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Research Article

Sectoral Approach to Government Revenue: Influence of Manufacturing and Service Industry Contributions on Tax Revenue Generation

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Abstract

This study examined the influence of the manufacturing and service sectors on government tax revenue generation in Nigeria from 1992 to 2023. Using secondary data from the Central Bank of Nigeria (CBN) Statistical Bulletin, the study employed multiple regression analysis to assess the influence of sectoral performance on tax revenue. The results revealed that the manufacturing sector had a significant positive impact on tax revenue, with a coefficient of 22.78 and a p-value of 0.0000, indicating that an increase in manufacturing sector performance leads to higher tax revenue. However, the service sector's contribution was statistically insignificant (coefficient = 1.31, p-value = 0.8399), suggesting that its effect on tax revenue was minimal. The R-squared value of 0.8819 showed that the independent variables explained 88.19% of the variation in tax revenue, confirming the model's strong explanatory power. Based on these findings, the study recommends that the government strengthen the manufacturing sector through supportive policies such as tax incentives, improved infrastructure, and access to financing to enhance its tax contributions. Additionally, efforts should be made to increase the service sector's tax compliance and formalization to improve its role in revenue generation. Overall, the study highlights the importance of sectoral performance in tax revenue generation and provides valuable insights for policymakers aiming to optimize Nigeria's fiscal performance.

Keywords: *Tax Revenue, Government Revenue, Sectoral Contribution.*

1. INTRODUCTION

Revenue generation is an essential duty for governments worldwide, as it secures the resources necessary to finance public services, infrastructure projects, and economic development programs. Taxation, a primary source of governmental revenue, is influenced by several elements, including the degree of economic activity and the contributions from diverse sectors (Olaniyi, Onanuga, & Others, 2024). The manufacturing and service industries are prominent contributors to tax income in many nations due to their considerable economic activity and employment generation (Ogunjobi, Oluga, Oyeniyi, & Oladipo, 2025). Understanding how these sectors impact tax revenue generation is crucial for effective fiscal policy and economic planning. The manufacturing sector plays a critical role in revenue generation through corporate taxation, value-added tax (VAT), and employment taxes. A strong manufacturing industry often leads to increased productivity, higher incomes, and greater tax compliance, which ultimately enhances government revenue (Adegoriola, Nev, Akinboboye, & Ogiri, 2024). However, challenges such as inadequate infrastructure, inconsistent policies, and illicit financial flows can hinder the sector's potential to contribute effectively to government tax revenues (Abiodun, Olawunmi, & Others, 2024). Addressing these challenges requires strategic policies aimed at improving the business environment for manufacturers.

Similarly, the service sector, encompassing industries such as banking, telecommunications, and trade, has become a dominant force in many modern economies, contributing significantly to tax revenue (Aliyu & Audu, 2024). The increasing digitization of services and the expansion of financial technology have further boosted tax revenues from this sector (Aina, 2024). However, issues such as tax evasion, informality, and inadequate tax enforcement mechanisms limit

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the sector's full potential in revenue generation (Jacob & Umoh, 2024). Strengthening regulatory frameworks and tax compliance mechanisms is essential to maximize revenue from the service industry. In Nigeria, tax revenue generation has faced persistent challenges despite the country's diverse economic sectors. Studies have shown that weak tax enforcement, loopholes in fiscal policies, and structural deficiencies in key economic sectors have contributed to low revenue collection (Obembe, Aba, & Osadume, 2024). Additionally, illicit financial flows and corruption further undermine tax revenue generation, making it difficult for the government to finance developmental projects (Adegoriola, Nev, Akinboboye, & Ogiri, 2024). Thus, there is a need for sector-specific approaches to tax policy that address these inefficiencies.

The influence of sectoral performance on tax revenue generation can be understood through empirical analysis. Fiscal policies that promote industrial growth and investment in manufacturing often lead to higher tax contributions from corporate entities (Ogunjobi, Oluga, Oyeniyi, & Oladipo, 2025). Therefore, tailoring tax policies to the strengths and weaknesses of each sector is vital for revenue optimization. Moreover, the role of government interventions in promoting tax compliance cannot be overlooked. Efficient tax administration, reduction in multiple taxation, and incentives for businesses can encourage voluntary compliance and expand the tax base (Olaniyi, Onanuga, & Others, 2024).

2. PROBLEM STATEMENT

Tax revenue generation remains a critical challenge for many developing economies, including Nigeria, where the government struggles to mobilize sufficient revenue to finance public expenditures and foster economic development. Despite various tax reforms and policies aimed at improving tax collection, the country continues to experience revenue shortfalls, limiting its ability to invest in critical infrastructure and social services (Obembe, Aba, & Osadume, 2024). This persistent issue raises concerns about the effectiveness of existing tax policies and the extent to which key economic sectors contribute to government revenue. While several studies have explored taxation and fiscal policies, there is limited research on the sectoral approach to tax revenue generation, particularly in terms of how different sectors contribute to overall tax revenue. The manufacturing sector, as a key driver of industrialization and economic growth, is expected to be a major source of tax revenue. Additionally, many manufacturing firms operate in the informal sector, avoiding tax obligations and exacerbating revenue losses. While previous studies have examined the relationship between fiscal policies and manufacturing performance (Ogunjobi, Oluga, Oyeniyi, & Oladipo, 2025), few have specifically analyzed the direct influence of the sector on tax revenue generation. The lack of sector-specific tax policy frameworks further compounds the issue, creating a research gap that needs to be addressed.

Similarly, the service sector, particularly in areas such as finance, telecommunications, and trade, has grown significantly over the years, becoming a dominant contributor to economic output. Tax evasion, informality, and regulatory inefficiencies continue to undermine revenue collection in this sector (Jacob & Umoh, 2024). While studies have highlighted the economic significance of the service sector, limited attention has been given to its specific role in tax revenue generation and the policy measures required to enhance its contributions. Moreover, Nigeria's tax system faces structural deficiencies that limit the ability of the government to maximize revenue from both the manufacturing and service sectors. Issues such as multiple taxation, weak enforcement, and corruption create barriers to effective tax collection (Aliyu & Audu, 2024). The lack of an integrated approach to sectoral taxation has led to inconsistencies in revenue mobilization, resulting in an over-reliance on volatile revenue sources such as crude oil exports (Olaniyi, Onanuga, & Others, 2024). Addressing these challenges requires a more comprehensive understanding of how different sectors contribute to tax revenue and what policy adjustments are necessary to optimize their impact.

While previous research has largely focused on general tax administration, fiscal policy, and economic performance, there is a noticeable gap in studies that examine tax revenue generation through a sectoral lens. Most existing literature fails to distinguish the unique contributions of the manufacturing and service sectors to tax revenue and does not provide empirical insights into the factors that enhance or hinder their tax contributions (Obembe, Aba, & Osadume, 2024). Without this understanding, policymakers may continue implementing broad tax policies that fail to address sector-specific challenges, leading to suboptimal revenue collection. This research seeks to investigate the influence of the industrial and service sectors on the creation of government tax income.

Hypotheses

H_{01}: The performance of the manufacturing sector has no significant influence on government tax revenue generation in Nigeria.
H_{02}: The contribution of the service sector has no significant impact on government tax revenue generation in Nigeria.

3. LITERATURE REVIEW

Sectoral Performance

Economic growth and development rely heavily on the performance of different sectors within an economy, as each contributes uniquely to productivity, employment, and revenue generation (Ogunjobi et al., 2025). Sectoral performance

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refers to the efficiency and output of various industries, including manufacturing, services, and agriculture, in driving economic progress. In Nigeria, the manufacturing and service sectors are particularly critical, given their potential to boost employment and increase government revenue through taxation (Ekpe et al., 2024). However, the performance of these sectors has been inconsistent due to challenges such as policy instability, inadequate infrastructure, and limited access to financing (Ogbonna, 2024). Despite numerous government interventions aimed at reviving the sector, issues like erratic power supply, weak industrial policies, and reliance on imported raw materials continue to hinder its expansion (Ogunjobi et al., 2025). The service sector, on the other hand, has experienced substantial growth, driven by advancements in financial services, telecommunications, and trade (Abdullahi et al., 2024). However, concerns remain regarding the formalization of businesses within the sector to enhance tax compliance and revenue contribution.

A critical aspect of sectoral performance is its role in influencing tax revenue generation. Higher output and efficiency in key industries translate to increased corporate profits, employment rates, and consumption, all of which expand the tax base (Aliyu & Audu, 2024). However, weak regulatory frameworks, tax evasion, and ineffective enforcement mechanisms limit the extent to which sectoral growth translates into higher government revenue (Aina, 2024). Studies have examined sectoral contributions to GDP, but limited research has explicitly analyzed how the performance of specific industries directly impacts tax revenue generation (Jacob & Umoh, 2024). This gap necessitates further investigation into how improved sectoral performance can enhance fiscal sustainability.

Tax Revenue Generation

Tax income collection is fundamental to economic stability, allowing governments to finance infrastructure projects, provide public services, and promote economic growth (Aliyu & Audu, 2024). The principal sources of tax revenue in Nigeria are corporate income tax, value-added tax (VAT), and petroleum taxes. Nonetheless, despite many tax changes, the nation confronts enduring issues like inadequate tax compliance, extensive evasion, and excessive reliance on oil income (Aina, 2024). The performance of sectors is pivotal in influencing tax revenue, underscoring the necessity of examining the contributions of different sectors to governmental revenues.

A major impediment to tax revenue collection in Nigeria is the extensive informal sector, which predominantly functions outside the jurisdiction of the tax system (Ogbonna, 2024). The service industry, specifically, has several small and medium firms (SMEs) that frequently do not completely comply with tax requirements. Despite the government's use of steps to improve tax collection—such as utilizing digitalization and artificial intelligence in tax risk management—ineffective enforcement persists, undermining these initiatives (Aina, 2024). Likewise, the industrial sector encounters obstacles to tax revenue generation stemming from diminished output levels, elevated operating costs, and the prevalent use of tax evasion tactics by companies (Ogunjobi et al., 2025). Studies have shown that a well-structured tax system, coupled with sectoral growth, can enhance revenue generation and reduce fiscal deficits (Abiodun et al., 2024). However, the relationship between sectoral performance and tax revenue remains underexplored in the Nigerian context. While some research has focused on broad macroeconomic determinants of tax revenue, fewer studies have investigated how improvements in the manufacturing and service sectors can directly influence tax revenue collection (Jacob & Umoh, 2024).

Prior Studies

Nadabo (2023) examined the relationship between infrastructural development and the success of Nigeria's manufacturing sector, with institutional quality acting as a moderating influence. The study employed an Autoregressive Distributed Lag (ARDL) model on data from 2002 to 2021, revealing that institutional quality adversely impacted manufacturing performance in both the short and long run. The advancement of productive infrastructure markedly enhanced the performance of the industrial sector. These findings underscore the necessity of establishing a conducive environment for infrastructure development to augment manufacturing production in Nigeria.

Ojarikre et al. (2024) examined the impact of bank rates on the performance of Nigeria's manufacturing sector from 1986 to 2023, utilizing the Dynamic Ordinary Least Squares (DOLS) regression technique. The research analyzed several banking lending rates, encompassing prime lending rates, maximum lending rates, and savings rates. The results indicated that elevated prime lending rates adversely impacted the long-term performance of the manufacturing sector. In contrast, maximum loan rates exerted a considerable beneficial influence on industrial performance, but the impact of savings rates was favorable however not statistically significant. The report advised the Central Bank of Nigeria to establish regulations on lending rates to improve loan accessibility for the industrial sector, consequently augmenting production and maximizing output.

Simon et al. (2023) examined the impact of fiscal policy and private investment on the performance of Nigeria's manufacturing sector from 1981 to 2021, employing the ARDL modeling technique. The research demonstrated that domestic private investment and total government expenditure substantially enhanced manufacturing performance over the long term. Nevertheless, taxes and government revenue exerted a significantly adverse impact. The authors

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proposed various measures, such as augmenting elements that draw foreign direct investment, advancing education and skill enhancement, expanding financial markets to bolster domestic private investment, increasing government expenditure on manufacturing development, and ensuring the effective allocation of tax revenues to promote sustained growth in the sector.

Adefeso (2025) explored the impact of the cashless policy on the manufacturing sector's performance in Ife Central Local Government, Osun State, Nigeria. Using survey data and regression analysis, the study found that increased utilization of Point-of-Sale (POS) transactions improved financial inclusion among small and medium-sized manufacturing enterprises (SMEs). However, poor internet connectivity and limited access to digital banking services constrained the benefits of the cashless policy. The study suggested the expansion of digital infrastructure to support financial transactions in the sector.

Ogunjobi et al. (2025) analyzed the influence of fiscal policy on the efficacy of Nigeria's manufacturing sector employing an Auto-Regressive Distributed Lag (ARDL) model. The investigation examined the impact of government spending, taxation, and subsidies on industry productivity. The results demonstrated that government spending favorably affected manufacturing performance, but elevated taxes hindered private investment in the industry. The authors advocated for a balanced budgetary policy that promotes industrial expansion while guaranteeing enough income generation for the government.

Ekpe et al. (2024) conducted a case study on Lion Plywood Nigeria Limited, assessing the role of industrialization in socio-economic development in Akwa Ibom State from 2015 to 2023. The study found that the expansion of the manufacturing industry significantly improved employment rates and household income in the region. However, challenges such as inconsistent power supply and poor road networks limited the full potential of industrialization. The study suggested increased government intervention in infrastructure development to support the manufacturing sector.

Olaniyi et al. (2024) investigated the causal relationship among tax composition, infrastructure development, and economic performance in Nigeria. The study found that while infrastructure spending positively influenced manufacturing output, inefficient tax administration discouraged investment. The study emphasized the need for tax reforms to provide incentives for manufacturers while ensuring adequate revenue for infrastructure projects.

Aliyu and Audu (2024) examined the role of Value-Added Tax (VAT) in manufacturing sector growth, focusing on its impact across different states in Nigeria. The findings revealed that states with higher VAT collections witnessed stronger industrial expansion, while lower revenue-generating states struggled due to inadequate government support for manufacturers. The study recommended equitable tax redistribution mechanisms to enhance manufacturing development across all regions.

Jacob and Umoh (2024) explored the influence of the grey economy on the manufacturing sector in Nigeria. The study found that informal economic activities, including unregistered manufacturing businesses, contributed significantly to employment and production but limited tax revenue generation. The authors recommended policy measures to integrate informal Integrating factories into the formal economy can improve productivity and financial advantages. Aina (2024) examined the viewpoints of Nigerian tax officials and stakeholders about the application of artificial intelligence (AI) in tax risk management and its effects on the manufacturing industry. The results indicated that AI applications enhanced tax compliance and decreased evasion, hence promoting a more stable fiscal environment for firms. However, obstacles such as insufficient competence and reluctance to adapt hindered the complete implementation of AI. The report advocated for capacity-building initiatives to facilitate the incorporation of AI into tax administration.

Abiodun et al. (2024) examined the correlation between fiscal deficits and economic performance in Nigeria, focusing specifically on the manufacturing sector. The study determined that escalating fiscal deficits constrained government financing for industrial initiatives, adversely impacting sectoral performance. The authors recommended that the government adopt effective fiscal management measures that emphasize balanced budget allocations for manufacturing development.

METHODOLOGY

The research employed an ex-post facto design, utilizing historical data to evaluate the contributions of the manufacturing and service sectors to government tax collection in Nigeria. The study population comprised economic and financial data from 1992 to 2023, concentrating on sectoral performance metrics for the industrial and service sectors, as well as government tax revenue records. Data were obtained from secondary sources, including the Central Bank of Nigeria (CBN) Statistical Bulletin and other official financial reports, guaranteeing authenticity and dependability.

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A combination of descriptive and inferential statistical methods was utilized for data analysis. Descriptive statistics, including mean and standard deviation, were employed to characterize trends, while multiple regression analysis was performed to assess the link between sectoral performance and tax revenue collection. The designated regression model was as follows:

Tax Revenue $\beta_0 + \beta_1$ (Manufacturing Sector Performance) + β_2 (Service Sector Performance) + ε

In this model, Tax Revenue functioned as the dependent variable, whilst Manufacturing Sector Performance and Service Sector Performance acted as the independent variables. β_0 represented the intercept, β_1 and β_2 signified the coefficients measuring the impacts of the independent variables, and ε was the error term.

A multicollinearity test was performed utilizing the Variance Inflation Factor (VIF) to confirm that the independent variables were not too linked, hence ensuring the model's validity. The variables' statistical significance was assessed at the 5% level, and diagnostic tests, including heteroscedasticity checks, were conducted to validate the model's dependability.

4. RESULTS, CONCLUSION AND RECOMMENDATIONS

Descriptive Statistics Result

	TAX_REVENUE	MANUFACTURING_SECTOR	SERVICE_SECTOR
Mean	2307.374	119.4600	95.96222
Median	1300.300	92.95153	89.54877
Maximum	13587.50	421.0670	232.7148
Minimum	26.37510	3.426804	5.098520
Std. Dev.	2959.872	118.2565	71.09936
Skewness	2.195315	1.451546	0.365873
Kurtosis	8.264191	4.138587	1.813498
Jarque-Bera	62.65245	12.96576	2.590986
Probability	0.000000	0.001529	0.273763
Sum	73835.96	3822.720	3070.791
Sum Sq. Dev.	2.72E+08	433522.7	156708.7
Observations	**32**	**32**	**32**

Source: Eviews 9.0

The descriptive statistics provide insights into the distribution and characteristics of tax revenue, manufacturing sector performance, and service sector performance over the study period (1992–2023). The mean tax revenue stood at 2,307.37, indicating the average amount generated annually, while the median value of 1,300.30 suggests that the distribution is skewed toward higher values. The maximum tax revenue recorded was 13,587.50, while the minimum was 26.38, demonstrating a significant disparity in revenue generation over the years. The standard deviation of 2,959.87 further highlights high variability in tax revenue. The skewness value of 2.19 suggests that the data is positively skewed, meaning most values are concentrated towards the lower end, with a few extreme values pulling the mean higher. The kurtosis value of 8.26 indicates that the distribution is heavily tailed, suggesting the presence of outliers or extreme variations. The Jarque-Bera test yielded a probability of 0.000, confirming that tax revenue data is not normally distributed.

For the manufacturing sector, the mean performance index was 119.46, while the median was 92.95, indicating a slight positive skewness (1.45). The maximum value of 421.07 and minimum of 3.43 suggest considerable fluctuations in sectoral contributions over time. A standard deviation of 118.25 signifies a considerable degree of variability. The Jarque-Bera test probability of 0.0015 indicates that the data is not regularly distributed. The service sector data revealed a mean of 95.96 and a median of 89.55, with a skewness of 0.37, indicating a roughly symmetric distribution. A kurtosis score of 1.81 indicates that the distribution is less peaked than a normal curve. The Jarque-Bera test probability of 0.2738 suggests that the service sector data follows a normal distribution, indicating enhanced stability with time.

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Multicollinearity Test Result

Variance Inflation Factors
Date: 03/06/25 Time: 10:58
Sample: 1992 2023
Included observations: 32

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
MANUFACTURING_SECTOR	15.02452	12.08835	5.887062
SERVICE_SECTOR	41.56418	16.95727	5.887062
C	109719.3	3.173358	NA

Source: Eviews 9.0

The multicollinearity test results, based on Variance Inflation Factor (VIF) values, assess whether the independent variables (manufacturing and service sector performance) are highly correlated, which could distort the regression estimates. The centered VIF values for both the manufacturing sector (5.89) and service sector (5.89) indicate moderate multicollinearity. Generally, a VIF below 10 is considered acceptable, suggesting that while there is some correlation between the two variables, it is not severe enough to significantly affect the reliability of the regression model. The uncentered VIF values (12.09 for manufacturing and 16.96 for the service sector) are higher but are typically not the primary concern when interpreting multicollinearity since they include the effects of the constant term.

Heteroskedasticity Test Result

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	13.59568	Prob. F(2,29)	0.0001
Obs*R-squared	15.48501	Prob. Chi-Square(2)	0.0004
Scaled explained SS	68.30055	Prob. Chi-Square(2)	0.0000

Source: Eviews 9.0

The Breusch-Pagan-Godfrey test for heteroskedasticity was conducted to ascertain if the variance of the error components in the regression model is constant. The F-statistic of 13.60 and its corresponding p-value of 0.0001 demonstrate statistical significance at the 1% level, indicating the existence of heteroskedasticity. Furthermore, the Obs*R-squared statistic (15.49) with a p-value of 0.0004 and the Scaled Explained Sum of Squares (68.30) with a p-value of 0.0000 further substantiate that the residual variance is not constant. All p-values are below the 0.05 threshold, leading to the rejection of the null hypothesis of homoskedasticity, which indicates that the regression model is influenced by heteroskedasticity.

Regression Analysis Result

Dependent Variable: TAX_REVENUE
Method: Least Squares
Date: 03/06/25 Time: 10:57
Sample: 1992 2023
Included observations: 32

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MANUFACTURING_SECTOR	22.78215	3.876147	5.877524	0.0000
SERVICE_SECTOR	1.314169	6.447029	0.203841	0.8399
C	-540.2925	331.2390	-1.631126	0.1137

R-squared	0.881858	Mean dependent var	2307.374
Adjusted R-squared	0.873710	S.D. dependent var	2959.872
S.E. of regression	1051.857	Akaike info criterion	16.84356
Sum squared resid	32085720	Schwarz criterion	16.98098
Log likelihood	-266.4970	Hannan-Quinn criter.	16.88911
F-statistic	108.2337	Durbin-Watson stat	0.837109
Prob(F-statistic)	0.000000		

Source: Eviews 9.0

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The regression analysis indicates that the manufacturing sector has a substantial impact on tax income, evidenced by a coefficient of 22.78 and a p-value of 0.0000, demonstrating strong statistical significance at the 1% level. This finding indicates that a one-unit enhancement in manufacturing sector performance results in a 22.78-unit augmentation in tax income, provided all other variables stay unchanged. The service sector's coefficient of 1.31 is positive yet statistically insignificant (p = 0.8399), indicating that its performance does not significantly affect tax income throughout the research period.

The constant component (C) is negative (-540.29) and statistically insignificant (p = 0.1137), suggesting that external influences may affect tax income collection. The model has a robust fit, evidenced by an R-squared value of 0.8819, indicating that 88.19% of the variability in tax income is accounted for by the manufacturing and service sectors. The F-statistic of 108.23 and a p-value of 0.0000 validate the model's overall statistical significance. The Durbin-Watson statistic (0.8371) is comparatively low, indicating possible positive autocorrelation that may compromise the dependability of the data. The standard error of regression (1051.86) signifies a certain level of variability in the residuals.

Conclusion

This research assessed the contributions of the industrial and service sectors to government tax income in Nigeria from 1992 to 2023. The findings emphasized that the manufacturing sector significantly contributes to tax income, underlining its vital role in augmenting government revenue creation. Conversely, the service sector's contribution was statistically insignificant, indicating that its effect on tax revenue may be minimal or influenced by other underlying factors. The overall model demonstrated a strong explanatory power, but issues such as heteroskedasticity and possible autocorrelation suggest the need for further refinement in future studies.

Recommendation

The following recommendations were made for the study;

1. Strengthening the Manufacturing Sector – Given its significant impact on tax revenue, the government should implement policies that support the growth of the manufacturing industry. This includes providing tax incentives, improving infrastructure, ensuring access to affordable financing, and creating an enabling business environment to boost productivity and revenue contributions.
2. Enhancing the Service Sector's Tax Contribution – Since the service sector's impact on tax revenue was found to be insignificant, the government should explore measures to increase its contribution. This may involve improving tax compliance within the sector, expanding the tax base, enforcing proper documentation of service-related transactions, and implementing policies that encourage formalization of businesses within the sector.

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