



# APPRAISAL OF THE EFFECTIVENESS OF DIRECT TAX ON INTERNAL SECURITY FINANCING IN NIGERIA

Adegbite, Tajudeen Adejare<sup>1</sup>, Adeleke, Adeniyi Akinade<sup>2</sup>, & Ibrahim, Taiye Abdulrahim<sup>3</sup>

<sup>1, 2, & 3</sup>Department of Accounting,  
Al-Hikmah University, Ilorin  
Kwara State, Nigeria

<sup>1, 2, & 3</sup>Emails: [adetajud@yahoo.com](mailto:adetajud@yahoo.com); [kadeni82@gmail.com](mailto:kadeni82@gmail.com); [ibtaiye@gmail.com](mailto:ibtaiye@gmail.com)

## ABSTRACT

This study examined the impact of direct taxes on internal security financing in Nigeria. The data are time series which were collected from Central Bank of Nigeria (CBN) statistical bulletin, Federal Inland Revenue Service (FIRS) Statistics bulletins from 1991 to 2020. The study made use of econometric approach in estimating the effect of direct taxes on internal security financing. Unit root test-ADF, VECM, Cointegration analysis, and VECM Diagnostic Test such as Lagrange-Multiplier Test, Normality Test through Jarque-Bera, and stability test through Eigenvalue test of Stability Condition were adopted for analysis. The findings showed that PPT and CIT have positive significant impact on internal security in Nigeria ( $\beta = 0.39048$ ;  $0.09308$ ,  $P > |t| = 0.000$ ;  $0.003 < 0.005$  respectively). Conclusively, direct taxes significantly impacted internal security financing in Nigeria. It is recommended that direct tax revenue allocation on internal security financing should be doubled so that necessary equipment needed to face out insurgency in Nigeria would be acquired.

**Keywords:** PPT, CIT, Internal Security, Nigeria

## 1. INTRODUCTION

Government in any country, both developed and developing countries, are saddled with the unavoidable responsibilities of providing infrastructural facilities and other social services such as schools, electricity, hospitals, social security, good roads, defense, pipe borne water for its populaces. The question that pricking researchers' minds is how the responsibilities be fulfilled when the resources through crude oil (the major resources provider in Nigeria) are emaciated? Governments in all aspect



are expected to source for resources to offset their pertinent responsibilities and dispense, at all levels, internal security, protections and freedom for their citizen. Therefore, to effectively implement its functions adequately, government needs funds. It is not news that Nigeria government relied enormously oil revenue for the execution of its primary goals on internal security. Nigeria currently is facing country's unrest such as kidnapping, arm robbery, bandits and other form of insurgency which threaten the country. Procurement of ammunitions, firearms and others security equipment are important to decimate insurgency in Nigeria. The general well-being of the population and economic growth are related to the level of internal security put in place to safeguard the lives and properties of citizens (Oshio, 2019). If a country is perpetually in a state of unrest as a result of lack of funds to support internal security in that country, the resultant is a downward slope in the volume of internally generated revenue (Adegbite, 2021). Kiabel and Nwokah (2019) stated that government has been looking for substituted means of enhancing revenue because of the declining revenue, and increased government running cost as is apparent that the oil revenue is not sufficient to execute developmental objectives currently.

The enormous task of government responsibility to its citizens and the need to enhance the standard of living call for government serious financial involvement in a nation economic development. It has also been shown that government of many developing countries has not been able to provide adequate internal security due to inadequate revenue (Nwagboso, 2016). The ideals of taxation to garner sufficient resources to decimate insurgency are the dispositions of the current government in Nigeria. Taxation has been in existence for many years (even before the time of the colonial men or the British), did the revenue realize from this resources drawer are sufficient to procure the necessary ingredients for internal security in Nigeria? The disposition of this study is to examine the impacts of taxation revenue on internal security provision in Nigeria.

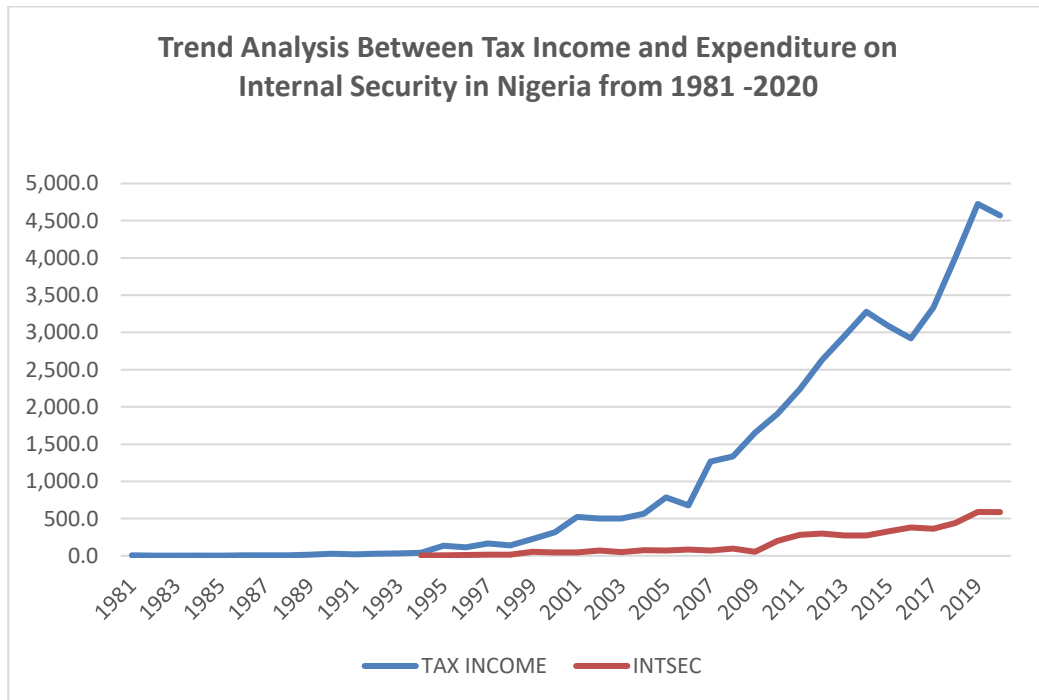


## **2. LITERATURE REVIEW**

### **Income Tax in Nigeria**

Tax can be referred to as a charge, usually in monetary terms imposed by an authority on persons or properties or members of an organization for public use or purposes. In most cases it is a levy charged by government on its citizens or residents. Therefore, taxation is the act of imposing financial obligation on individuals or entity by the government. Income tax is a major source of revenue to all government at present due to the dwindling of revenue from oil. This is an effective source for that is considered imperative by government when prepares budget. The tax has encouraged or discouraged activities of many companies in the private sector over the years because of the favourable or unfavourable government taxation policy. Taxes exist in varieties types, classes, and forms (Anyaduba, 2014). The acceptable classification of taxes in Nigeria are categorized as direct tax or indirect tax. The former is levied forcefully on the income of corporate, individual and the gained from the disposal of property such as Personal income tax, company income tax, petroleum profit tax, and capital gains tax while latter is levied on the goods as well as services produced in Nigeria.

Income taxes are usually realized above the budgeted income tax every year. This is divulged by Federal Inland Revenue Service (FIRS) report (2020). Tax income increase from N2.83 to N4.71 trillion from 2010 to 2014. The increment in income tax is not embedded with taxes realized by State and local government (FIRS (2020)). The chart below showed the trend between income tax and actualized internal security expenditure between 1981 and 2020 in Nigeria. Part of Income realized from tax has been allocated to internal security financing (CBN 2020). Fig 1 showed the trend between income tax and internal security.



**Fig 1:** *Trend Analysis between Tax Income and Expenditure on Internal Security in Nigeria*

It was shown from Fig I that according to (CBN 2020), Nigeria government started financing internal security since 1994. This was visible from the CBN statistical bulletin which divulged that from 1981 to 1993, Nigeria spent zero Naira in financing internal security. The reason was not far fetched because the country was free from insurgents and other unrest. In 1994, Nigeria spent N4.21 billion out of N 41.7 billion realized from taxation. This spending was moving and increasing upwardly in 1995 when government realized N135 billion and spent N6.60 billion on internal security (CBN, 2020). Despite there was reduction on the taxation income garnered in 1996 by 15.2%, income assigned to internal security was further increased by 80.3% in order to curtain the insurgents in Nigeria. Also, from the Fig 1, it is apparent that the internal security financing increases upwardly in response to taxation income increment. This shows that there is positive upward trend between taxation income and internal Security financing in Nigeria.



## **Concept of National Security**

National security in any country is the prerequisite to maintain state survival through diplomacy, economic, political power and power projection. Accordingly, to retain national glory, country needs to enjoy economic security, energy and environmental security. Security threats comprise natural disasters, insurgency, bandits, kidnapping, killings and other severe environmental damages.

The current security problems in Nigeria can be bifurcated into two major categories: the first group are those that request for the financial allocations in tandem with extracted natural resources from their provinces while the second group seems to be inspired religiously in which they compelled their religious beliefs on others in the country. Government has been embarking on different measures to guarantee national security, this includes procurement of ammunitions, maintaining of operative armed forces, creation of civil defense, intelligence services for crime detection, secret police and counterintelligence services to safeguard the nation against internal threats (Anyadike 2019).

## **Functions of Internal Security in Nigeria**

There are myriad attributes that constitute internal security of the country. These could be enumerated as:

- (a) Maintenance of law and order: Ensuring law and order is the prime responsibility of any government is to ensure 'Rule of law' prevails and law-abiding citizens are not frustrated in anyway.
- (b) Safeguarding sovereignty of the Nation: The challenges posed by the state and non-state actors in the form of terrorism, need to be neutralized in order to protect the sovereignty of the nation.
- (c) Ensuring domestic peace and tranquility: Incidents such as Communal violence, Ethnic clashes, and mob violence need to be checked to ensure peace and tranquility in the nation.
- (d) Equality: This is the responsibility on the state to ensure that equality before law and equal protection of law, state should ensure such rights are protected.
- (e) Freedom from fear: There should be an environment where people can express their views and thoughts without fear. Dissent is important in



democracy and differences between clusters of people could be resolved through dialogues.

- (f) Non-discrimination: There should be no discrimination (which includes exploitation and oppression) of any strata of citizens at the hands of State or society at large. The weak needs to be protected and enjoyed freedom and rights.
- (g) Social harmony and fraternity: Social harmony between various castes, communities, and regions is imperative to prevent and resolve internal security threats.

### **Internal Security Expenditure**

According to Yilidirim, Sezgin and Ocal (2015), the security expenditure budget value indicates funds allocated to maintain effective operational of security agents. Not all countries have the sufficient expenditure budget to cater for the procurement of ammunition but rely on international connections to sustain national threats and challenges. This also involves running expenditures of defence departments and governmental agencies involved in defence responsibilities. Internal security tasks are connected with protection of territory domestically, and protection of live and properties through civil defence, police, Military, correctional center, and legal vigilante (Oshio, 2019). Also, security expenditure is an imperative issue for both nation and international economy. Security spending comprises armed forces salaries, trainings, education, research and development, medical services, and ammunitions procurement to facilitating the prompt response to security challenges (Beijer, 2019).

### **Petroleum Profit Tax (PPT)**

This tax is forcefully levied on companies' income engaged in petroleum operations. This is limited to those companies that involved in upstream operations. The PPT levy is collected from the profits of company from oil activities as stated in the PPT Act (Usman & Adegbite 2015). PPT is levied based on the assessment which is payable from the income or profits realized in accounting period, usually one year (from January and ends by December). PPT applies principally to leases, premiums, profit-sharing and dividends of the clients involved in oil exploration, leasing and prospecting (Onaolapo, Fasina, & Adegbite, 2013). By comparing PPT to other taxes, Nigeria realizes massive income because it possesses specific characteristics emanated from oil industry. This tax is expected to generate income extensively for



the procurement of ammunitions, and offset the salaries of security agencies in Nigeria. Thus, it is hypothesized as:

*H<sub>01</sub>: PIT has no significant influence on Internal Security Financing in Nigeria*

### **Company Income Tax (CIT)**

CIT is a tax forcefully levied on the profits of companies registered in Nigeria, and also levied on foreign companies' profits operating in Nigeria. CIT has been collecting from the profit of the companies after the interest has been paid. It is compulsory that every company pay 30% as CIT to assist the government in fulfilling the fiscal responsibilities. Resident companies pay CIT on their income while non-residents pay CIT on income garnered for the country. CIT is based on the profits of accounting adjusted for tax purposes. FIRS is the custodian of CIT in Nigeria, and propounded law that regulates the companies' taxation in Nigeria which is CITA Act. Despite the enormous income realized from CIT, Nigeria internal security has been under estimated in terms of sufficient ammunitions and salaries. It is further hypothesized that:

*H<sub>02</sub>: CIT has no significant influence on Internal Security Financing in Nigeria*

## Conceptual Framework

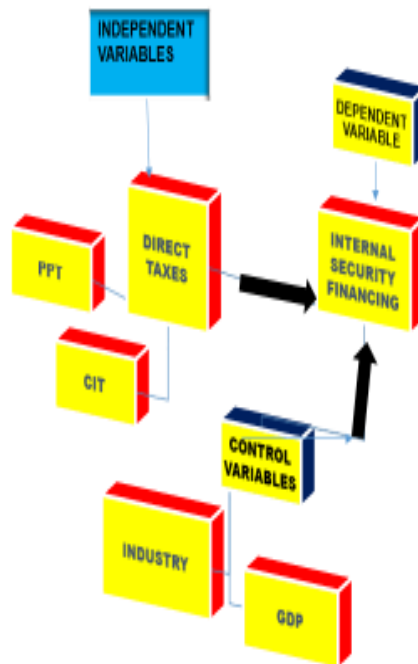


Fig. 2 – The Connections among Direct Taxes, Control Variables and Internal Security Financing  
Source: Authors' Conceptualisation (2021)

Fig 2 explained the connections among direct taxes which are the independent variables, internal security expenditure as dependent variable, and control variables. Industry and GDP are considered as control variables while PPT and CIT are the independent variables.





## **Theoretical Review**

### **The Crisis Theory**

Crisis in any domain negatively affect human society at large as propounded by Marx in 1930 as emphasized in James (2008). The effect displays the omen of crisis and security breach. Moreover, the relationship between safety and security theory, and crisis theory is called for thorough *examination*. Crisis theory focuses on the nature of the crisis and its causes. Management and prevention of crisis foundation of crisis are the main concerns of the crisis theory. It possesses systems and dynamic character which also inspects the rudimentary aspects of creation and crisis development. According to this theory, every crisis is embedded with solutions and preventions. It displays that before the contradiction reaches climax, the preventions and solutions are already on ground but both sides fail to reach the equilibrium of settlement. It also triggers when object of reference experiences unsavory change in situations which occurs due to the uncoordinated conduct of each side.

During this period, changes arise in the conditions, behaviour and environment. These perhaps were caused by power supply fault, inputs problem, fault in production elements, mismanagement of resources, and power tussle. But in any crisis, there is solution. We anchored on crisis theory because the insurgent problem was ignited and worsen because of power tussle, political influence, and mismanagement of resources. The solution to quench insurgency in Nigeria is to boost and beef up the internal security systems in Nigeria, this can be actualized through effective taxation income for the procurement of ammunitions, payment of security agents' salaries, promotions, Payments, retirements and other ingredients for effectively delivery of peaceful environments. This study is connected to this theory because crisis ignited from the misconstruing between the government and insurgents in which it has dispensed chaos and unrest in Nigeria. Government has been expending efforts to soil the crisis and settle the crisis amicably but proofed abortive. This prompted the government to consider internal security financing as an alternative to quench the insurgents in Nigeria.

### **Empirical Review of Related Studies**

Amana, Samuel, Aigbedion, Marvellous, and Zobair (2020) examined the impact of government security expenditure on growth of Nigerian economy from 1980 to 2018. To carry out the study, times series data were collected and econometrics tools were used for testing and estimation. Argumented Dickey – Fuller (ADF) was used for the



analysis together with OLS and ECM. The results revealed that Nigeria economic growth was strongly impacted by government security expenditure. The study recommended that a mechanism that ensures all monies spent on security in Nigeria are accounted for should be designed by the government, in order to properly monitor Nigeria economic growth. However, this study was limited to the impact of government security expenditure on growth of Nigerian economy which was not extended to taxation and internal security financing.

Peterside (2014) investigated on how military were co-opted in the Nigeria internal security, and the benefits and challenges of the sector. The study predominantly employed secondary data, the findings shown that the country is experiencing higher level of violence and wanton lives and properties destruction. According to this study, the military responsibilities on Nigeria internal security cannot be underestimated. Therefore, this study recommended that military should remain vital partner in Nigeria internal security. This study only investigated the efforts of military in curbing insurgency in Nigeria which was not extend to how internal security is being financed.

Kostyukov and Maslov (2018) examined the role of tax sovereignty and national fiscal security on taxes collection. The study employed scientific methods (synthesis, analysis, deduction, induction, description, comparison,) and particular legal academic methods (formal-legal method and legal acts interpretation,). Scientific approaches to the perception of national security was analyzed. It was noted that government, personal and public security were cooperated to achieve the objective of tax collection. It was concluded that tax sovereignty and national fiscal security had significant roles on taxes collection. However, this study only examined the efforts of tax sovereignty and national fiscal security on the revenue of taxation in Nigeria but how internal security is being financed through tax revenue was not examined.

Nwagboso (2016) examined the problem of African states' internal security problems with particular link to Nigeria . This further identified the superfluity of security problems confronting Nigeria such as Niger Delta problems, Kidnapping, Boko Haram and Jos Crises. Secondary data was adopted as the methodological orientation. The result revealed that national security policy on Nigeria internal security was weak to attack internal crises in the country. According to the study, well-educated, versatile, committed and honest policy makers are urgently needed in



the country through reliable electoral process. This study was limited to internal security problem in Nigeria but internal security financing was not assessed.

Gaps in the literature is that there is no study that examined the effects of taxation on internal security financing in Nigeria. The reviewed studies examined the problem confronting Nigeria which is extremely different from this study. The studies on taxation and internal security financing in Nigeria are scanty. In addition, this study is unique because of the contemporary issues on internal security challenges in Nigeria which invariably exposes the tremendous efforts of direct taxes on internal securing financing in Nigeria.

### **3. METHODOLOGY**

We adopted exploratory and ex-post facto design to examine direct tax effects on internal security financing in Nigeria. The data which was time series was collected through CBN statistical bulletin, FIRS Statistics bulletins from 1991 to 2020. The population of this research work was Nigeria which covered all the thirty- six (36) states because internal security is within the exclusive list which are within the purview of the federal government spending. The responsibility of the federal government is to provide security, and defend her populace within the country. In analyzing the data, regression model was employed to establish the impact of independent variables (PPT, CIT) on dependent variable (INTSEC). The study made use of econometric approach in estimating the effect of taxation on internal security. Unit root test-Augmented Dickey Fuller, Vector Error-Correlation Model (VECM), Cointegration analysis, and VECM, diagnostic test such as Lagrange-Multiplier Test, Normality Test through Jarque-Bera, and stability test through Eigenvalue test of Stability Condition were adopted for analysis.

#### **Model Specification**

The model explained the impacts of direct taxes on internal security in Nigeria. This stated that internal security is a function of taxation via PPT, and CIT. IND and GDP are considered as control variables while PPT and CIT are the independent variables which are measured by the aggregate monetary income realized from PPT, and CIT respectively. Industry (IND) are the aggregate productivity and monetary value of goods produced by manufacturing companies in the country. This is because CIT are forcefully collected from manufacturing companies. GDP are the monetary value of goods and services produced by all sectors in Nigeria. The functional relationship between direct tax and internal security financing in Nigeria is expressed thus:



$$\text{Internal Security} = f(\text{PPT, CIT, IND, GDP, } \mu) \dots\dots\dots (1)$$

Obtaining the OLS model from the above expression, we have:

$$\text{INTSEC} = a_0 + \beta_1 \text{PPT} + \beta_2 \text{CIT} + \beta_3 \text{IND} + \beta_4 \text{GDP} + \mu \dots\dots\dots (2)$$

This is transformed to:

$$\text{Log INTSEC} = a_0 + \beta_1 \text{LogPPT} + \beta_2 \text{LogCIT} + \beta_3 \text{LogIND} + \beta_4 \text{LogGDP} + \mu \dots\dots (3)$$

Where:

- INTSEC - Internal Security Financing
- PPT - Petroleum Profit Tax
- CIT - Company Income Tax
- IND - Industry
- GDP - Gross Domestic Products

#### 4. RESULTS AND DISCUSSION

The Unit Root Test of stationary and the results of multiple regression analysis, selection-order criteria, Johansen Tests for Co-integration, and Vector Error-Correlation Model were discussed below.

**Table 1**  
**Analysis of the impact of direct tax on internal security in Nigeria**

Dependent Variable	Independent Variables	Coef.	Std. Err	T	P> t	95percent Interval	Coef. Conf.
INTSEC	PPT	0.39048	0.07763	5.03	0.000	-.023678	.0244675
	CIT	0.09308	0.02927	3.18	0.003	.0689462	.2551012
	IND	0.04308	0.01048	4.11	0.000	-.0045521	.0131692
	GDP	0.01206	0.00358	3.36	0.002	.0015697	.0065449
	CONS	0.67460	0.07899	8.54	0.000	-19.2976	20.64679
R-squared	(R <sup>2</sup> ) =	Prob>	F =	Adj R-squared =	Root MSE = 34.928		
0.7638		0.0000		0.6986			
	F(6, 17) =	186.18					

Source: Researchers' Compilation (2021)



Table 1 shows the impact of direct tax on internal security financing in Nigeria. 1 percent increase in the Petroleum Profit Tax (PPT) increases internal security financing (INTSEC) by 0.39 percent. This suggested a positive impact of PPT on internal security financing (INTSEC). Also, CIT has been seen having positive significant effect on INTSEC that is a variation in CIT enhances INTSEC significantly by 0.09%. IND in addition enhances INTSEC significantly by 0.04%. GDP which is also control variable has positive effect on INTSEC that is a variation in GDP augments INTSEC significantly by 0.6%.  $R^2$  of 0.7638 (76%) confirmed the fitness of the model.

**Table 2**  
**Unit Root Test**

Variables	ADF stat	1percent critical value	5percent critical value	10percent critical value	Order of integration	Remark
INTSEC	-5.328	-3.723	-2.989	-2.625	1(1)	Stationary
PPT	-5.062	-3.723	-2.989	-2.625	1(1)	Stationary
CIT	-5.599	-3.723	-2.989	-2.625	1(1)	Stationary
GDP	-4.584	-3.723	-2.989	-2.625	1(1)	Stationary
IND	3.392	-3.723	-2.989	-2.625	1(1)	Stationary

Source: Researchers' Compilation (2021)

ADF hypothesis is that no stationarity existed in each of the variable employed. This can only be negated if ADF statistics is greater than critical value (5%) as reported by Adegbite (2020). It was observed in Table 1 that all variables employed were not stationary at level but stationary at first level difference because ADF statistics of all variables absolutely greater than 5% critical value of -2.989. This showed that longrun relationship existed among the employed variables. Having discovered the stationarity of all the variables at first different, the next thing we did was to discover the numbers of lag for this study which was discovered through the selection of order criteria which was shown in Table 3.

**Table 3**  
**Selection of lag for model (SLM)**

Lag	LL	LR	Df	P	FPE	AIC	HQIC	SBIC
0	-1187.23				9.8e+30	88.3871	88.4727	88.6751
1	-1004.39	365.67	36	0.000	2.0e+26	77.5105	78.1099	79.5262
2	-908.754	191.28	36	0.000	3.8e+24	73.0929	74.206	76.8364
3	-761.247	295.01	36	0.000	4.5e+21	64.8331	66.46	70.3044
4	1245.3	4013.1*	36	0.000	1.1e-39*	-81.1332*	-78.9925*	73.9341*

Source: Researchers' Compilation (2021)

In this study, an attempt to determine the dynamics of the various VAR/VECM models, the choice of the optimal lag length is necessary. The prerequisite to the VAR/VECM model estimates therefore is to decide on the optimal lag order. However, this is to be decided by SLM. To decide the optimal lag length in our system, we examined lag length from zero (0) to 10. In the lag order selection estimation using five endogenous variables in the model. Schwarz Bayesian information criterion (SBIC), Likelihood Ratio test statistics (LR), Akaike information criterion (AIC), Final Prediction Error (FPE), and Hannan-Quinn information Criterion (HQIC) chosen lag four unanimously as asterisked in Table 3. Therefore, lag four was employed in this regard. Once lag 4 was advocated by all parameters of selected by **SLM**, the next test we did was cointegration test to know the numbers of the cointegration equations among the model.

### **Johansen Test for Co-integration (JFC)**

To know the number of cointegration vectors among the variables Table 4 were compiled by the researchers to produce the information on the sample, trend specification, and lags number included in the model. The null hypothesis is that variables employed are not cointegrated. JFC emphatically displayed four cointegrated vectors among the variables because Trace statistics value of 5.4435 was below critical value (5%) of 15.41. this negated the null hypothesis of no cointegrating equations

**Table 4**  
**Johansen Test for Co-integration**

maximum rank	parms	LL	Eigenvalue	Trace Statistic	5percent critical value
0	42	-1096.7852		241.5248	94.15
1	53	-1041.7417	0.97754	131.4377	68.52
2	62	-1006.7956	0.76023	61.5455	47.21
3	69	-988.5106	0.71664	24.9755	29.68
4	74	-978.74459	0.49009	5.4435*	15.41
5	77	-976.05184	0.16948	0.0580	3.76
6	78	89.605124	-976.02284	0.00200	3.76

Source: Researchers' Compilation (2021)

**Table 5**  
**Vector Error-Correlation Model**

Equation	Parms	RMSE	R-sq	chi2	P>chi2
INTSEC	8	32.7645	0.7323	57.43163	0.0000
PPT	8	569.746	0.2251	6.099523	0.0361
CIT	8	74.7537	0.7849	76.6227	0.0000
IND	8	1253.73	0.8556	124.389	0.0000
GDP	8	2449.08	0.9104	213.4848	0.0029
AIC	=	SBIC	=	HQIC	= =
75.49943		77.99828		76.28204	77.99828

Source: Researchers' Compilation (2021)

Once the variables employed are cointegrated, this gave us the directives of disregarding VAR but proceeding to test VECM to know the level of causality among the variables. It was show in Table 5 that there is long run effect of taxation on INTSEC. This is supported by P>chi2 0.0000, 0.0361, 0.0000, 0.0000, and 0.0029 which are all less than 0.005.



**Table 6**  
**Johansen normalization restriction imposed**

Beta	Coef.	Std. Err.	Z	P> z	[95percent Interval]	Conf.
<u>_cel</u>						
INTSEC	1					
PPT	-0.37409	.058359	-6.41	0.000	.0259789	.0488385
CIT	-.010572	.002505	-4.22	0.000	-.0525319	.0536756
IND	-.057640	.019023	-3.03	0.002	-.0094981	-.0020299
GDP	-.024684	.000274	-8.99	0.000	-.0030063	-.0019305

Source: Researchers' Compilation (2021)

Table 6 explained the long run effects of direct taxes on INTSEC which was displayed and explained asymmetrically. It was discovered that PPT and CIT, which are independent variables, significantly and positively influenced and supported INTSEC (a variation increases in PPT and CIT increase INTSEC by 0.37% and 0.010% respectively). Also, IND and GDP as control variables increase INTSEC by 0.057% and 0.024% respectively. This indicated that PPT, CIT, IND and GDP have positive and significant influence on INTSEC.

### VECM Diagnostic Test

**Table 7**  
**Lagrange-Multiplier Test**

lag	chi2	Df	Prob> chi2
1	62.1550	36	0.00435
2	44.0669	36	.16726

H0: no autocorrelation at lag order

Source: Researchers' Compilation (2021)

The result from Table 7 showed us that there was no autocorrelation in our model, this was revealed at lag one and lag two the value of chi2 (62.1550) with prob>chi2 of 0.00435 which was below 0.05.





**Table 8**  
**Jarque-Bera (Normality Test)**

Equation	chi2	df	Prob> chi2
D_INTSEC	1.120	2	20.57125
D_PPT	9.243	2	0.40984
D_CIT	0.056	2	0.97225
D_IND	0.499	2	0.77912
D_GDP	1.266	2	0.53087
ALL	13.307	1	20.34710

Source: Researchers' Compilation (2021)

The test for normality of the model was also carried out. This was to ascertain whether the residual from regression model is normally distributed. The result from Table 8 showed that all incorporated variables in the model were normally distributed and overall, the model was normally distributed.

**Table 9**  
**Eigenvalue Stability Condition**

Eigenvalue	Modulus
-1.983999	1.984
1	1
1	1
1	1
1	1
1	1
1	1
.9695538	.969554
-.7796466	.779647
-.08468971 + .7177727i	.722752
-.08468971 + .7177727i	.722752
.5426618 + .2984034i	.619295
.5426618 - .2984034i	.619295

The VECM specification imposes 5-unit moduli.

Source: Researchers' Compilation (2021)

We also carried out Stability test to determine the model stability in Table 9. It was revealed that VECM specification enforced 5-unit moduli. This confirmed the model stability as shown above with unit value (1) in five times both in Modulus rows and Eigenvalue.



### **Discussion of Findings**

This study examined direct taxes' impacts on internal security financing in Nigeria. It was discovered that PPT has positive momentous impact on Nigeria internal security (INTSEC). This divulged that income from PPT enhanced internal security financing positively. This further shown that PPT displayed positive long run relationship with expenditure of internal security. Also, company income tax was also seen having positive influence of INTSEC. This suggested that the tax revenue from CIT was instrumental to internal security of lives and property in Nigeria. Also, Company Income Tax (CIT) had positive impact on the internal security in the country. The implication of the result is that CIT when monitoring the collection and disbursement effectively, it will provide immense supports to INTSEC significantly. IND in addition enhances INTSEC significantly. The implication is that income tax are realized from industries in Nigeria, the higher the productivity of industry the higher will be the income tax which in the long run will augment internal security financing significantly in Nigeria. GPD which is also control variable has positive effect on INTSEC, that is, a variation in GDP upwardly augments INTSEC significantly. The monetary values of goods and services produced in the country support internal security financing in the country, GDP and INTSEC are positively related.

### **5. CONCLUSION**

This study examined the impact of direct taxes on internal security financing in Nigeria. The data which were time series were collected through CBN statistical bulletin, and FIRS Statistics bulletins from 1991 to 2020. The study made use of econometric approach in estimating the effect of direct taxes on internal security. Unit root test-ADF, VECM, Cointegration analysis, and VECM Diagnostic Test such as Lagrange-Multiplier Test, Normality Test through Jarque-Bera, and stability test through Eigenvalue test of Stability Condition were adopted for analysis. The findings showed that PPT and CIT had positive significant impact on internal security financing. Conclusively, direct taxes significantly impacted internal security financing positively in Nigeria. It is recommended that direct tax revenue allocation on internal security financing should be doubled so that necessary equipment needed to face out insurgency in Nigeria will be acquired.



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