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CAPITAL GAIN TAX AND TAX REVENUE GENERATION IN NIGERIA

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Abstract: This study examines Nigeria's capital gain tax system and how it affects the country's ability to generate tax revenue. An ex-post facto research design was used in this study, which combines concepts or categories that already have a particular characteristic or aspect and compares them to a particular dependent variable. This research employed an additional source of data. The Central Bank of Nigeria's statistical bulletin and Federal Inland Revenue Service (FIRS) reports with secondary data from 2011 to 2022 were used in this study. Descriptive and regression analytical methods were used to evaluate the data to draw informed conclusions about the study. The results showed that the 0.919 p-value was higher than 0.05. The results of this study indicate that from 2011 to 2022, Nigeria's tax revenue generation was not significantly impacted by the capital gain tax. As a result, the null hypothesis (Ho), which claims that money raised through capital gains taxes has no appreciable effect on Nigeria's overall tax revenues for the good, is now confirmed. In order to ensure that the cost of collection does not exceed the derived value, the null hypothesis suggests that governments should incorporate and assess a policy on capital gain tax cost-benefit analysis when handling CGTs. In addition, it was recommended that capital gains tax should undergo recurring reviews and adjustments considering fixed costs.

Keywords: Capital Gain Tax, Taxation, Total Tax Revenue

1.0 Introduction

Taxation is the imposition of taxes on individuals, while tax refers to a mandatory payment of all individuals within a state. Citizens are expected to fulfill their civic obligations by paying taxes (Abomaye-Nimenibo, Michael, and Friday (2018). To regulate company activities, reduce wealth disparities in society, protect new firms and local businesses, limit the production of specific products and services, and maintain low inflation, taxes are frequently imposed (Edewusi and Ajayi (2019). Every nation's government endeavors to optimize tax revenue generation because of its ability to influence economic variables, its capacity to enhance consumption patterns and stimulate economic development, and its importance in fulfilling the government's diverse obligations Asaolu, Olabisi, Akinbode, and Alebiosu (2018). Tax revenue increases because of the efficiency and productivity of tax administration, which enables the government to provide its citizens with infrastructure and amenities.

The primary objective of the tax system is to generate sufficient revenue to finance the government's essential

expenditures on products and services. Taxation is widely recognized by the public sector as the most effective method for resolving debt and strengthening its capabilities, Okoye and Ezejiofor (2014). Apart from the existing taxation system issues, the purpose of imposing taxes is not exclusively to generate revenue for the government but also to manage the economy and redistribute wealth Ojo (2008). The tax system is perceived by the government as a powerful instrument for increasing revenue, Mathew (2014).

Additionally, the government implements capital gains tax as a revenue-generating strategy. This tax is levied on the profit generated from the sale of assets at a price higher than their initial acquisition price, Garrett (2013). The tax rate can be influenced by the tax laws of a specific country, the tenure of the asset's holding, and the asset. Capital gains are the financial advantages that result from the transfer, sale, or gifting of assets, including equities, bonds, and real estate, according to Dauda and Dauda (2020). Individuals are subject to capital gains tax, which is a tax on the financial gains associated with the sale of investments or assets at a higher price. The equation is calculated by subtracting allowable expenses from total profits for a specific tax year, PML (2017). The capital gains tax (CGT) in Nigeria is a significant source of revenue for the government. Various government projects and initiatives that seek to promote economic growth, social development, and nationwide infrastructure development are funded in large part by the revenue generated from capital gains taxes, as well as other types of taxes. The Nigerian government's most recent data suggests that the total tax receipts have been increasing steadily in recent years. This illustrates the government's efforts to improve tax compliance, broaden the tax base, and improve income collection methods (Federal Inland Income Service, (2023). According to Olaniyan and Ibrahim (2020), capital gains tax is a critical component of overall tax revenues and makes a substantial contribution to financing government expenditures in critical sectors, including education, healthcare, infrastructure, and social welfare initiatives for citizens.

Within the context of fiscal policy, capital gains tax contributes to economic growth and development, Smith (2020). The concept pertains to profits accumulated through various asset transactions and has been the subject of discussion among economists, legislators, and other interested parties, Jones and Brown (2018). Capital gains tax (CGT) is a critical component of fiscal policy on a global scale and is imposed on financial gains from the sale of assets. The primary objective of this tax is to regulate investment conduct, facilitate the equitable distribution of income, and generate revenue for governments, Amatong (1968). Consequently, it is imperative that policymakers, economists, and stakeholders understand the influence of capital gains tax on the collection of tax revenues. In response to the recession in Africa’s biggest economy, the Nigerian government implemented a tax campaign to increase revenue and decrease its dependence on oil. The nation's economic advancement and investment have been significantly impacted by fluctuations in global market prices, which are a result of its substantial reliance on oil. The economy was adversely affected by a substantial decline in crude oil prices in 2015, underscoring the importance of bolstering economic resilience and diversifying revenue streams, Kenneth (2016).

The nation has successfully emerged from recession because of the government's deliberate fiscal policy and monetary measures, as well as its efforts to diversify the economy. These efforts have directly facilitated economic development and increased investment in Amatong (1968). The government's emphasis on securing more consistent revenue streams, particularly through taxes generated by industries that are not associated with energy, is a critical component of this economic transformation. It is imperative that policymakers, tax authorities, businesses and taxpayers comprehend the complexity of capital gains tax and its contribution to overall tax

income, as Roberts and Williams (2017). The Capital Gains Tax applies to the financial gains derived from the sale or disposal of capital assets, such as real estate, equity, bonds, and other investments.

In the interim, capital gains taxation continues to be a subject of debate and disagreement in academic circles. According to one perspective, the imposition of taxes on capital income hinders long-term productivity and economic advancement by decreasing incentives to save and invest. Nevertheless, capital gains taxes contribute to the government's revenue generation. However, an alternative perspective contends that these efforts to generate income result in substantial economic disadvantages for a nation, McCarthy (2020). Despite Nigeria's economic recovery from the recession, the global oil and gas industry experienced a significant decline in April 2020, resulting in the US benchmark price falling below $30 per barrel, Lovells (2021). This raises a fundamental question: What impacts does the capital gains tax on government revenues during recessions caused by fluctuations in oil prices? The objective of this investigation is to evaluate the impact of capital gains tax on the overall generation of tax revenues in response to fluctuations in oil prices.

1.1 Hypothesis of the study

Ho: Revenue generated from capital gains taxes has no significant impact on Nigeria's total tax revenues.

2.0 Literature review

2.1 Conceptual Review

2.1.1. CAPITAL GAIN

The financial gain from selling tangible assets like stocks, financial instruments, company interests, or real estate is known as capital gains. Typically, Hendricks and Hanlon (2020) classify profits from assets held for more than a year as long-term gains, subjecting them to specific reduced tax rates, currently set at 10% in Nigeria. Whether through exchange, transfer, sale, or gift, the transfer of ownership of capital asset results in the imposition of a capital gains tax. Any profit gained from the sale or disposal of an item that is categorized as a chargeable asset. The net profits from selling taxable assets within a specified tax period, after subtracting eligible expenses, are subject to this tax. A capital gains tax is a compulsory levied on earnings derived from the sale of assets or investments, PML (2017).

2.2 **CAPITAL GAIN TAX**

The capital gains tax is defined in the Capital Gains Tax Act, CAP C1, of the Laws of the Federation of Nigeria (LFN) 2004 (as amended). According to this act, capital gains are defined as an increase in the market value of capital. Individuals or entities that do not frequently sell these assets and do not consider them part of their regular business inventory obtain these gains. The Capital Gains Tax Act requires that taxes be paid on profits obtained from the sale or disposal of assets. A company levies Capital Gains Tax (CGT) on profits from the sale of assets not included in its inventory (Smith et al., 2021). Profits typically come from the sale of stocks, bonds, precious metals, or real estate. Taxation differs across jurisdictions, with states levying taxes on transactions, dividends, and capital gains in the stock market. Nigeria imposes a capital gains tax (CGT) of 10% on profits from the sale of taxable assets. Selling a chargeable asset triggers a liability for the tax, which remains 10%. The calculation considers deductible expenses subtracted from total taxable gains for a specific tax year.

2.3 OBJECTIVES OF CGT

2.3.1 Principles of chargeable gain

According to Section 3 of the CGT Act, taxable assets include all forms of property, regardless of location, including options, loans, and intangible property. This concept also includes foreign currency and property

generated by an individual who is disposing of it or obtaining it in another manner. Nevertheless, stocks and shares were exempted from being considered taxable assets, as of January 1, 1998.

When assets located outside Nigeria are sold by a nonresident individual, trustee, or company that is managed and controlled outside Nigeria, capital gains tax (CGT) is applied to the profits that are brought into Nigeria. The term used to describe this is the "remittance foundation." In addition, it is not possible to use capital losses incurred from selling one asset to offset capital gains from selling another asset, even if both are of the same type. Smith et al., (2021).

2.3.2 Principles of Disposal

Assets that are sold or otherwise transferred trigger a capital gains tax event, leading to capital gains or losses. Additional CGT occurrences encompass the loss or destruction of a CGT asset and the establishment of contractual or other rights. As stated by Ojo (2009), disposal of an asset refers to the act of obtaining a capital sum through various means, such as selling, leasing, transferring, assigning, or acquiring the asset through legal means. Disposal can also occur without the party making the payment or acquiring any assets. Disposal involves receiving compensation for the loss of employment or office, insurance payouts for damage or loss of assets, sums obtained for refraining from exercising a right, consideration for the use or exploitation of assets, and sums derived from trade, business, profession, or occupation. According to Smith et al. (2021), acquisition or disposal is considered to take place either on the date specified in the contract to buy or dispose of the asset or when there is a legally enforceable right or obligation to purchase or dispose of the asset or any part thereof.

2.4 CAPITAL ASSETS

2.4.1 Assets Exempted from Capital Gains Tax

Naira-metrics (2013) provided a comprehensive list of assets that are not subject to capital gains tax. These include profits from investments in stocks, shares, and government securities, and gains from ecclesiastical, charitable, or educational institutions. It also includes gains from registered friendly societies, cooperative societies, and trade unions. Other sources of gains include gallantry decorations, statutory bodies, gains from acquisitions, mergers, or takeovers where no cash payments were made for acquired shares, gains from insurance policies or deferred annuities (unless the beneficiary is not the original owner), compensation for wrongs or injuries, gains from private residences, private vehicles, assets used for trade or business purposes, provident or retirement benefit schemes, unit holders of Unit Trusts, and diplomatic bodies.

2.5 REVENUE

2.5.1. Government Revenue

Government revenue refers to the financial resources received by the federal, state, and local governments through transfer revenues, income from assets, and taxes (Smith & Johnson (2021). Bond sales are not considered revenue, even though they are a helpful means of obtaining money. Taxes and non-tax revenues are the two main categories of government revenues streams. Tax revenue is a necessary financial payment to the government by individuals, organizations, or groups. This includes both administrative costs and expenditures associated with providing goods and services, Obiechina (2010). Taxes must fund healthcare, education, public infrastructure, and other necessities. Taxes fall into one of two categories: direct or indirect. Direct taxes apply to property and income, whereas indirect taxes apply to goods and services, Mbanefor (1990). Non-tax revenue includes grants, commercial receipts, and administrative revenues. Commercial revenues represent payments for goods and services rendered by the government, whereas administrative revenue consists of income from licenses, fees, and

other sources. Grants are monetary contributions made to a lower level of government by a higher level for specific uses, like health care or education, Smith et al. (2021). Three tiers of government are in charge of administration and revenue collection in Nigeria's federal system of taxation. The federal government is responsible for some tax collections (Value Added Tax), but it divides the money it receives among other federation entities. The majority of federal revenue comes from oil, whereas revenue from non-oil sources—especially agriculture—has decreased. The government distributes funds to federal, state, and municipal governments through the Federation Account, following a revenue allocation formula. This calculation considers various factors, including land area, terrain, population density, internal revenue generation, state equality, and land area. However, opinions differ regarding the relative weights given to each parameter in the allocation process, as reported by Adeyemi and Idris (2019).

2.7 Theoretical review

2.7. 1 Optimal Taxation Theory:

Optimal taxation theory examines the formulation of tax policies with the goal of maximizing social welfare or economic efficiency. It considers issues such as fairness, effectiveness, and income production. Optimal taxation theory assists policymakers in determining ideal tax rates, exemptions, and thresholds for CGTs to strike a balance between revenue goals and economic incentives for investment and capital formation. **Frank P. Ramsey** (1927)

2.7.2 Laffer Curve:

The Laffer curve depicts the correlation between tax rates and revenues, indicating that higher tax rates might result in decreased tax receipts at specific tax rates as a consequence of discouraging economic activity. The Laffer curve provides policymakers with information about the optimal tax rate for capital gains that maximizes revenue in the context of the CGT. This statement emphasizes the balance between increasing tax rates to generate more income and avoiding excessively high rates that could discourage investment and hinder economic progress, Laffer (2004).

2.7.3 Fiscal Policy and Macroeconomics Impacts:

Fiscal policy theories analyze how government taxes and expenditures affect aggregate demand, economic growth, and employment. Modifications to the taxation of capital gains. The macroeconomic consequences of tax rates can be significant, as they influence investors' investment motivation, asset value, and total economic activity. Comprehending these impacts helps policymakers devise tax policies that promote wider economic goals (Nemec and Wright (1997).

The fundamental theory underlying this study is Laffer's theory, which provides guidance to policymakers on the optimal tax rate for capital gains that maximize revenue. It also emphasizes the balance between raising tax rates to generate more revenue and avoiding excessively high rates that could discourage investment and hinder economic growth.

2.8 Empirical review

Although there is a lack of research on the impact of capital gains tax (CGT) on states' internally generated revenue (IGR), a few studies have examined the relationship between national and state CGT collections, revenue creation, and overall economic development. El-Maude, Bawa, Mohammed, and Pate (2018) examined the influence of CGT knowledge on the generation of revenue in the north-eastern region of Nigeria between 2010 and 2015. Their analysis, utilizing data from 100 employees of the Federal Inland Revenue Service in Adamawa, Bauchi, Gombe and Taraba, demonstrated that the capital gains tax (CGT) had a negligible impact on revenue

generation in the region. Additionally, it was discovered that knowledge of and adherence to tax laws impacted income generation from capital gains tax (CGT).

Osho, Adeseyoju, and Idowu (2019) analyzed the impact of the CGT on investment, infrastructure provision, and gross domestic product (GDP) in Nigeria. The researchers used data from the Central Bank of Nigeria (CBN) and the Federal Inland Revenue Service (FIRS) for 2017. Using OLS regression models, they found that CGT had a statistically significant positive effect on investment and infrastructure provision. This means that it had a positive effect on government revenues because both of these were paid for by tax money. The results of this study were consistent with the findings of El-Maude et al. (2018), which showed that the contribution of the CGT to revenue generation in north-eastern Nigeria was positive but not statistically significant.

Kumai (2020) investigated the impact of capital gains tax (CGT) on Nigeria's overall tax collection and economic growth by analyzing secondary data from multiple sources. After performing a simple regression analysis using E-Views software, the researchers found a slight positive correlation between capital gains tax (CGT), overall tax revenue, and economic growth. However, this correlation was not statistically significant. This study determined that the contribution of the CGT to overall tax income and economic growth in Nigeria is not significant. This study recommended strengthening the administration and collection methods and reviewing the CGT Act.

Upaa, Agule, and Adeniran (2023) examined the influence of the CGT on Nigeria's economy using time-series data on total tax revenues and GDP from 2011 to 2020. A basic linear regression analysis determined that CGT did not have a statistically significant impact on total tax collection or GDP over the given time period. Dauda and Dauda (2020) conducted a separate investigation to evaluate the impact of the CGT on Nasarawa's internal generated income (IGR) between 2015 and 2019. These findings indicate that the state's approach to collecting CGT was inefficient in enhancing income. Their investigation found that the revenue generated by the CGT had no significant statistical impact on the state's IGR.

In contrast, Omesi and Akpeekon (2019) and Offor (2021) documented the substantial impacts of the CGT on government tax income and economic development in Nigeria, respectively.

3.0 Methodology

The methodology used in this project involves an ex-post facto research design that enables the comparison of pre-existing categories or concepts with a particular dependent variable. The objective here is to analyze how the capital gains tax (CGT) independent variable affects total tax revenues (TTR). The TTR consists of different components, including Value-Added Tax (VAT), Company Income Tax (CIT), Personal Income Tax (PIT), Capital Gains Tax (CGT), Withholding Tax (WHT), Customs Duties (CD), Excise Duties (ED), Stamp Duties (SD), Pay-As-You-Earn (PAYE) Tax, and Education Tax (ED). The research was conducted in Nigeria from 2011 to 2022. This study used secondary data gathered from the Federal Inland Revenue Service (FIRS) through the Planning, Research, and Statistics Department. Secondary data are advantageous because they allow access to published reports that contain the required information, which may not be easily obtainable through primary data gathering methods. The data underwent analysis utilizing descriptive and regression analysis techniques to obtain insights and make judgments about the research objectives.

3.1 Model specifications

Y = f(x)
Y = Total Tax Revenue (TTR)
X = capital gains tax (CGT)

TTR = f (CGT)
$TTR = \beta_o + \beta_o CGT + \varepsilon$ .... (1)

- TTR is the predicted value of the dependent variable for the expected value of the independent variable (CGT).
- β_o is the intercept, the predicted value of TTR if CGT = 0.
- β_o is the regression coefficient – how much TTR is expected to vary as CGT increases.
- CGT is the independent variable (the variable expected to impact TTR
- ε is the error term of the estimate, or how much variation the researcher has in his estimate of the regression coefficient.

4.1 Result

Table 1: Descriptive statistics

		Capital gain	Total Revenue	Ratio
N	Valid	12	12	12
	Missing	0	0	0
Mean		20.4229	5195.8825	.004592
Skewness		2.553	2.268	3.272
Std. Skewness Error		.637	.637	.637
Kurtosis		6.898	6.395	11.032
Std. Error of Kurtosis		1.232	1.232	1.232
Minimum		2.65	3307.46	.0006
Maximum		99.40	10179.35	.0300

Table 2: Model Summary

Model	R	R Square	Adjusted R-squared value	Std. Error in Estimate
1	.033[a]	.001	-.099	1847.14993

a. Predictors: (Constant) and Capital gain

Table 3: ANOVA with overall regression P-values

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	37127.119	1	37127.119	.011	.919[b]
	Residual	34119628.797	10	3411962.880		
	Total	34156755.916	11			

a. Dependent Variable: Total_Tax_Revenue

b. Predictors: (Constant) and Capital_gain_Tax

Table 4: Coefficient estimates

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	5152.734	674.854		7.635	.000
	Capital_gain	2.113	20.254	.033	.104	.919

a. Dependent Variable: Total_Tax_Revenue

4.2 Interpretation

The table 1 above presents the descriptive data analysis. The CGT had an average of 20.4229, while the GTR had an average of 5195.8825. The average ratio of CGT to TTR is 0.004592. This implies that the value of CGT is relatively small compared to TTR. In support of this, the model summary in table 2 demonstrates that the correlation coefficient (R) is 0.33, the coefficient of determination (R^2) is 0.001, and the F statistic is 0.011, with a significance value of 0.919 (see table 3). The coefficient of determination, R^2, suggests that CGT accounts for 0.1% of the variance in TTR. The model does not account for 99.9% of the total variation in TTR, which can be attributed to other factors. The calculated adjusted R-squared value was determined as 0.99. The analysis revealed that the observed difference in the relationship was not statistically significant ($p = .919 > 0.05$, refer to Table 4). According to the results, we conclude that the impact of capital gains tax on total tax revenues from 2011 to 2022 is insignificant. Thus, the null hypothesis (Ho) that income from capital gains taxes has an insignificant impact on Nigeria's total tax revenues is affirmed.

4.3 Discussion of finding

The results of this study are consistent with those of Osho, Ajibola, and Omolola (2019), who found that capital gains tax has a small but favorable influence on investment, social development, and economic growth in Nigeria. In order to prevent conflict and maximize the amount of money the government can raise to raise GDP, it is recommended that the capital gains tax (CGT) should be raised, but only at a reasonable amount. Furthermore, the study's findings are consistent with those of Kumai (2020), who found a negligible positive correlation between capital gains tax and overall tax revenue and economic growth in Nigeria. The analysis concluded that Nigeria's economic development and overall tax income were not greatly impacted by the capital gains tax.

This study partially corroborated the conclusions of El-Maude, Bawa, Mohammed, and Pate (2018), who found that tax awareness and compliance have an impact on capital gains tax revenue generation and that taxes make negligible contributions to revenue generation in northeastern Nigeria. The study concluded that non-compliance with taxes and a lack of tax awareness were the main causes of the capital gains tax's ineffectiveness. Additionally, the findings of this study support Dauda and Dauda (2020), whose analysis showed that the Nasarawa State internal revenue service's method of collecting capital gains taxes has not improved capital gains tax revenue collection in the state and that capital gains tax revenue has a statistically insignificant contribution to the state's total internally generated revenue during the period under review. The analysis led to the conclusion that because the Nasarawa State Internal Revenue Service's collection mechanism is inadequate, capital gain tax's overall contribution to the state's internally generated revenue is minimal.

The findings of this study also support the submission of Upaa, Agule, and Adeniran (2023), which showed that throughout the 2011–2020 period, capital gains tax had no appreciable impact on Nigeria's gross domestic product

or overall tax revenues. The findings of this study, however, differ from those of Omesi and Akpeekon (2019), who demonstrated that capital gains tax makes a substantial contribution to the government's overall tax collection and, consequently, to Nigeria's economic growth. Furthermore, Offor (2021) discovered that capital gains taxes significantly affect both Nigeria's gross national product and its gross domestic output.

5.0 Conclusion and recommendations

This study concludes that the influence of capital gains tax on total tax revenues is insignificant. It proposes that the government conduct a cost–benefit analysis when dealing with capital gains tax to ensure that the expense of collecting it does not exceed the benefits derived. It is advisable to either comprehensively reform or eliminate capital gains tax due to the fixed cost of collection.

5.1 Suggestions for further Study

The researcher is advised to encourage other researchers to investigate the expenses associated with collecting CGT to conduct a cost–benefit analysis of the value of CGT and the costs involved in its collection. This would enable policymakers to determine whether to continue implementing it or eliminate it, as recommended by Upaa, Agule, and Adeniran (2023).

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Appendix

Data Presentation

Year	Capital gain tax (N'b)	Total Tax Revenue (N'b)	Ratio (CGT/TR)
2022	45.5722	10,179.3516	0.0045
2021	17.50	6,402.71	0.0027
2020	3.5186	4,952.2245	0.0007
2019	5.9770	5,261.9163	0.0011
2018	12.5947	5,320.8914	0.0024
2017	3.1803	4,027.9452	0.0007
2016	99.4034	3,307.4614	0.0300
2015	16.8020	3,741.7574	0.0045
2014	2.6498	4,714.5603	0.0006
2013	19.6559	4,805.6420	0.0041
2012	8.9166	5,007.6528	0.0018
2011	9.3045	4,628.4757	0.0020

Source: firs.gov.ng/tax-statistics-report/ through: Planning, Research and Statistics Department.