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An Assessment of the Impact of Tax Policies on Economic Growth in Africa: A Literature Review of Previous Research

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Abstract

This study aimed to review empirical research on the relationship between tax policies and economic growth, with a specific focus on developing economies. The study employed a literature review of several empirical studies. The study relied on Google Scholar, Scopus, ScienceDirect, Directory of Open Access Journals and Web of Science to identify articles for review. The study analysed the published articles to provide an overview of the current relationship between tax policies and economic growth. The articles included in this review were reviewed empirical papers with the focus on developing economies. The review indicated that most of the articles supported the significant and positive relationship between tax policies targeted at indirect taxes and economic growth. The results also demonstrated that considerable attention must be given to direct taxes because, beyond a certain marginal tax rate, economic growth is suppressed owing to decline in expenditure by households. The research, however, emphasises on income tax, excise tax and value added tax compared to other types of taxes. The three types of taxes referenced in the preceding statement constitute the major source of tax revenue in developing countries especially in Africa. The review also highlighted evidence of fragmented, yet studies have not fully articulated the contextual influences. In this regard, research has not evolved substantially, which limits the ability to develop and internalise best practices with wide acceptance and application. The research focus on the uncertainty about the performance benefits of tax policies, providing limited insights and future studies should be informed by the need to enhance our understanding of how tax policies affect economic growth and whether they play other contextual roles that impact economic growth.

Keywords

Economic Growth, Theory, Tax Policies, Africa, Developing Economies

1. Introduction

The administration of taxes has evolved significantly during the twentieth century and economic philosophers like John Manard Keynes influencing the umbrella body of taxation known as fiscal policy (Medee & Nenbee, 2011). With the start and conclusion of the Second World War, several countries adopted progressive income tax systems to encourage specific behaviours (Dom & Miller, 2018). The progressive income tax regime includes the concept of proportionality, where individuals with higher incomes pay higher taxes in proportion to their earnings. The concept of proportionality is consistent with the view espoused by the father of modern economics Adams Smith, who discussed the principles of taxation in his book titled “The Wealth of Nations” proposing a canon of taxation based on the principles of certainty, equity, convenience and efficiency (Medema & Samuels, 2004).

The principle of efficiency is a significant component of the tax system because it affects economic growth. The high marginal tax rate on income can create disincentive for savings and investments leading to potential negative effects on economic activity. The taxes affect economic growth because of their impact on output, savings and investments (Ojede &Yamarik, 2012). These investments are generated from both private and public savings. Consequently, any factor affecting investment will influence the economic growth (Ojede & Yamarik, 2012). According to Romer (2015) economic growth is among the powerful tools for poverty reduction and improvement in the quality of life in most developing countries.

There is also discussion on tax reforms in promoting economic growth in several countries in Africa and in particular Ghana, Nigeria, South Africa and Kenya. With these current concerns around tax policy and imminent tax amendments, it is imperative that a causal relationship between taxes and growth be investigated. The study, therefore, seeks to examine the impact of taxes in general and across the three major tax types, i.e. the personal income tax, corporate income tax and value added tax on economic growth in Africa. The three tax types referenced in the preceding statement constitute the major source of tax revenue in most developing countries especially in Africa (United Nations Economic Commission for Africa, 2019).

2. Literature Review

2.1. Conceptual Clarifications

The tax policy is viewed as the framework for the implementation of taxes, particularly income tax, which occasionally involves the trade-off between efficiency and equity, but addresses the benefits of wealth redistribution. The implementation of the tax policy requires the application of tax rates and these rates are subject to changes following tax reforms. The tax rates are simply the percentage at which incomes of individual, business entity or financial transactions are levied by the tax authorities of a sovereign nation to promote economic growth. The tax rates can be amended following a tax reform and these reforms involves the altering the tax framework to improve economic efficiency, simplify tax administration, support monetary policy and adjust revenue mobilisation to meet changing fiscal needs of the country (King, 2021).

The concept of economic growth refers to the rise in the production of goods and services during a specific time. This phenomenon is measured using indicators such as the gross domestic product or gross national product. It can be expressed in nominal or real (adjusted for inflation) terms. A rise in the total output of an economy is simply known as the economic growth (Acemoglu, 2020). The real gross domestic product growth rate can be expressed as ratio and normally computed as the difference between the real gross domestic product of the current year and that of the previous year as a percentage of the real gross domestic product of the previous year. The exploration of the determinants of economic growth has been of interesting concern to Economists. The focus of academicians and researchers have been on the elements which cause national and sub-national areas to grow at different rates (The World Bank, 2016).

The debate over income disparities highlights the need for the study of policies affecting economic growth of independent states. In the past, researchers posited in some economic literature that macroeconomic factors that affect economic growth of a country include inflation, private and public investment, government spending, foreign direct investment, openness to international trade, political environment and institutional framework, economic growth (Vidyattama, 2010; Husnain et al., 2011). The other useful determinant of economic growth is the imposition of specific types of taxes. The term taxation has been defined as the imposition of levies on persons by the government or state to mobilise revenue for national development. The taxes are contributions of residents to state treasury based on a legislative framework without receiving direct service and used to finance public good (Gita et al., 2021).

The tax revenue is defined as compulsory imposition of levies by the government on the income of individuals and organisations with the aim of financing public expenditure, ensuring national development and stabilising the economy. The composition of tax revenue of a country across different tax types is known as the tax structure or tax mix. This is an important indicator, since different taxes have different economic and social effects. The tax structure is essentially the mix of diverse revenue sources a government uses to mobilise taxes. The tax structure reflects different policy choices, economic structures and tax administration capabilities and historical factors. Consequently, researchers have grouped the sources of tax revenue into direct taxes and indirect taxes (Organisation for Economic Co-operation and Development, 2022). The significance of tax policy in an economy is well-documented in literature by researchers (Hlongwane et al., 2018). The studies in this area suggest that tax policies can influence economic growth through macroeconomic and microeconomic channels (International Monetary Fund, 2011).

2.2. Theoretical Foundations

There are several theories that have been employed to drive research examining the relationship between tax policies and economic growth, but majority of the reviewed studies were conducted through the lens of four theories to provide theoretical and empirical support. The affected theories are the Classical theory, the Neo-classical theory, the Keynesian (Demand-side) theory and the Laffer Curve theory. There are studies in the past drawing mainly from the aforementioned theories which argued profusely that taxes have far reaching consequences on the economic growth of a country (Kumar, 2011; Tashakkori & Teddlie, 2010).

2.2.1. Classical Theory

An analysis of tax policies is a central feature of economic growth and can be traced back to the works of Adams Smith and David Ricardo (Kurz & Salvadori, 1998). The interest of these economists in problems of economic growth was rooted in the concrete conditions of their time. The Classical theory stresses that effective expansionary or contractionary fiscal policies including taxation can either lead to an enhancement or retardation of economic growth. This theory therefore contains ingredients very vital to the study in question and therefore considered apt for this study. The Classical theory takes the view that taxation can boost or impair economic growth depending on the tax administration and the application of revenue generated (Ikechi et al., 2022).

Ikechi et al. (2022) explained further that taxation is responsible for determining the level of output rather than the long-term rate of growth. These taxes can however have a negative effect and a positive effect on economic growth. The positive effect is indirectly driven by tax-financed spending or taxes used to finance investments in goods, especially goods generating positive externalities like social infrastructure, education and public health. The negative effect of taxation on economic growth stems from the modification of the decision of individuals in the direction of below optimality (Kurz & Salvadori, 1998). Accordingly, it was felt that taxes imposed can aid in identifying the forces in society that enhance or hinder development.

2.2.2. Neo-Classical Theory

The effect of taxes on growth has been incorporated in many growth models including Neo-classical economic growth models, which state that economic growth is not influenced by policy decisions. The Solow neo-classical growth model suggests a contradictory view to the effect that taxes affect only the level of income but not the rate of economic growth. The changes in tax rate will only cause temporary changes, during the period of transition to the steady states. In their view, once steady state is achieved, only technical progress will influence economic growth (Omitogun & Ayinla, 2007).

The endogenous growth models do not support the assumption of the Solow neo-classical model that economic growth is only influenced by technical progress. The endogenous growth model allows economic growth rate to be determined within the model and economic growth is influenced by economic policy. Therefore, in this economic growth model, taxes affect the long run growth rate, through the accumulation of physical and human capital. A change in tax policy will influence the economic growth. Additionally, endogenous growth models postulate to address neo-classical shortcomings (Romer, 2015). These models analysed growth using changes in technology and other factors of production.

2.2.3. Keynesian (Demand-Side) Theory

The adherents of Keynes believed that fiscal policy and in particular tax policies can be a powerful lever to grow the economy because the effect of an increase in spending or a cut in taxes would be multiplied by stimulating additional demand for consumption goods by households (Hayes, 2006). This anecdote is used to amplify the viewpoint of the believers of Keynesianism. Assuming, during a recession the government appropriates one hundred million United States Dollars for the construction of a highway bridge. The idle workers and machines will be put to work on bridge construction, resulting in an increase in economic growth by one hundred million United States Dollars over the period of construction.

Similarly, if there is a tax cut by the government, households would find themselves with additional disposable income. Their inclination to spend a portion of that additional income would set off a chain reaction of spending, increased incomes, and more spending. The key element in this process is that households respond to having additional disposable income by spending at least a part of their income on additional consumption. The fraction of an additional disposable income in whatever currency that is spent on additional consumption is called the marginal propensity to consume. The term marginal is used in economics to mean the response to an incremental change (Nelson, 2006; McConnell et al., 2021).

2.2.4. Laffer Curve Theory

This study is rooted in the Laffer Curve theory introduced by Arthur Betz Laffer in 2004. The theory posits that there exists an optimal tax rate at which government revenue is maximised and beyond this critical point, any further increase in taxes may lead to a decline in revenue, as higher taxes can be disincentive to economic activities such as work, investment and income declaration (Laffer, 2004). In essence, the Laffer Curve illustrates the conceptual relationship between tax rates and the amount of revenue a government can generate, emphasising that both excessively low and excessively high tax rates can lead to suboptimal revenue outcomes and economic growth (Wanniski, 1978). The graphical representation in **Figure 1** known as the Laffer Curve depicts this relationship, highlighting the point at which tax policy can most effectively enhance government income and economic growth.

The Laffer curve theory explains the optimal growth maximising tax rate, which is important in preparing the revenue and expenditure budget of the state. The attainment of economic growth requires financing such that government expenditure growth often exceeds gross domestic product growth. The challenge in Africa is the ability of government to finance the increasing expenditure. There are two options available and they are the imposition of taxes and debt financing. The tax component provides the largest contribution to domestic government revenue annually and there is the need for a reasonable imposition of taxes to stimulate economic growth in the long term. An excessive level of taxation can impede economic growth in line with the Laffer Curve theory (Yossinomita & Zulfanetti, 2023).

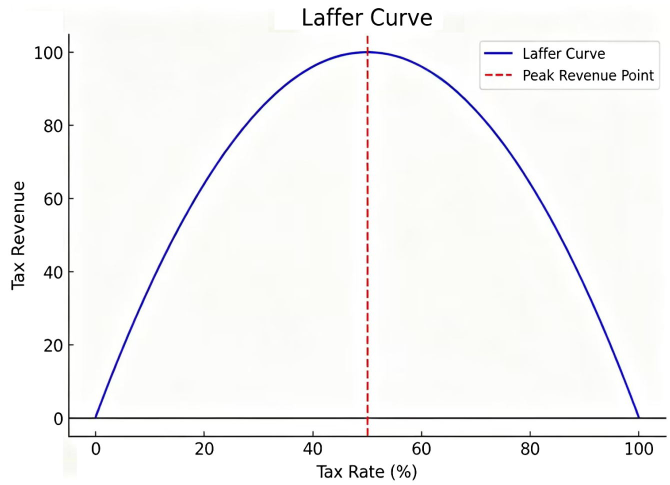

Figure 1. Laffer curve. Source: Gaius et al. (2025).

3. Methodology

The study primarily reviewed related empirical articles on tax policies and economic growth in Africa. The aim is to highlight the significant findings for a comprehensive understanding of the relationship and to help achieve the objective of the study. The articles relevant for the empirical literature review covered the period the period 2000 to 2025. The selection of this period was anchored on the need to provide up-to-date information from empirical studies. An internet search was performed using selected keywords to identify eligible articles for this review. The search words include tax policies, taxes, theory, countries, economic, growth, emerging, nations and Africa. The search words were used in combinations to generate articles focusing on the African context.

The study relied on Google Scholar, Scopus, ScienceDirect, Directory of Open Access Journals and Web of Science to identify articles for review. These databases have been index high-quality national journals and provide access to quality materials from the relevant authors. The articles initially identified from the search query were three hundred and twenty-one which were scrutinised for relevance and to objectively assess the quality in terms of relevance. The title and abstract were reviewed to eliminate irrelevant articles and this reduced the number of potential papers to one hundred and four. Consequently, the full text of the articles was read to finalise the shortlist of relevant studies. This was then reduced to fiftyseven eligible articles relevant to actualising the objectives of the study.

4. Results and Discussion

4.1. Evidence from Income Tax

Koch et al. (2005) examined the connection between taxes and economic growth by applying a two-stage modeling approach and using time series data from 1960 to 2002. The real gross domestic product growth rate, nominal gross domestic product, direct taxes and indirect taxes were the major variables of the study and the outcomes demonstrated that taxes that affect economic growth in developing countries are different from that of advanced countries. In South Africa for instance, negative tax mix elasticity is calculated, which is differs from the developed countries. The empirical evidence shows that tax distortions are severe in South Africa and decrease in indirect taxes relative to direct taxes, is a reason for increasing economic growth (Koch et al., 2005).

Lee and Gordon (2005) conceived how tax strategies affect the growth of a country, by means of available cross-sectional and time series information ranging from 1970 to 1997. They observed that the company tax rate is negatively connected, with economic growth in a cross-section fact of seventeen nations, managing for other economic growth stimulators and tax variables. According to estimates, by reducing corporate tax by ten percent, there is an increase in yearly growth rate by approximately 1.1%, whilst in permanent effect regressions, increase in corporate tax rates gives the low economic growth rate, in future, within countries.

Keho (2011) assessed the relationship, between different taxes and output in Cote D'Ivoire by applying Autoregressive Distributed Lag approach, for the period 1960 to 2006. The outcomes of the research demonstrate that all variables are co-integrated in the long run, except real gross domestic product and income taxes. All taxes except direct taxes in the form of income tax have a positive link with economic growth. As a policy recommendation, the study suggested, the transformation of income tax into indirect taxes, to augment economic growth.

In a separate study conducted by Wawire (2012) to determine the impact of income tax on economic growth in Kenya, the study concluded that there exists not so significant negative relationship between income tax and economic growth of Kenya. The study deployed the use of mainly secondary data collected from the Kenya Bureau of Statistics, World Bank and the Kenya Revenue Authority and was analysed using linear regression model. The dependent variable was economic growth whilst the explanatory variables were population growth, government consumption, foreign trade and income tax. The independent variables apart from income taxes had a positive impact on economic growth.

There are several studies dedicated to the assessing how taxes and their proxies influence economic growth, but there is no consensus on the magnitude of the effect, as the literature has produced a wide range of nexus. The greatest challenge is that these studies seek to estimate the effect of income tax on economic growth albeit with different research approach or methodologies. This follows that inconsistent outcomes will eventually be produced at the end of the study. Indeed, there are times that apriori expectation will be contradicted as is the case of the findings of the research of Wawire (2012) that suggested income taxes have a positive effect on economic growth. The contradictory findings are because of the study jurisdiction, time frame and the research methodology.

4.2. Evidence from Value Added Tax

Choifor (2009) conducted an exposition of the indirect tax structure of Cameroon and the trends of tax revenue growth. The time series data on tax revenue from 1980 to 2003 was used as a source of secondary data in the study and regression analysis was used for analysing the study data. The analysis revealed that value added tax remained rigid to tax revenue mobilisation after the 1999 tax reform. Jalata (2014) using the ordinary least squares method found that value added tax receipts play a significant and positive role in the national development of Ethiopia.

While analysing value added tax and economic growth within the context of Nigeria, by using time series data from 1994 to 2008 of four macroeconomic variables of gross domestic product, value added tax, total tax revenue and total federal government revenue that create the link between value added tax and gross domestic product, Adereti et al. (2011), showed that increment of the revenue base for the government to make funds available for developmental purposes in order to accelerate economic growth is the main aim of adoption of value added tax. This can be reasoned as value added tax secretly imposed on the prices of goods and services articulating the value are added upon them.

Owolabi and Okwu (2011) evaluated the contribution of value added tax to the growth and development of Lagos State economy in Nigeria. The study relied on microeconomic indicators of economic growth and development such as infrastructural development, environmental management, investment in education, youth development, agricultural sector development, health sector development and transportation sector development for the period 2001 to 2005 showed that value added tax revenue contributed positively to the growth and development of the specific sectors though the positive contribution was statistically significant only in agricultural sector development. The paper called for equity in sectoral spending of value added tax proceeds to ensure balanced and sustainable growth.

Unegbu and Irefin (2011) adopted both primary and secondary data sources together with regression analysis, discriminant analysis and the Analysis of Variance to test the study hypotheses. The results showed that value added tax accounted for approximately ninety-one per cent of the variation in the expenditure pattern of Adamawa State in Nigeria between 2001 and 2009. While they concluded that value added tax significantly influenced public spending, respondents in the state perceived that value added tax had a minimal impact on economic growth. Nonetheless, the reliability of the results is questionable due to their reliance on primary data, which introduces potential biases and limits the generalisability of their conclusions.

Bakare (2013) explored the influence of value added tax on the output growth in Nigeria using the Ordinary Least Squares regression approach. The study found a statistically significant and positive relationship between value added tax and output growth. It also suggested that historical value added tax values could be utilised to forecast future output trend but, this conclusion has been critiqued for being potentially misleading, as future economic growth can be influenced by numerous other factors such as technological advancement, labour and input costs and fiscal or monetary policy measures.

Ihenyen and Mieseigha (2014) studied taxation a major fiscal policy tool that enhances economic growth in Nigeria. The data was analysed with Ordinary Least Square regression technique. The empirical results suggested that the hypothesised relationship exists among corporate income tax, value added tax and economic growth in Nigeria. Therefore, the result tenders electrifying evidence that value added tax is a tool for economic growth in Nigeria. Thus, there is the need for government to ensure that taxpayers do not avoid or evade the payment of taxes to ensure that there is sustainable economic growth in Nigeria.

Takumah (2014) established that tax revenue in Ghana including value added tax has a positive, statistically significant, and long-term impact on economic growth, using quarterly data from 1986 to 2010 and the Vector Autoregression framework. The study revealed a unidirectional, tax-led growth causality, suggesting that improved tax collection measures, widening the tax base, and restructuring rates can foster economic development. Edame and Okoi (2014), interested in the effect of value added tax on economic growth in Kenya found a significant and negative relationship between the two variables.

Njogu (2015) sought to establish the role that value added tax contributes towards the growth of the Kenyan economy. The study adopted a causal research design with the aim of identifying the functional relationship between the selected variables under investigation. The study covered the financial year from 1990 to 2014 since this was the period under which this tax handle was rolled out (Njogu, 2015). The secondary data was obtained from quarterly reports of the Kenya Revenue Authority, the International Monetary Fund, the Kenya National Bureau Statistics and the World Bank on various variables which consisted of consumer price index, value added tax rates, gross domestic product and the unemployment rate.

The Poisson regression model was developed with the independent variables being the value added tax rates while the dependent variable being the proxy for economic growth. The research findings established that a negative significant relationship existed between value added tax and economic growth represented by gross domestic product, a weak positive relationship existed between value added tax and consumer price index whereas a strong positive relationship existed in relation to value added tax rates and unemployment (Njogu, 2015).

Kolahi and Noor (2016) examined the impact of value added tax on the growth of the economy of developing countries. A two-sector endogenous growth model was developed with growth, productivity and capital accumulation identified as influencing the rate of consumption tax which formed the independent variables of the study. According to Kolahi and Noor (2016), the study was narrowed down to nineteen countries in Africa during the period 1995 to 2010 with an econometric model developed and the analysis performed using STATA software. The research findings revealed that value added tax had a negative significant impact on capital accumulation, value added tax had a statistically strong positive relationship on the growth of productivity and finally value added tax also had a significant positive relationship with economic growth.

Kareem et al. (2020) conducted an empirical investigation into the relationship between value added tax and economic growth in Nigeria using the Autoregressive Distributed Lag (ARDL) model. Their analysis covered the period from 1994 to 2017 and focused on the interaction between value added tax and real gross domestic product. The findings revealed a significant and positive impact of value added tax on economic growth of Nigeria in both the short and long term. Additionally, the causality test indicated a directional relationship between value added tax and economic growth during the study period. The limitation of their research however was the exclusion of inflation from the model, thereby overlooking the potential influence of value added tax on general price levels.

Similarly, Onoja and Stephen (2020) analysed the link between tax revenue and economic growth in Nigeria between 2003 and 2017 through regression analysis. The results of the study showed a significant relationship between value added tax and gross domestic product, aligning with the findings of Harvest and Ataisi (2022), who examined the value added tax relationship with gross domestic product from 2000 to 2020 and reported similar outcomes. Chigbu and Ali (2014) utilised the Engle and Granger Co-integration method to assess the impact of value added tax on the economic growth of Nigeria from 1994 to 2012. While their results indicated a positive relationship between value added tax and gross domestic product, the analysis did not support the existence of either short-run or long run co-integration. As with the earlier studies, inflation was not incorporated into the models, which limits the robustness of their findings.

The research findings and the results of their analyses represent a valuable insight necessary to clarify the importance of the explored variables along with the identification of the potential points for subsequent research based on a deeper examination of the causal relations. The findings relative to value added tax and the effect on economic growth generated contradictory findings with the vast majority suggesting that the reviewed tax type has a positive effect on economic growth. The outlier was identified in the work of Kolahi and Noor (2016) that presented conflicting outcomes for the effect of value added tax on different components of economic growth. The theoretical underpinnings of the study of the duo researchers contributed significantly to the variation in the research outcome compared with their peers who analysed the same tax type and the effect on economic growth.

4.3. Evidence from Excise Tax

Ilaboya (2012) investigated the effect of indirect taxes on the economic growth of Nigeria. The study adopted a co-integration and error correction mechanism after diagnostic tests. The independent variables consisted of value added tax, custom and excise duty tax with data obtained from the Central Bank of Nigeria annual accounts and Federal Inland Revenue Services for the year commencing 1980 and ending on 2011. The research findings concluded that a negative insignificant relationship existed between indirect taxes especially excise duty and economic growth.

Okafor (2012) explored the impact of tax revenue on the economic growth in Nigeria over the period commencing 1981 and ending 2007. The ordinary least square multiple regression analysis was adopted to determine the relationship between economic growth and the major components of tax revenue such as petroleum tax revenue, company tax revenue, value added tax revenue, customs and excise duties revenue. The regression result indicated a very positive and significant relationship between customs and excise duties and gross domestic product.

In another study, Canicio and Zachary (2014) employed a Granger Causality test and a vector error correction model to investigate the correlation between tax revenue and economic growth in Zimbabwe from 1980 to 2012. The study revealed an absolute nullity or nil relationship between tax revenue including excise tax and economic growth. In the same vein, Dladla and Khobai (2018) studied the impact of taxation in South Africa for the period of 1981 to 2016 using the Autoregressive Distributed Lag approach. The study revealed a negative relationship between taxes including excise tax and economic growth. The study also revealed some co-integration between the two variables.

Osheke and Uke (2016) in a study of the impact of indirect taxes on economic growth of the Nigerian economy adopted a multiple econometric regression model and explained changes in the dependent variable which is triggered by the independent variable. The dependent variable economic growth was measured by real gross domestic product with the independent variables consisting of excise duty, value added tax and customs duty. The secondary data was obtained from the statistical bulletin of the Central Bank of Nigeria from 1993 to 2013 guided by the fact that prior years were impeded by the unavailability of data on value added tax. The correlation analysis suggested a moderately positive relationship existed between economic growth and excise duty at 0.58 (Osheke & Uke, 2016).

Adeyemi (2023) analysed the relationship among corporate tax, customs and excise duties and value added tax on economic growth in Nigeria from 1980 to 2020 using Autoregressive Distributed Lag models. The findings showed a long run relationship between tax revenue and economic growth. The corporate tax had an insignificant positive effect, while value added tax had a significant positive effect on real gross domestic product. The customs and excise duties, however, negatively affected economic growth. The study recommended the strengthening of the tax system in Nigeria to boost economic growth and development.

The findings gathered based on empirical research for the impact of excise tax as a tax policy on economic growth is worth analysing and it is apparent that there is a positive nexus between the pair of variables. There is, however, an occasional negative influence based on the literature and this is seen when the Autoregressive Distributed Lag model is deployed as it was in the case in the study carried out by Adeyemi (2023) among others. The use of other research methods produced consistent results regardless of the theoretical basis or the time frame of the research. It is clear that apriori viewpoint can be challenged depending on the methodology driving the study.

5. Research Gap and Study Limitation

The study reviewed empirical studies on the relationship between tax policy and economic growth, with emphasis on income tax, value added tax, and excise tax. This study relied solely on secondary data and reviewed articles published in the last quarter of a century. The data was also sourced from five specific database because of the quality of the data available. The focus of the literature review was on Africa and a quantitative research methodology informed the decision on the choice of the articles. The tax proxies and other growth determinants serving as control variables were clearly delineated as part of the study. The three tax proxies were the income tax, value added tax and excise tax.

This limitation suggests the presence of a research gap and provides a justification for future research. The scope of the tax types, the geographical area as well as the choice of research methodology can be varied in future studies. The aforesaid factors when considered for future research will ensure that further knowledge is added to the current depth of study materials in relation to taxation. The database of the tax policies, including but not limited to the estimation methods and characteristics associated with those estimates allows other researchers to further analyse the relationship between taxes policies and economic growth.

6. Conclusion

The use of taxation as fiscal policy measure remains a pressing research issue in public finance, particularly in the context of the African continent due to the difficulty and complexity associated with other sources of revenue. In response, several legislations and regulations have been enacted to improve the mobilisation and process of collection without impeding economic growth. There has been effort made to broaden the tax net and ensure that the roll of taxpayers is considerably high leading to increase revenue to the state. Despite these efforts, the source of tax revenue is skewed and dominated heavily by income tax, value added tax and excise tax in most countries in Africa (United Nations Economic Commission for Africa, 2019). The use of tax policies without compromising economic growth is considered crucial in ensuring development among countries.

This can however be achieved with a growth mindset and consideration given to the welfare of the populace because beyond a certain rate of taxation, income levels decline, ability to spend dwindles and the economy begin to contract as argued during the postulation of the Laffer Curve theory (Laffer, 2004). A moderate level of taxation based on government policy and developmental needs of the country is useful and will be acceptable in the long run. The appreciation of this approach lies in the alternative measure in the form of borrowing that is costly and highly prohibitive in most cases (McConnell et al., 2021). There is a strong preference for gross domestic product compared to other forms of measuring economic growth based on the review of the related literature. The gross domestic product serving as proxy indicator to measure economic growth is considered objective with a clearly defined mechanical approach for determination.

The use of this economic growth measure is also because of the accessibility and ease of comparability (Gavurova et al., 2021). The effect of tax policies on economic growth cannot be fully articulated or appreciated unless comprehensive investigations into the relationship are conducted, including the analysis of other critical aspects of the taxation and the impact on economic growth such as inflationary pressures and spending pattern of the government (Frost, 2023). The country-level characteristics such as tax legislation, incidence of taxation, economic conditions and price stability or otherwise were identified as moderators during the review of the available literature. These presence of these factors meant that high marginal tax rates contributed to the high incidence of the negative relationship between personal income taxes and economic growth. The indirect taxes comprising value added tax and excise tax in most cases had a positive impact on economic growth because their consumption is independent on income levels and the incidence of taxation lies with the final consumer.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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