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Value Added Tax and Economic Development in Nigeria

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ABSTRACT: *This paper attempts to examine the relationship between Value added tax and Economic development: in Nigeria. It is expected that this study will be of immense use to both the Government and general public. The study covered 18years period between 1994 and 2012. Multiple regression was used to analyse the data gotten from Central Bank of Nigeria (CBN) Statistical Bulletin of various years. The result of the multiple regression showed a negative significant relationship between value added tax revenue and Gross domestic product. Also, the result showed a positive significant relationship between Gross domestic product and Total consolidated revenue. We recommend that federal government should educate the general public more on the essential of VAT payments and also that machineries should be put in place to ensure that VAT revenue does reduce as this will help foster economic development. Also, VAT rate should be increased as it will account for more revenue to the government.*

KEYWORDS: Value Added Tax, Gross Domestic Product, Total Consolidated Revenue.

INTRODUCTION

Over the decades around the globe especially in the developing economies, Value Added Tax revenue has been recognised as accounting for a significant percentage of the total government revenue. Value added tax has been adopted by several countries of the world because of the growing concern about economic efficiency and tax simplicity in a competitive and integrated world economy (Jenkins & Kuo, 1995)

The indisputed contribution of VAT to total government revenue in countries where it has been in existence influenced the government decision in 1993 in Nigeria to introduce VAT to replace the sales tax which has been in existence prior to the time. The Federal Inland Revenue Service (FIRS) stated that VAT is easy to administer and of course very difficult to evade. Also, the result of a study conducted by IMF to ascertain whether countries with VAT system had higher tax revenue to GDP ratio proved more tantalizing as the study revealed that VAT system generates higher revenue to the government. The introduction of VAT assisted immensely to diversify the revenue base of the nation as VAT revenue in 1994 accounted for about 36.5% of the budgeted revenue and 4.06% of the total government revenue and 5.93% in 1995. VAT at present contributes higher to total government revenue in Nigeria as it provides the government with expected revenue to embark on developmental project to fasten economic development in the country. Through VAT as a consumption tax, the government can control the production and consumption of certain goods and services, control adverse economic conditions, inflational rates and help sharpen the economy and curb the level of unemployment through building of industries, skill acquisition centres, encourage local manufacturer which inturn will help curb the level of unemployment in the country.

Despite the contributions and huge revenue generated through VAT, the federal, state and local governments complain of insufficient fund to embark on projects and the citizens have always lamented of poor infrastructural facilities, unemployment, low capita income etc which have

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resulted to poor standard of living, crime rate and other social ills has been on the increase. Nigeria is still listed and regarded as a third world country. A situation of this nature entails asking what is the relationship between VAT and Gross domestic product and total consolidated revenue of the government.

LITERATURE REVIEW

The need for the government to provide social amenities, engage in developmental projects is a compulsory one for the improvement of the standard of living of the citizenry. But the government on its own complains of lack of fund to embark on these projects, hence the necessity for urgent intensified revenue generation effort by the government through taxation.

Tax can be defined as a compulsory levy imposed by the government on the income, profits, and properties of both individuals and corporate bodies for the sole administration of that government which has no compensatory benefit. Whereas, taxation is a gamut of activity which results in payment of tax. There are two major types of taxes, that is the direct and indirect taxes. The direct tax as its name implies is levied or imposed on the income, profits and properties of individuals and corporate bodies (Okpe, 1998). Examples of direct taxes include personal income tax, companies' income tax, petroleum profit tax, capital gains tax, education tax etc. Indirect tax on the other hand is defined as taxes levied on goods and services rendered which are shifted in part or in full to the final consumer who does not even know either when he pays or the exact amount he pays (Okpe, 1998). Examples of indirect tax include Value Added Tax (VAT) which is the main subject of this study, as source of revenue generation in Nigeria.

Value Added Tax (VAT) has its origin traceable to the French Economist, Maurice Laure in 1954 originally referred to as "taxesur la valueur" (Wikipedia.org). He envisioned that a sales tax on goods does not affect the cost of manufacture or distribution but was collected on the final price charged to the consumer. VAT, having being introduced in France in 1954 and recorded an influential increase of 45% on the state revenue and consequently, the formation of common market in Europe (presently the European Union) it became a sin-qua-non requirement for joining of the union for all member countries (Ezejulue, 2001).

In Nigeria, Value Added Tax (VAT) was introduced though Decree No 102 LFN of 1993 to replace sales tax which was in existence. VAT is imposed on goods and services. However, according to the act, certain goods and services are exempted from VAT which include the following: Medical and Pharmaceutical products, product meant for kids, basic food items, Commercial vehicles and their parts, books and other educational Materials, fertilizer, faming machine, Agricultural products, faming transportation equipment and ventinary machine and magazines and Newspapers(Owolabi and Okwu,2011). VAT is imposed on the net sales value of non-exempt qualifying goods and services in Nigeria (Okoyeuzu, 2013. Ezejulue, 2001, Okpe, 1998). It is levied on individuals, corporations, group, body corporate or organization that consumes buys, procures or imports taxable goods and services.

The beauty of value added tax (VAT) lies in the relative merits when compared with other types of taxes (Ezejulue, 2011). Hence, the credible performance of VAT in countries where it existed created the need for its introduction in Nigeria, which became obvious in 1993 but came into force in January 1994 through decree No 102 LFN of 1993 as amended to date. It has supplanted the income tax as the most important single source of revenue for several

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governments. AS a consumption tax, it is easy to administer and of course difficult to evade and has been embraced by many counties worldwide (Federal Inland Revenue Service, 1993). Evidence so far supports the view that VAT revenue is already a significance source of revenue to Nigeria government as it contributed 7. 26 billion which is 36.5% to federal government revenue in 1994 when it was first practiced in Nigeria. In the same vein, it contributed about 20.76 billion 1995 while the budgeted revenue from VAT was 12 billion naira in the same year. In 1996, revenue from VAT increased to 31 billion naira and 1997 also witnessed revenue of 34 billion naira. In terms of total contribution in total federally collected revenue, VAT accounted for about 4.6% in 1994, 5.93% in 1995, 6.2% in 1996 and 5.83% in 1997 respectively. Thus, suffice it to say from the evidences above, that it became compelling that VAT has performed extremely well as it contributed to at least 20% of the total government revenue. Hence, it is assisting in the diversification of revenue source of the government and however, reduces over dependence on oil for revenue (Ajiakaiye, 1999). VAT is a self-assessment tax hence it is a fairly precise measurement of the growth of an economy since purchasing power (which determines yield) increases with economic growth that is paid when returns are being rendered. An observation of the Federal Inland Revenue Services (FIRS) was that VAT being a consumption tax, that its administration will be easy and evasion will be more challenging.

Value added tax administration in Nigeria.

Value Added Tax (VAT) is administered in Nigeria by the Federal Inland Revenue Service (FIRS) through the VAT directorate Abuja. The jurisdiction of VAT lies with the federal government of Nigeria and the proceeds from VAT are distributed among the three tiers of government in Nigeria in an approved ratio, currently, the federal government receives fifteen percent (15%), state government gets fifty percent (50%) while the local government gets thirty-five percent (35%) (Sani, 2011)

Value added tax and revenue generation in Nigeria.

Revenues generated through VAT have always been so high since its inception (Muhibat, 2013). The percentage change in the amount generated from VAT from 1995 to 1996 was about 185.9%, and increasing from 20.76 billion in 1995 to 31 billion in 1996. In 1997, the change from military rule to democratic government also witnessed a positive increase in the compliance by the tax payers as the amount generated rose from 36.9 billion in 1998 to 47.11 billion in 1999 accounting for about 27.6% increase.

Features of good value added tax system.

According to Messre and Norregard (1999), the benchmark which form the basis for appraising a VAT system in order to determine its good over other taxes are:

Neutrality: The interference of VAT with the choices made by both producers and consumers is minimal. This implies that the economic distortion resulting from changing relative prices compared to the pre-tax situation must minimize.

Fairness: VAT is accompanied by appropriate change in other taxes or in social transfer system to alleviate or neutralize negative distributional consequences.

Prices stability: VAT does not lead to sustained inflationary pressure either at its introduction or in the long run.

Revenue aspect: VAT supplies the government with good amount of tax revenue and reduces the possibility of tax evasion and avoidance.

Administration and compliance cost: VAT minimizes or reduces government administrative and compliance cost, this is because much machineries are not needed for its administration.

Merits of value added tax over other types /forms of taxes.

- **Neutrality:** This implies a situation where a tax has no influence on the behaviour of both the consumers and the producers. A tax that has a neutral effect will obviously have a non-distortionary effect, hence VAT has only one rate and the broadest possible base and this potential makes it better than any other type of tax since it minimizes tax induced distortions.

- **Large revenue earner:** VAT is a reliable valuable and large potential source of revenue for the government; it **contributes** 12-30 percent of (GNP) Gross National Product (Messre and Nlorregard, 1998)

- **Efficiency:** VAT has eliminated the inefficient distortionary or badly administered taxes, such as taxes on capital goods, export or imports that reduces the tax base, as well as those that involves a cumbersome (and sometimes corrupt) administration. This is due to the system, which applies taxes to only a few items and is easy to administer with broader, more neutral tax base (Ezejulue, 2001).

- **Broad base:** VAT is a higher yielding source of revenue because it has inherent potentiality of having the broadest base in tax history as a consumption tax. It cut across all consumables goods and services rather than sales tax which it repealed (Ezejulue, 2001)

Theoretical Review

- Benefit received theory: This theory is of the opinion that tax payment should initiate an exchange relationship between tax payers and the government. In the sense that while the government provide certain goods and services to members of the society, the members of the society bears the cost of these supplies to the extent of benefit received. Bhartia,(2009) Anyafo, (1996) are in support of the benefit received theory, and VAT as consumption tax is paid by each citizen base on level of consumption for goods and services hence, this theory will be adopted in this study.

- **Cost of service theory:** This theory asserts that semi-commercial relationship exist between the state and tax payers. According to the theorist, the state give up basic protective and welfare functions to cover the cost of the services, this theory is homogenous with benefits received theory and will also be use in this study.

Empirical Review

In 2013, Okoyeuzu investigated Value Added Tax Remittance: Observation from developing country. The challenge of the study was to evaluate the performance of VAT as revenue earner in Nigeria and to access revenue generated from VAT since its inception to know if it has been on the increase or decrease. The study covered a period of 7 years from 2005-2011. The researcher utilized survey research design and the data analysis was sourced from federal Inland Revenue service chat. The study find out that VAT revenue has been on the decrease for the period of study and recommends that the Nigerian government should make adequate provision for retrieving the proceeds of VAT from companies and other agents of collection.

Muhibat, Abdul, Azeez and Tope (2013) carried out an investigation on empirical Evaluation of the Contributions of Value Added Tax to total Revenue Generation and gross Domestic Product in Nigeria. The purpose of the study was to examine the impact of VAT on revenue generation and GDP. The study covered the period 1994-2010 and ordinary least square regression was employed for data and the result showed that VAT significantly impact on GDP.

Basila (2010) carried out a study on investigating the relationship between VAT and GDP in Nigeria. The challenge of the study was to find out the relationship between VAT and GDP in Nigeria. The period of study was 1994- 2008. Secondary data gotten from CBN Statistical Bulletin was analyzed with Pearson's product moment correction of coefficient. The result reviewed that VAT is not effective as revenue earner and the study recommends that maintenance of the status quo.

From the above empirical studies, there is no study that has covered a period of nineteen years like this study and accounted for the current state of VAT revenue in Nigeria. So, this study contributes to existing literature and brings the contributions of VAT to economic development to present

RESEARCH METHODOLOGY

The method of analysis used in this study is ordinary least square (OLS) technique. It is a statistical technique used for fitting a regression line (that is choosing or estimating the structural parameters) to sample of some observations in such a way as to minimize the sum of square of the deviation of the actual observation from the line. As one of the commonly used methods in estimating relationship in econometrics models and its use, in a wide range of economic relationship, has provided fairly satisfactory results. Multiple regressions is one of the OLS methods. Regression is multiple when the value of dependent variable is estimated on the basis of two or independent variables and two or more explanatory variables.

The data for this study is mainly secondary data collected from Central Bank of Nigeria Statistical Bulletin (2012). The data series used in this study for analysis includes: Gross Domestic Product (GDP) Value Added Tax (VAT) Total Consolidated Revenue (TCR).

Model Specification

For ease of analysis of the relationship between Value Added Tax and economic development in Nigeria from 1994- 2012, an econometric model was specified thus:

$GDP = f(VAT, TCR)$

$GDP = \beta_O + \beta_1 VAT + \beta_2 TCR + \mu$

Where:

GDP= Gross Domestic Product

VAT= Value Added Tax

TCR= Total Consolidated Revenue

μ = Stochastic error term

The apriori expectation of this study is that Vat will affect Gross Domestic Product.

Data presentation and analysis

Table 1: Multiple Regression Summary Table

Variable(s)	Coefficient(s)	T-Statistic	Probability
Constant	355543.987	19.069	0.000
VAT	0.028	0.692	0.499
TCR	0.044	6.815	0.000
$R = 0.964$; $R^2 = 0.930$; F-Statistic = 106.644; Prob (F-Statistic) = 0.000; DW = 1.917			

Source: Researcher's Computation Using Spss Version 22

The Table above shows the summary results of the multiple regression analysis performed on the research data. From the model summary in the table above, it can be seen that the strength of the relationship (R) between Value Added Tax (VAT), Total Consolidated Revenue (TCR) and Gross Domestic Product (GDP) is a high 96.4%. Furthermore, the coefficient of determination (R^2) showed a value of 0.930 which indicates that about 93% of the variations in Gross Domestic Product can be attributed to VAT and TCR .

Furthermore, the coefficient of regression (β) for VAT gave a value of 0.028 which imply that for every unit increase in VAT, GDP is predicted to increase by 0.028 units and vice versa. Additionally, the co-efficient of regression (β) for TCR gave a value of 0.044 which imply that for every unit increase in TCR, GDP is predicted to increase by 0.044 units and vice versa.

Hypothesis Result

From Coefficients in the table above, we can accept the null hypothesis that Value Added Tax (VAT) has no Significant Effect on Gross Domestic Product (GDP). This is because the computed t-statistic of 0.692 is less than the critical table value of 2.120. Thus, we conclude that VAT has no Significant GDP.

However, TCR is shown to be statistically significant in explaining changes in GDP. This is because the computed t-statistic of 6.815 is greater than the critical t-statistic of 2.120. Thus, we con clued that there is a significant relationship between TCR and GDP

DISCUSSION, CONCLUSION AND RECOMMENDATION.

The findings of this study showed that there is no significance relationship between Gross Domestic product (GDP) and Value Added Tax (VAT). However, Total Consolidated Revenue (TCR) proved to be statistically significant with changes in GDP hence, we conclude that there is significant relationship between VAT and TCR. The finding of this study is in line with the study of Basil (2010) and Okoyeuzu (2013) which opines that VAT revenue has not impacted on Nigeria economy.

Conclusion

The major aim of this study was to find out the impact of VAT and TCR on economic development in Nigeria. From the analysis, the following conclusions were made:

- There is significance relationship between Value Added Tax and Gross Domestic Product.

- There is positive and significance relationship between Total Consolidated Revenue and Gross Domestic Product.
- From the data collected from Central Bank Statistical Bulletin that Value Added Tax revenue has been on the increase since its inception.
- Even though Value Added Tax revenue has been on the increase, it has not impacted positively on Gross Domestic Product.

Recommendations

Based on the findings of this study, the following recommendations were made:

- Government should intensify effort in organizing seminars and workshops to educate viable organisations and individuals on the need for prompt payment of VAT.
- Adequate provisions should made by the government for instant retrieving of VAT proceeds from both companies and government agents involved in VAT collection.
- There should be provision for enforcing penalties and additional assessment on erring viable persons.
- There should be efficient enumeration system for business in each local government and state to reduce evasion.
- Simply languages should be used to explain VAT laws to viable persons as it will help to enhance compliance and reduce cost.
- Government should increase VAT rate as it will help to generate more revenue for the government.

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APPENDIX 1

Table 1: Total Consolidated Revenue, GDP and VAT figures in (₦ billions).

Years	Total Consolidated Revenue	VAT	GDP
1994	201910.8000	7260.8000	345288.4600
1995	459987.3000	20761.0000	352646.2200
1996	523597.0000	31000.0000	367218.0900
1997	582811.1000	34000.0000	377830.8000
1998	463608.8000	36900.0000	388468.1200
1999	949187.9000	47100.0000	392107.1700
2000	1906159.7000	58500.0000	412332.0100
2001	2231532.9000	91800.0000	431783.1800
2002	1731837.5000	108600.0000	451785.6700
2003	2575095.9000	136400.0000	495007.1700
2004	3920500.0000	159500.0000	527576.0300
2005	5547500.0000	178100.0000	561931.3900
2006	5965101.9000	221600.0000	595821.6100
2007	5715500.0000	289600.0000	634251.1400
2008	7866590.1000	404500.0000	672202.5500
2009	4844592.3400	454943.3000	718977.3300
2010	7303671.5500	648410.9000	776332.2100
2011	11116900.0000	1786254.1300	834000.8300
2012	10654724.8700	1857031.5100	888893.0000

Source: Central Bank of Nigerian Statistical Bulletin (2012)

Regression

[DataSet0]

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	TCR, VAT[b]	.	Enter

a. Dependent Variable: GDP
b. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.964[a]	.930	.921	48435.57942	1.917

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

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	500374984792.004	2	250187492396.002	106.644	.000[b]
	Residual	37536085657.141	16	2346005353.571		
	Total	537911070449.144	18			

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

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	355543.987	18645.618		19.069	.000
	VAT	.028	.041	.090	.692	.499
	TCR	.044	.006	.886	6.815	.000

a. Dependent Variable: GDP

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	364639.0625	895686.9375	538129.1042	166729.15242	19
Residual	-61686.08984	137234.53125	.00000	45665.50221	19
Std. Predicted Value	-1.041	2.145	.000	1.000	19
Std. Residual	-1.274	2.833	.000	.943	19

a. Dependent Variable: GDP