CONTRIBUTION OF VALUE ADDED TAX TO REVAMPING ECONOMY OF NIGERIA (2010-2020)

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Abstract

The relevance of tax revenues is a core motive for suggesting that emerging economies such as Nigeria must increasingly mobilize their internal resources to enhance economic growth. This study examined the contributions of Value Added Tax (VAT) to revamp the economy of Nigeria. This study employed descriptive research design; secondary data was obtained from CBN Statistical Bulletin, time series data from 2010 to 2020 were used in the study. Multiple regression analysis was employed to examine the relationship between Value Added Tax and Nigerian economy. The p-value (0.000) in ANOVA showed that the regression model is statistically significant. From the analysis of this study, it was revealed that Total Consolidated Tax Revenue (TCR) has significant impact on the revamping economy of Nigeria, proxy by Gross Domestic Product (GDP) of Nigeria within 2010 to 2020. Findings was established that revenue generated through Value Added Tax has positive effect on the overall revenue generation in Nigeria, proxy by Gross Domestic Product (GDP). It was recommended that in order to uphold Value Added Tax (VAT)'s revenue role in the government's finance, the government should supervise the collection of VAT to ensure orderly, fair and equitable dealings in the collection of VAT revenue and to forestall illegal deals by privilege insiders in order to raise the revenue generated by this tax as effectively and efficiently as possible.

Keywords*:* Value Added Tax (VAT), Total Consolidated Revenue (TCR), Gross Domestic Product (GDP)

Introduction

Nigeria is a nation with federal political structure that adheres strictly to the same principles of fiscal regime and this system has serious implications on how the tax system is managed. Tax is an essential source of government revenue that defrays the expenditures incurred by government by making it mandatory on taxpayers. Tax is a valuable instrument of public finance whose magnitude affects the level of economic activity of an economy and is utilized not only for raising revenue of government to finance its programmes but also regulates the direction of economic performance of the economy (Ogbonna & Ebimobonee, 2012). One of the major challenges facing Nigeria's economy is the diversification of its revenue base. Tax refers to a compulsory levy by public authority for which nothing is received directly in return (Abiola & Asiweh, 2012). The Nigerian tax system has not been able to perform the expected role of revenue generation and regulation of income redistribution. On the other hand, the need for more sources of revenue for the government cannot be over emphasized.

Value Added Tax (VAT) has become a major source of revenue in many African countries such as: Benin Republic, Cote d'Ivoire, Madagascar, Mauritius and lately, Nigeria which has become an important contributor to total government tax revenues (Onoh, 2013). VAT, as a form of tax was introduced in Nigeria from 1st January 1994 based on the report of the study group set up in 1991 by government to review the system of indirect tax in Nigeria. Before the introduction of VAT in Nigerian economy, the Federal Government has been working relentlessly on how to revamp the Nigerian economy (Okoye & Gbegi, 2013).

Value Added Tax (VAT) is a broad based business tax imposed at each stage of production and distribution process typically designed to tax final household consumption (Denis, 2010). It is a type of indirect tax that is imposed on goods and services which plays an important role in the economic development of a country by influencing the rate of revenue accruable and consumption (Jayakumar, 2010). The relevance of tax revenues is a core motive for suggesting that emerging economies such as Nigeria must increasingly mobilize their internal resources to enhance economic growth and reduce fiscal deficits through the implementation of an effective tax policy (Adereti, Sanni & Adesina, 2011). It requires a taxable person upon registering with the Federal Board of Inland Revenue to charge and collect VAT at a flat rate of 7.5% on all vatable goods and services.

Economic growth measures the increase in the national income or total volume of production of goods and services of a country accompanied by improvements in the total standard of living of the people (Chinwuba & Amos, 2011). VAT revenue is generated for distribution to the state and local government in Nigeria, unlike the oil revenue whose

market government has no control over. VAT helps to reduce over dependence on oil revenue that assures a sustainable economic growth and development.

According to International Monetary Fund's survey, VAT can be defined as an indirect tax imposed on each sale beginning at the start of the production and distribution cycle and culminating in the sales to the consumer. It went further to create the impression that it is the consumer that absorbs the VAT as part of the sales prices, showing that VAT essentially is a consumption tax collected, throughout the production chain. The revenue structures of most developing countries have not been as productive as desired. The growth in revenue has failed to catch up with government spending pressures, a situation that has occasioned huge in balances between the demand and supply of public budgetary resources (Onaolapo & Fasina, 2013).

According to Anyanwu and Oaikhenan (1995), economic growth is the increase over time of an economy's capacity to produce those goods and services needed to improve the wellbeing of the citizen in their increasing number and diversity. It is also conceived as a sustained increase in the per capital income over a period of time (Claus et al., 2001). Kuznets defined growth (as cited by Todaro, 1995) as a long-term rise in the capacity of an economy to supply increasingly diverse economic goods and service to its population.

Gross Domestic Product (GDP) is the sum of the market values of goods and services produced in an economy during a period of time. According to Tjukanou (2011), GDP is an economic indicator used for comparing the performances of economic states, but very often the comparison is broadened to evaluate and estimate of the standards of living, progress or social welfare.

The first theory that this study looks at is Prof. Arthur Laffer theory on taxation, popularly known as the "Laffer Curve". It is a theoretical representation of the relationship between government revenue raised by taxation and all possible rates of taxation. This theory is demonstrated with a curve (i.e laffer curve which is constructed by through experiment). It is considered the amount of tax revenue raised at the extreme tax rates of 0% and 100%. The theory concludes that a 100% rate raises no revenue in the same way that a 0% tax rate raises no revenue. This because at 100% rate, there is no longer incentive for a rational tax payer to earn any income, thus, the revenue raise will be 100% of nothing. It therefore follows that there must exist at least one rate in between where tax revenue would be a maximum. One potential result of this theory is that increasing tax rate beyond a certain point will become counterproductive for raising further tax revenue because of diminishing returns (Laffer, 2004).

The Ability-to-pay principle as the name implies, says that the taxation should be levied according to an individual's ability to pay. It says that public expenditure should come from "him that hath" instead of "him that hath not". This is indeed the basis of progressive tax, as the tax rate increases by the increase of the taxable amount. This principle is the most equitable tax system, and has been widely used in industrialized economics (Adebisi & Gbegi, 2013). The usual and most supported justification of ability to pay is on the grounds of sacrifice.

According to Adebisi & Gbegi (2013), the payment of taxes is viewed as a deprivation to the taxpayer because he surrendered money to the government which he would have used for his own personal use. However, there is no solid approach for the measurement of the equity of sacrifice in this theory, as it can be measured in absolute, proportional or marginal terms. Thus, equal sacrifice can be measured as : (i) Each taxpayer surrenders the sane absolute degree of utility that he/she obtains from his/her income; (ii) Each sacrifice the same proportion of utility he/she obtains from hi/her income; (iii) Each gives up the same utility for the last unit of income; respectively.

The Benefit theory states that the governments should levy taxes on individuals according to the benefits conferred to them. The more the benefits a person derives from the activities of the governments, the more he should pay to the governments. This principle has been subjected to severe criticism on the following ground: Firstly, if the government maintains a certain connection between the benefits conferred and the benefits derived. It will be against the basic principles of tax. A tax, as we know, is a compulsory contribution made to the public by tax authority to meet the expenses of the government and the provision of general benefit. There is no direct quid pro quo in the case of a tax (Anyanwu, 1993).

Secondly, most of the expenditure incurred by the government is for the general benefit of its citizens, if not possible to estimate the benefit enjoyed by a particular individual every year. Thirdly, if this principle is apply in practice, then, the poor will have to pay the heaviest taxes, because they benefit more from the services of the government. If more are collected from the poor by the way of taxes, it is against the principle of justice.

Empirical Review

Orisadare & Fasoye (2022) examined the effect of VAT on economic growth in Nigeria between 1994 and 2020 using consumer price index (CPI) as a threshold. A technique of Threshold Vector Autoregressive (TVAR) was employed and the results reveal that a VAT above the 10 percent threshold value endangers the economy while a VAT below the 7.59 percent threshold value does not harm the economy; rather, it improves people's well-being. It was therefore recommended that Nigerian economy should maintain the lower VAT threshold to cushion the effect of ever rising CPI on the citizens.

Yelwa, Awe & Muhammed (2018) examined the effect of Value Added Tax (VAT) on economic growth in Nigeria in the period 1994-2016. The study used Ordinary Least Squares (OLS) and Granger causality technique using secondary data sources. The dependent variable was growth rate of Gross Domestic Product (GDP) while the explanatory variables are value added tax (VAT) and Customs and Excise Duties (CED). The results of the study revealed that VAT and CED have no significant effect on economic growth. It also showed that there is no causality among the variables. The study recommended among others, the need for effective and efficient utilization of VAT revenue for infrastructural development to improve productivity; fiscal discipline, strengthening of the anticorruption agencies, ensuring rule of law and good governance, and improving the capacity of tax officials through improvement in their working environment with training and retraining to improve their commitment to work and enhance their productivity.

Basila (2010) investigated the relationship between Value Added Tax (VAT) and Gross Domestic Product (GDP) in Nigeria from the periods of 1994-2008. Secondary data was got from CBN Statistical Bulletin and was analyzed with Pearson's product moment correction of coefficient. It revealed that there exist a strong positive correlation between VAT revenue and GDP as regards the test if significance, the t-test confirmed that VAT is significantly different in relation to GNP in Nigeria.

Musa & Sanusi (2013) investigated the relative impact of value added tax on economic growth in Nigeria. Johansen co-integration test was used for the study. The result of co-integration test does not provide any evidence of long-run equilibrium relationship among the variables. An unrestricted vector auto-regressions (VARs) technique were employed to analyze and draw policy inferences. Impulse Response Functions (IRFs) and Forecast Error Variance Decompositions (FEVDs) were computed through 1000 Monte Carlo simulations. The results derived from the impulse response function (IRF) and forecast error variance decomposition (FEVD) implied that value added tax have positive impact on economic growth in Nigeria, where variation in this variables growth rate will causes variation in real economic activity with about 50 percent in the near future. It was concluded that the policy makers in Nigeria should continue this fiscal policy with other macroeconomic indicators. Per suing this policy will enhance the Nigerian economy positively, more specifically in this time of economic crisis in the world.

Umeora (2013) investigated the effects of Value Added Tax (VAT) on economic growth (GDP) and total tax revenue in Nigeria. VAT was introduced in the country in 1994 and one wants to estimate its contributions to GDP and total Revenue. In pursuit of this, two hypotheses were proposed namely that VAT does not significant effect on GDP and VAT does not have significant effect on GDP. Simple Linear Regression method was used to analyze time series data relating to VAT, GDP and Total R for period 1994 – 2010 and computation was done with the assistance of SPSS. The results of regression analysis showed that VAT has significant effect on GDP and also on Total Tax Revenue. That means that both Null Hypotheses are accepted. The government is encouraged to sensitize the people to enable it increase the tax rate so as to enlarge its annual revenue for economic development.

Kareem, Arije & Avovome (2020) investigated Value Added Tax (VAT) and Economic Growth in Nigeria. The objectives of the study were to examine the impact of value added tax and economic growth and to determine the causal relationship between Value Added Tax and economic growth in Nigeria. Secondary data were sourced from Central Bank of Nigeria Statistical Bulletin was used for the study. The data properties were tested for unit root using Augmented Dickey-Fuller, Bound test co-integration was used to test for the long run relationship between the variables. The result revealed that value-added tax positively and significantly impacted on economic growth of Nigeria both in the long-run and short-run. The causality test also indicated that there was a causal relationship between Value Added Tax and economic growth in Nigeria during the period under study. The study recommended that government should increase the VAT rate and eliminate every VAT revenue leakage since it was found to have positive effect on economic growth in Nigeria.

2 Methodology

This section of the paper presented, analyzed and discussed the time series secondary data from the Central Bank of Nigerian Statistical Bulletin from 2010 to 2020. The proxy of Economy was Gross Domestic Product represented with (GDP) as the dependent variable while Value Added Tax (VAT) and Total Consolidated Revenue (TCR) as the independent variables. The data was analyzed using multiple regression.

Sub-section 1: Presentation of Results

Tables and Figures

Table 1: Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estate	F-statistic	Durbin-Watson
1	.911[a]	.829	.795	16084.19270	24.263	1.608

a. Predictors: (Constant), VAT, TCR
b. Dependent Variable: GDP

Source: SPSS output, 2022

Table 2: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12553853961.637	2	6276926980.818	24.263	.000[b]
	Residual	2587012547.673	10	258701254.767		
	Total	15140866509.309	12			

a. Dependent Variable: GDP
b. Predictors: (Constant), VAT, TCR

Source: SPSS output, 2022

Table 3: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	13621.555	17357.588		.785	.451
	TCR	-6.397	2.487	-.386	-2.572	.028
	VAT	296.882	43.002	1.035	6.904	.000

a. Dependent Variable: GDP

To form the model, it gives:

GDP: 13621.555 -6.397TCR + 296.882 VAT + μ

3 Discussion

Table 1 provides R and R^2 values. It showed the result of goodness of fit test (R^2) that is the amount of the variation in the dependent variable Gross Domestic Product (GDP) that are explainable by the explanatory variable. The (R^2) which measures the overall goodness of fit of the entire regression shows the value of 0.839=82.9% with the Adjusted R^2 squared statistic, which is more suitable for comparing models with different numbers of independent variables and standard error of the estimate shows the standard deviation of the residuals to be 16084.19270. This shows that the independent variables Total Consolidated Revenue (TCR) and Value Added Tax (VAT) accounts for

about 83% of the variation in the dependent variable in the mode while the remaining 17% can be explained by other variables which are not included. This implies that independent variables (value added tax and total consolidated revenue) under consideration has good impact on economics of Nigeria within the time frame of 2010-2020.

F-test: if the f-calculated is greater than the f-tabulated (f-cal>f-tab) reject the null hypothesis (H_0) that the overall estimate is not significant and conclude that the overall estimate is statistically significant. From the result, f-calculated 24.263 which is greater than the f-tabulated, that is f-cal>f-tab. Hence, we reject the null hypothesis (H_0) that the overall estimate has a good fit which implies that the independent variables are very significant.

Durbin Watson Statistics: the computed DW is 1.608, at 5% level of significance with two explanatory variables and observations. The Durbin-Watson which is above the two critical values of $1.5 < d < 2.5$ and therefore shows that there is first order linear auto-correlation in the data.

Table 2 above shows the F-ratio of the ANOVA table test, the significance of all the predictor variables. From the ANOVA statistics, the processes data, which are the population parameters, had a significance level of 0.000^b which showed that the data is significant for making a conclusion on the population's parameter. The F calculated at 5% level of significance was 24.263. Since f-cal is greater than the F critical, this shows that the overall model is significant i.e. there is a significant relationship between Gross Domestic Product (dependent variable) and the set of independent variables of Value Added Tax and Total Consolidated Revenue.

However, Table 3 coefficients table provides the necessary information to predict Gross Domestic Product (GDP) from Value Added Tax (VAT) and Total Consolidate Revenue (TCR) as well as to determine whether the independent variables contributes statistically significantly to the model (by looking at the 'Sig.' column). The value of the intercept which is 13621.555 shows that the Gross Domestic Product (GDP) of Nigeria under the study period will experience 13318.3 unit increases when all other variables are held constant. The coefficient of Total Consolidated Revenue (TCR) is -6.397 which shows that total consolidated revenue has a negative relationship with gross domestic product of Nigeria that is, a unit decrease total consolidated revenue is followed by decrease in gross domestic product. The coefficient of value added tax is 296.882. This shows that Value Added Tax is positively related to Gross Domestic Product (GDP) of Nigeria in such a way that it is a unit increase in Value Added Tax (VAT) followed by an increase in Gross Domestic Product (GDP).

4 Conclusion

This study explored the contributions of Value Added Tax (VAT) to revamping economy of Nigeria within the time from of 2010 to 2020. Time series data from CBN statistical bulletin was obtained and analyzed using multiple regression analysis. From the analysis of the findings, it was revealed that Total Consolidated Revenue (TCR) has significant impact on the economics of Nigeria, proxy by Gross Domestic Product (GDP) of Nigeria within 2010 to 2020. Also, findings of the study established that revenue generated through Value Added Tax (VAT) has positive effect on the overall revenue generation in Nigeria, proxy by Gross Domestic Product (GDP).

Conclusively, this study ascertained the revenue generated from Value Added Tax (VAT) should be promoted as it could be a means to combat dwindling economic condition of Nigeria. Based on the findings of this study, the following recommendations were made:

Firstly, to uphold value added tax, VAT's revenue role in the government's finance, the government should supervise the collection of VAT to ensure orderly, fair and equitable dealings in collection of VAT revenue and to forestall illegal deals by privilege insiders in order to raise the revenue generated by this tax as effectively and efficiently as possible.

Government should transparently and judiciously account for the revenue it generates through VAT by investing in the provision of infrastructure and public goods and services. It is expected that the effectively and efficiently revenue is utilized by Government to create growth, employment opportunities and wealth in the economy, the more willing taxpayers would meet their obligations to the Government and discharge their duties in the overriding goal of achieving National Development.

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