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VALUE ADDED TAX AND ECONOMIC GROWTH IN NIGERIA 2004-2018

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Abstract: The purpose of this paper is to investigate relationship between Value Added Tax(VAT) and economic growth in Nigeria from 2004 to 2018. Secondary data obtained fromboth Central Bank of Nigeria statistical bulletin and National Bureau of Statistics (NBS) wereused for the study, while regression analysis was used to analyze the data obtained. Theresults showed a positive and significant relationship between value added tax and economicgrowth in Nigeria. The study recommends that value added tax (VAT) should be sustainedand all identified loopholes should be covered for VAT revenue to continue to contributemore significantly to economic growth in Nigeria.

Keywords: Value Added Tax (VAT), Sales Tax, Gross Domestic Product (GDP) and FederalInland Revenue Service (FIRS).

I.　　Introduction

Value Added Tax (VAT) is a consumption tax levied at each stage of consumption chain and borne by the final consumer of the products or services. It is a consumption tax imposed by the government on goods consumed and services rendered. One of the attempts to reduce tax evasion in Nigeria in order to increase government revenue is through the introduction of value added tax (VAT). Therefore, value added tax is a consumption tax placed on a product whenever value is added at each stage of the supply chain. Nigeria government introduced value added tax (VAT) in 1994 to replace sales tax which was considered to be narrow in scope and in terms of revenue generation.

The Value Added Tax (VAT) came on stream in Nigeria on 1st December, 1993 by Decree No 102 of 1993. The actual implementation was on 1st January, 1994. VAT is a consumption tax that has been embraced by many countries in the world. A study conducted by Ogochukwu and Azubike (2016) concluded that evidence so far supports the view that VAT revenue has significant effect when compared to total revenue earned by Nigeria government. They cited that VAT revenue in 1994 was ₦8.189 billion compared to projected revenue of ₦6 billion and in 1995, ₦21 billion was generated from VAT compared to ₦12 billion projected revenue. Based on the revenue generated from VAT, attention of researchers and academic have diverted to importance of VAT to economic growth and development. Economic growth measured the increase in the national income or total volume of production of goods and services of a country accomplished by improvements in the total standard of living of the people (Chinwuba and Amos, 2011) as cited in Ihendinihu and Onwuchekwa, 2012.

VAT is one of the instrument Federal Government of Nigeria (FGN) introduced to generate additional revenue, yet, most Nigerians and prominent groups had spoken against its implementation despite its contribution to economic growth. Two (2) of the state governments in Nigeria i.e Rivers State and Lagos State have filed suits against Federal Government challenges the way and manner VAT is being administered.

From the discussion above, it can be seen that value added tax has been contributing immensely to the revenue generation and economic development of Nigeria, thus, the study seeks to examine how value added tax has contributed to economic growth of Nigeria from 2004 to 2018.

II.　　Literature Review

This section reviews previous studies carried out in respect of value added and economic growth. Literature review is carried out on conceptual, theoretical and empirical review on value added tax and economic growth.

2.1 Conceptual Framework
2.1.1 Concept of Value Added Tax
VAT is a tax paid on the consumption of goods and services by individuals, government and corporate entities. It is an indirect tax that is levied on the goods and services at each stage of production. In Nigeria, before the introduction of Value Added Tax, there was an already existing tax of almost the same nature known as the Sales Tax. The sale tax which came into effect in Nigeria in 1986 was administered jointly by both the State Internal RevenueBoard of the various states and the Federal Inland Revenue Service from 1986 to 1993.
VAT replaced sales tax because of the success of VAT in other countries like Germany, France and England and the criticism that sales tax is narrow in base.
2.1.2 Economic Growth
The term Economic development is often confused with the term economic growth due to their similar meaning. Thus, they are most times used interchangeably which is a misconception of the term economic growth. Economic growth is just a measurement of the output of a country while economic development is a broader term that includes social and political improvement in the well-being of people living in a country.
2.2 Theoretical Review
2.2.1 The Ability-to-Pay Theory
The theory premised that tax should be paid based on the income of the individual, business and organization. Here, taxes are paid to the government base on the ability of the citizens. It is the most popular and mostly accepted principle of equitable taxation. People that receives higher income are to pay higher taxes than those who receive lower income under this principle. This theory is undoubtedly the most equitable tax system since individuals with more noteworthy salary or wealth and can afford to pay more taxes should be taxed at a higher rate than people with less individual income tax and has been widely used in industrialized economics. Be that as it may, there is no strong approach for the measurement of the equity of sacrifice in this theory, as it can be measured in absolute, proportional or marginal terms. VATdoes not tie in with this theory because the amount of VAT on a particular good will be the same for everyone, however much they earn. VAT is thus regressive since it represents a smaller proportion of a person's income as their income rises.
2.2.2 Optimal Tax Theory
The optimal tax theory is based on the following: (a) optimal marginal tax rate schedules depend on the distribution of ability; (b) the optimal marginal tax schedule could decline at high incomes; (c) a flat tax, with a universal lump-sum transfer could be close to optimal; (d) the optimal extent of redistribution rises with wage inequality; (e) taxes should depend on personal characteristics as well as income; (f) only final goods ought to be taxed, and typically they ought to be taxed uniformly. The standard theory of optimal taxation posits that a tax system should be chosen to maximize a social welfare function subject to a set of constraints.
2.2.3 The Benefit Theory
This theory dictates that the state should levy taxes on individuals according to the benefit they derived from government expenditure. This theory has been subjected to severe criticism on the following grounds: most of the expenditure incurred by the state is for the general benefit of its citizens, it is not possible to determine the benefit enjoyed by a particular individual every year. Secondly, if we apply this theory in practice, then the poor will have to pay the heaviest taxes because they benefit more from the services of the state. This is against the principle of justice.
2.3 Empirical Review
Samini and Abdolahi (2011) investigated the impact of implementing value added tax on exported goods and service in selected countries. Their findings based on Mean Statistical Difference test indicated positive impact of value added tax on exported goods services.
Umeora (2013) examined the effects of value added tax (VAT) on economic growth and total tax revenue in Nigeria. The result of his findings showed that VAT has significant effect or impact on economic growth (GDP) and total tax revenue.
Izedonmi and Okunbor (2014) investigated the role of VAT in the economic growth of Nigeria from the year 1994 to 2010 the study made use of Cobb Douglass regression to analyse the time-series data that was drawn from CBN statistical bulletin and Federal Inland Revenue Service. The result from the test disclosed a positive and significant relationship between VAT and economic growth proxy by GDP.
Nasiru and Abdullahi (2016) examined the impact of value-added tax on the economic growth in Nigeria data from the study were gathered from the Central Bank of Nigeria statistical bulletin, Nigeria Bureau of Statistical and Federal Inland Revenue Service from the year 1994 to 2014 these data were analysed using Johansen cointegration test. The findings from this study revealed that VAT has a positive and significant long-run relationship with GDP.
Gatawa, Aliero and Aishatu (2016) investigated the impact of VAT on economic growth in Nigeria. The study used the method of Johansen co-integration test. The study established evidence of a significant positive impact

of VAT on economic growth. In the same vein, other government revenue other than VAT was also found to be positively related to economic growth.

George-Anokwuru, Olisa and Obayori (2020) used DOLS to empirically investigated indirect tax and employment generation in Nigeria. The empirical results, showed that indirect tax measures by value added tax (VAT) and custom duties has a direct link and significant impact on employment generation in Nigeria.

III. Methodology

This research work dealt with the effect of Value Added Tax (VAT) on economic growth in Nigeria.

3.1 Research Design

This study adopts *ex-post facto* research design. This research relied heavily on historical data as the data used in the analysis were extracted from both the Central Bank of Nigeria Statistical Bulletin and National Bureau of Statistics (NBS).

3.2 Population of the Study

Research population is the aggregate of elements from which the sample is selected. The population of the study is the total revenue generated in Nigeria from VAT and the gross domestic product (GDP) in Nigeria from 2004 to 2018.

3.3 Model Specification

The mathematical model is used to show the functional relationship between Value Added Tax (VAT) and economic growth in Nigeria. The model is stated below:

GDP = f(VAT)

GDP = $\beta_0 + \beta_1$ VAT + μ

Where:

GDP – Gross Domestic Product

VAT – Value Added Tax

β_0 – Constant

β_1 – Parameters to be estimated

μ - The error term

3.4 Method of Data Analysis

The data analysis technique used to investigate the relationship of the independent variable (value added tax) on the dependent variable (gross domestic product) is the Ordinary Least Square (OLS) method. This is because Ordinary Least Square (OLS) method has the Best Linear Unbiased Estimation.

A time-series data for fifteen years on Value Added Tax (VAT) and gross domestic product (GDP) was used for this study.

IV. Data Presentation and Analysis

This section contains the presentation, analysis and interpretation of the data collected for this research work. It entails the application of statistical technique to provide the basis for the testing of the research hypothesis i.e how VAT has impacted on economic growth in Nigeria from 2004 to 2018.

Table One: Regression Estimated Result

Value added tax on economic growth (GDP)

Variables				
	Coefficient	Standard error	t-stat	Prob
C	2.473215	0.740683	1.86634	0.0040
VAT	0.26651	0.021862	2.236450	0.0452
R^2	0.92116			
Ad. R^2	0.921143			
SE of Reg	0.153474			
f-stat	81.0054			
Prob (f-stat)	0.0000			
Observation	15			

Dependent variable GDP significance at 5%

Source: Researchers' computation using E-view

Interpretation of the Result

From table one above, the estimation result of P-value of VAT stood at 0.0452 which is less than the critical value at 5% confidence interval, therefore, we reject the null hypothesis that VAT has no significant impact on economic growth in Nigeria and accept the alternate hypothesis which states that VAT has a significant effect on economic growth in Nigeria. We also look at the direction of the impact with t-statistics and coefficient of value of the variable VAT. It will be observed that VAT has a positive T-statistics value of 2.236450 and a

positive coefficient value of 0.26651. This indicates that VAT has a positive relationship with economic growth in Nigeria.

V.   Conclusion and Recommendations

The research work evaluated impact of value Added Tax on economic growth in Nigeria from 2004 to 2018. Based on the result from the study, conclusion and recommendations below are made:

5.1 Conclusion

From the result data analysis, value added tax (VAT) showed a significant relationship on gross domestic product (GDP) in Nigeria i.e there is a significant relationship between Gross Domestic Product (GDP) and Value Added Tax (VAT) in Nigeria. The findings of this study is in line with the study of Ogochukwu and Azubike (2016) and Izedonmi and Okunbor (2014) that VAT revenue has positive and significant relationship with economic growth in Nigeria.

5.2 Recommendations

From the empirical findings, following recommendations are made:

1) To boost revenue collected from VAT, government should increase VAT rate. This the government has done by increasing the rate from 5% to 7.5% effective from 2021.
2) The revenue generated from VAT should be used for infrastructural development of the country in order to increase the level of economic growth in the country.
3) Government should organize seminars and workshops to educate organizations and individuals on the need for prompt payment of VAT.
4) As in the case of Tax clearance certificate that must be produced before benefits can be obtained from government in terms of contract, seeking for political offices, VAT clearance certificate must be a condition for obtaining contracts, political offices etc.
5) Government should put in place adequate measure to ensure that revenue generated from VAT is successfully utilized to advance the economy through appropriate infrastructural development.
6) Regular VAT audit should be carried out on registered VAT collectors to ensure that VAT collected is remitted to the appropriate authority.
7) Value Added Tax should be sustained and all identified loopholes should be covered for VAT revenue to continue to contribute more significantly to economic growth in Nigeria.

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Date	VAT (Billion)	GDP at Current Basic Prices (N' Billion)
2004	159.50	17,321.30
2005	178.10	22,269.98
2006	221.60	28,662.47
2007	289.60	32,995.38
2008	401.70	39,157.88
2009	481.40	44,285.56
2010	564.89	54,612.26
2011	659.15	62,980.40
2012	710.56	71,713.94
2013	802.69	80,092.56
2014	802.96	89,043.62
2015	635.35	94,144.96
2016	828.20	101,489.49
2017	972.35	113,711.63
2018	1,108.04	127,762.55

Source: Researchers' Computation from CBN Various Statistical Bulletin