by on foot will not be required to pay anything. This hypothesis has been rejected because it would go against the fundamental principles of taxes and could result in unfair tax treatment if the state upheld a specific link between the benefits bestowed and the benefits derived (Victory et al, 2022). This is impossible or partially objectionable, and if it occurs, it will go against the principle of justice because the poor will pay a higher tax rate because they get more from state services. As the majority of the money the state spends is for the general good of its people, it is difficult to apply this idea because it is difficult to estimate the benefits that each person receives annually.

Tax is a mandatory payment made to public institutions to cover their costs and provide general benefits; as a result, if the government maintains a relationship between benefits granted and benefits received, this would go against the fundamental tenants of taxation, according to which there is no exchange for payment in the case of taxation. Given that some people may assert they desire little or no of the supplied services, this idea has been linked to free rider issues. Ingenious people may claim that the products hurt them in order to get tax credits. The majority of public products are non-exclusive and non-rival, which causes this issue (Victory et al, 2022)

Empirical Review

Oladele (2021), investigated how tax compliance affected Nigeria's economic growth. Regression analysis of the data was used to determine that a quantitative research design was appropriate for the data analysis model that supports the current investigation. The study's findings suggest that tax compliance has a beneficial effect on economic growth in a time series of data for the economy of Nigeria from 2003 to 2019. It also suggests that government should

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take advantage of the favorable connection between tax adherence and the creation of human capital to realize effective government investment that promotes economic growth.

Olufemi et al. (2022), investigated the impact of tax fairness on listed manufacturing enterprises in Nigeria's attitude toward tax compliance. The study used a survey research methodology, and the chosen manufacturing firms from the consumer and commercial goods sectors each received 400 copies of the questionnaire. The study also demonstrates that tax compliance is highly influenced by the business taxpayer's opinion of fairness, and tax knowledge.

Ogunmakin and Owoniya (2022), investigated Covid-19 and Tax Compliance: Consequences on Raising Revenue of Southwest States in Nigeria. 180 individuals were chosen at random from the offices of the accountant general and state internal revenue services in each of the six states. As a result, this study suggests that government in southwest states respond to the ongoing problem of declining tax revenue pool by developing more effective government-based revenue generating avenues to mitigate the impact of the Covid-19 pandemic's spread on tax compliance.

Adelusi (2022), evaluated the capacity of a few Ogun State local governments in Nigeria to generate revenue. The study used a descriptive research approach. Results indicate that local governments were not receiving enough money from levies and taxes collected from citizens. The findings also indicate that most taxpayers are unaware of their obligations as citizens and that taxes and levies are reliable sources of income for local governments. The study suggested that local tax office should be less aggressive and educate the populace about taxes. The council needs to start working on tangible local projects, especially those that would help them fulfill their obligations under the Federal Republic of Nigeria's 1999 constitution.

Victory et al. (2022), look into how tax reforms affect Nigeria's economic expansion. The time series approach used in this work was primarily focused with how to conduct impact analysis on pre-existing data. The study found that, among other things, VAT, CIT, and PPT have a positive, significant impact on RGDP in Nigeria. As a result, the researcher concluded that tax reforms have a sizable positive impact on Nigeria's economic growth. In order to emphasize economic opportunity and growth, the study's researcher advised policymakers to concentrate on increasing the economy's productive capacity. The government should also increase tax revenue through an enhanced tax administration system.

Promise et al. (2022), studied value added tax and Nigeria's economic expansion using ex-post-facto research design was used. Findings showed a statistically significant positive correlation between value added tax (VAT) and Nigeria's GDP as well as a statistically significant positive correlation between VAT and Nigeria's gross national product (GNP). A substantial association between Nigeria's economic growth and value added tax was also discovered by the investigation. The study recommended applying VAT on the goods and services consumed by both low- and high-income consumers in order to raise Nigeria's gross domestic product. Government officials who engage in dishonest methods in tax collection and remittance should face disciplinary measures.

Yuniadi (2018), investigated the link between tax compliance and tax morale. They pay taxes, in his opinion, because they are compelled to follow rules and regulations. Making people pay taxes will only encourage them to evade or perhaps completely avoid paying taxes. Tax authorities must raise tax morale in order to decrease tax evasion and avoidance. Tax morale

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serves to boost inner drive to pay taxes, demonstrating that paying taxes is motivated by more than merely following the law. Low levels of tax compliance are the outcome of low tax morale. He used the Torgler model, findings from other researchers, and a mild comparison with Australian Tax Office Tax Compliance while creating a tax morale model. He had to support the development of tax morale indicators because the indicators employed in both the tax morale model and tax compliance appeared to be consistent.

2. RESEARCH METHODOLOGY

In order to support the quantitative research model that serves as the foundation of the current study, a quantitative approach has been used. Descriptive statistics were additionally employed to describe the study's variables. The National Bureau of Statistics and the Statistical Bulletin of CBN were the sources of the secondary data (2023). To examine the data in this collection, a normality test was used. Also, the panel regression is a reliable method for repeated observations of the same variable over a number of occasions or time periods (Victory et al, 2022). While the dependent variables are the Gross Domestic Product (GDP) and human development index (HDI), the components of tax compliance are proxied as logged revenue and as an independent variable. Moreover, tests for robustness were run, including panel regression analysis, to validate the result's dependability while also taking into account all of the assumptions related to regression. Regression models were created, including the ones below. The broad objective was formulated as follow;

TAXCOMPL. = f(RGDP, HDI)

Where:

TAXCOMPL. = Tax Compliance
GDP = Gross Domestic Product
HDI= Human Development Index
ECOGROWTH = Economic Growth
TM = Tax morale

RGDP = f (TAXCOMPL) …...1
HDI = f (TAXCOMPL) ....………………….2
TM = f (TAXCOMPL, ECOGROWTH) …...3

3. DATA ANALYSIS AND DISCUSSION

The study used value added tax (VAT), company income tax (CIT) and) to indicate tax compliance (TC) while real gross domestic product (RGDP) and human capital development (HCD) as measures of economic growth (EG), tax morale (TM) is the moderating variable. The data extracted from the tax Statistics/Report-Federal Inland Revenue service (FIRS) and World Bank from 2015 to 2022 was used for the purpose of this study.

Table 4.1 Tests of Normality

	KolmogorovSmirnov[a]			**Shapiro-Wilk**		
	Statistic	df	Sig.	Statistic	df	Sig.
RGDP	.441	8	.000	.498	8	.310

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HCD	.193	8	.200*	.885	8	.211
*. This is a lower bound of the true significance.						
a. Lilliefors Significance Correction						

Table 4.1 Verify the accuracy of the linear regression's underlying premise that the residuals are regularly distributed. Given that the residuals are normally distributed and the Kolmogorov-Smirnov Z p-value for RGDP (0.310) and HCD (0.211) is greater than 0.05, the linear regression assumption of normal distribution is maintained. As a result, we can rule out the alternative theory and determine that the data are consistent with a normal distribution.

Table 4.2 Collinearity Statistics

		Tolerance	VIF
1	VAT	.293	3.410
	CIT	.293	3.410
a. Dependent Variable: RGDP			

Table 4.2 tests the presence of multicollinearity problem in the model. The table revealed none existence of multicollinearity problem since VIF value for VAT (3.410), and HDI (3.410) were in-between 1-10 which is an accepted region. Therefore, tax compliance (VAT, CIT) does not have collinearity problem.

RGDP = f (TAXCOMPL) …..1

Table 4.3. Estimation of model 1 on the effect of tax compliance on RGDP

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.646[a]	.498	.182	1.85154
a. Predictors: (Constant), TAXCOMPL				

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.751	1	8.751	2.553	.001[b]
	Residual	20.569	6	3.428		
	Total	29.320	7			
a. Dependent Variable: RGDP						
b. Predictors: (Constant), TAXCOMPL						

Source: SPSS version 25

Based on the data in table 4.3 above, it can be seen that there is a significant and positive correlation between tax compliance and Nigeria's gross domestic product (GDP) (R-value = 0.646 and p-value = 0.001 > 0.05 level of significance). The coefficient of determination (R2) = 0.498 indicates that the changes in the predictor variable (TAXCOMPL) account for 49.8%

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of the variation in criterion variable (RGDP), leaving other variables not included in the model to account for the remaining 50.2%.
Decision Rule: Accept Ho if P > 0.05. Otherwise reject Decision:
The researcher concluded that there is a positive significant impact of tax compliance (TAXCOMPL) on economic growth (RGDP) of Nigeria.

HDI = f (TAXCOMPL) ....………………….2

Table 4.4. Estimation of model 1 on the effect of tax compliance on HCD

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	-.451[a]	.203	.070	.00756
a. Predictors: (Constant), TAXCOMPL				

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.610	1	.000	1.529	.702[b]
	Residual	.900	6	.000		
	Total	.490	7			
a. Dependent Variable: HCD						
b. Predictors: (Constant), TAXCOMPL						

Based on the data in table 4.4 above, it can be seen that there is a significant and negative correlation between tax compliance and Nigeria's human capital development (HCD) (R-value = -0.451 and p-value = 0.702 < 0.05 level of significance. The coefficient of determination (R2) = 0.203 indicates that the changes in the predictor variable (TAXCOMPL) account for 20.3% of the variation in criterion variable (HCD), leaving other variables not included in the model to account for the remaining 79.7%.
Decision Rule: Accept Ho if P > 0.05. Otherwise reject Decision:
The researcher concluded that there is a negative significant effect of tax compliance (TAXCOMPL) on economic growth (HCD) of Nigeria.

TM = f (TAXCOMPL, ECOGROWTH) …..3

Table 4.5. Estimation of Model 3 on the Moderating Effect of tax morale on Tax compliance and Economic Growth.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.325[a]	.105	-.252	.00198
a. Predictors: (Constant), ECOGROWTH, TAXCOMPL				

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http://journal.hmjournals.com/index.php/JCFMBS
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ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.220	2	.000	.295	.757[b]
	Residual	.630	5	.000		
	Total	.700	7			
a. Dependent Variable: TM						
b. Predictors: (Constant), ECOGROWTH, TAXCOMPL						

Based on the data in table 4.5 above, it can be seen that there is a significant weak moderating effect of tax morale on tax compliance and Nigeria's economic growth (R-value = 0.325 and p-value = 0.757 < 0.05 level of significance. The coefficient of determination (R2) = 0.105 indicates that the changes in the predictor and criterion variables account for 10.5% of the variation in the moderating effect of tax morale, leaving other variables not included in the model to account for the remaining 89.5%.

Decision Rule: Accept Ho if P > 0.05. Otherwise reject Decision:

The researcher concluded that there is a significant weak moderating effect of tax morale on tax compliance and Nigeria's economic growth.

Discussion of Findings

Tax compliance and Nigeria's gross domestic product (GDP): R-value = 0.646 and p-value = 0.001 > 0.05 threshold of significance indicate a substantial and positive association between tax compliance and Nigeria's gross domestic product (GDP) based on the data in table 4.3 above. The variation in the criterion variable (RGD) is explained by changes in the predictor variable (TAXCOMPL), which account for 49.8% of the variation, according to the assessment coefficient (R2) = 0.498. The remaining 50% of the variation is explained by variables that were not included in the model. The study came to the conclusion that tax compliance (TAXCOMPL) has a favorable, significant impact on Nigeria's economic growth (RGDP). This finding is consistent with those of Oladele (2021) and Olufemi et al. (2022), who looked into the relationship between tax compliance and economic growth in Nigeria and discovered that tax compliance had a positive effect on economic growth in a time series data of Nigeria's economy from 2003 to 2019. This study suggests that the government strictly enforce mandatory tax compliance due to its impact on economic development prospects and its less distorting nature.

Tax compliance and Nigeria's human capital development (HCD): Based on the information in table 4.4 above, it is clear that tax compliance and Nigeria's human capital development (HCD) have a substantial and adverse relationship (R-value = -0.451 and p-value = 0.702 0.05 threshold of significance). The researchers also came to the conclusion that tax compliance (TAXCOMPL) has a negative, considerable impact on Nigeria's economic growth (HCD). Adelusi (2022), who evaluated the capacity of a few selected local governments in Ogun State, Nigeria, to generate revenue, disagreed with this finding. Results indicate that local governments were not receiving enough money from levies and taxes collected from citizens.

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http://journal.hmjournals.com/index.php/JCFMBS
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The findings also indicate that most taxpayers are unaware of their obligations as citizens and that taxes and levies are reliable sources of income for local governments.

Moderating effect of tax morale on tax compliance and Nigeria's economic growth: Based on From the data in table 4.5 above, it is clear that tax compliance and Nigeria's economic growth are moderated by tax morale in a substantial but modest way (R-value = 0.325 and p-value = 0.757 at the 0.05 level of significance). The study came to the conclusion that tax compliance and Nigeria's economic growth are significantly and weakly moderated by tax morale. This research supported Yuniadi (2018) and Promise et al. (2022), who looked at the relationship between tax compliance and tax morale. They pay taxes, in his opinion, because they are compelled to follow rules and regulations. Making people pay taxes will only encourage them to evade or perhaps completely avoid paying taxes. Tax authorities must raise tax morale in order to decrease tax evasion and avoidance. Tax morale serves to boost intrinsic motivation to pay taxes, demonstrating that paying taxes is motivated by more than merely following the law. Low levels of tax compliance are the outcome of low tax morale.

4. CONCLUSIONS AND RECOMMENDATIONS

The goal of this study was to investigate tax compliance and economic growth of Nigeria; and the moderating effect of tax morale. The results revealed that tax compliance in Nigeria moderated with morale had significantly impacted positively on economic growth. Therefore, the researcher established that there is a significant positive relationship between tax compliance and economic growth of Nigeria. Although, the adverse effect of the pandemic made it challenging for citizens to ensure compliance in tax payment, researchers asserted that the Nigerian people both individuals and corporate institutions have been paying their taxes, but government on their part have not been motivating tax payers with a commensurate social and economic benefits (amenities). However, tax morale has been on decline as a result of government inability to reinforce tax payers and transform the society with the tax collected. If tax morale is adequately boosted, it will translate to high level compliance by tax payers. According to our research, the perception of a tax benefit is a powerful predictor of tax compliance, since it increases the inner drive of tax payers who perceive that their taxes are utilized to support economic prosperity. In the light of the above, the researchers made the following suggestions;

1. Government should provide essential services to the people to enhance voluntary tax compliance.
2. To motivate tax payers, policy makers should translate tax collected into human capital development to boost economic growth.
3. Tax collected should also be used to create employment opportunities for tax payers.
4. Tax should be used to boost production which would create more revenue to the people and the economy at large.

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Conflict of Interest Statement
Authors declared none existence of competing interests. The authors have responsibility for conception and design of the study. The authors have approved the final article.

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ISSN: 2799-1059
Vol : 03 , No. 04 , June-July 2023
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