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Article

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Influence of Value Added Tax on Economic Development (The Nigeria Perspective)

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Abstract: Synopsis of tax administration system in Nigeria fascinates divergent views, especially in relation to VAT effectiveness in enhancing economic development. There are concerns in some quarters that VAT administration in Nigeria is plagued by structural defects on multiple fronts. This paper therefore investigated the effectiveness of VAT system in Nigeria to evaluate its influence on economic development. Meta-analytic result from research on VAT administration in Nigeria assert the importance of effective tax administration system to assist Nigerian government diversify its revenue stream. Finding the nexus between effective VAT administration and economic development is the crux of this paper which adopted two constructs to investigate the subject matter (FCR and GDP). The justification stem from seemingly dearth of nexus in research on the influence of VAT on development and how this tax tool can help government actualize its departure from single revenue stream (crude oil). Simple linear regression was employed to analyze data which shows a positive relationship between VAT, FCR and GDP.

Keywords: VAT; Government revenue; Gross Domestic Product; Government Expenditure

JEL Classification: H21

1. Introduction

Taxation is the central part of modern economic development. Its significance arises not only from the fact that it is by far the most important of all revenues but also because of the gravity of the problems created by present day heavy tax burden (Enokela, 2010). The main objective of taxation is raising revenue. A high level of taxation is necessary in a welfare state to fulfil its obligations. According to Musgrave (2008) taxation is used as an instrument of attaining certain social objectives i.e. as a means of redistribution of wealth and thereby reducing inequalities. The need for an increased government spending on capital projects to alleviate poverty is crucial to economic stability and over dependence of young adults on their aged parents (Sowole, 2019).

The pre-occupation of most countries in the world is to strive to achieve rapid overall development through optimum tax collection and expanded revenue base. In order to see that the objective is accomplished, many countries in the world selectively introduce new form of tax to boost their revenue capacity with the aim of improving the socio-economic conditions of their citizens and achieving rapid economic development (Murray, 2015).

VAT is a consumption tax that is relatively easy to administer and difficult to evade which endeared it to many countries as a revenue generating mechanism thereby embracing it (Abiola and Asiweh, 2012). The process is infused into each stage of the consumption chain and is borne by final consumer. The ease of administration is facilitated by adopting VAT vendors which includes (retail stores,

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businesses dealing in consumer goods, companies and individuals registered with Federal Board of Inland Revenue (FIRS) to collect VAT at a flat rate of 5% on all vatable goods and services.

The broad objective of this study is to examine the influence of Value Added Tax (VAT) on economic development of Nigeria.

1.1. Statement of the Problem

The common objective of Value Added Tax is to simplify tax structure, to create uniform platform within which taxes can be administered to facilitate collection, leveraging on strength of VAT as a means of revenue with lower cost of collection compared to other forms of taxation. It is believed that tax payers will find the ease of payment attractive thereby reducing tax evasion tendencies, departing from unwholesome attitude of some tax payers who are notorious tax evaders, an attitude considered criminal by many countries because of the effect it has on the economy. VAT was designed to mitigate these challenges by charging a fragment tax cost on vatable goods which forms part of selling price of each item, however, the VAT cost in Nigeria is considered too low compared to other countries at 5%, thereby limiting its influence on government revenue generation capacity which have direct impact on economic development. Juliana (2018) opined that tax helps government to render traditional functions such as provision of public goods, maintenance of law, order and defense, and other allied functions therefore without adequate revenue base these functions will be hampered greatly (Eneje, 2011). In furtherance to this, some VAT vendors are seemingly not truthful in remitting VAT payable to government coffers. Likewise, cost of collection and remittances are still expensive; an expense that sometimes outweighs the benefit derived from such operations. All these may have direct impact on economic development of the country.

2. Literature Review

The definition of taxation given above underlines the main purpose of taxation. That is, to raise revenue to defray the cost of services provided by the state. Other purposes of taxation are to reduce inequalities arising from the distribution of wealth, to restrain certain types of consumption, to protect home industries and to control certain aspects of the country‘s economy. Poor VAT administration as identified by Olaoye (2009) as one of the problems confronting VAT in Nigeria. Tax authorities perform only the technical functions without performing the needed management functions, taken the complexity of tax administration into consideration, they are bound to be ineffectiveness. Basically, the performance of only technical functions leads to false declaration, refusal to complete tax return forms, fraud, inflation of deductible expenses, smuggling, default, illegal bunkering, etc. The dishonest practices by some tax officials also pose a serious threat to the effective tax administration in Nigeria especially when such practices are capable of having demoralizing effects on honest tax payers.

Worlu and Emeka (2012) examined the impact of tax revenue on the economic growth of Nigeria between 1980 and 2007 using its effect on infrastructural development. They reported that tax revenue has direct and indirect relationships with the infrastructural development and the gross domestic product respectively (GDP). The authors argue that the channels through which tax revenue affect economic growth in Nigeria are infrastructural development, foreign direct investment, and GDP. They stressed that availability of infrastructure stirs up investments that in turn bring about economic growth. Bukie and Adejumo (2013) examined the effect of tax revenue on economic growth of Nigeria for the period 1970 to 2011, regressing indicators of economic growth (domestic investment, labor force and foreign direct investment) on tax revenue. The result shows that the indicators all have a positive and significant relationship with economic growth in Nigeria.

Owolabi and Okwu (2011) examined the contribution of Value Added Tax (VAT) to development of Lagos State Economy from 2001 to 2005. The study examined each development indicator (infrastructural, environmental management, education sector, youth and social welfare, agricultural, healthcare, and transportation) on VAT revenue proceeds generated by Lagos State during the study period. Their finding was that revenue generated from VAT positively contributed to the development of the respective sectors of Lagos State economy during the period studied.

Adereti *et al.* (2011) extended the study by examining the impact of VAT revenue on economic growth of Nigeria during the period 1994 to 2008 using time series data on the GDP, VAT Revenue, Total Tax Revenue and the total revenue of the federal government. The result of the study was in line with that of Owolabi and Okwu (2011) showing an existence of a positive and significant correlation between VAT Revenue and Gross Domestic Product of Nigeria. Abdul-Rahamoh; Taiwo & Adejare (2013) investigated the impact of Petroleum Profit Tax on the economic development of Nigeria between the periods 2000 to 2010. Their finding revealed that petroleum profit tax positively impacts on gross domestic product (GDP) of Nigeria, and the impact is statistically significant. They failed to report on the economic development that was the topic of consideration.

However, the authors were worried that the enormous amount of money generated from Petroleum Profit Tax, and Oil Revenue do not translate into the economic development of Nigeria. They argue that the increase in the economic growth rate does not reflect in Nigeria's general economic development. Okafor (2012) examined the relationship between federally generated revenue and economic development in Nigeria using Gross Domestic Product (GDP) for the period 1981 to 2007. The result of the study showed a positive and significant relationship between Income Tax Revenue and Economic Development of Nigeria. Adegbie and Fakile (2011) concentrated on the relationship between company income tax alone and Nigeria Economic Development. Their conclusion was that there is a significant association between company income tax and economic development of Nigeria.

Ihenyen and Mieseigha (2014) examined taxation as an instrument of economic growth in Nigeria. Using annual time series data sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin during the period 1980 through 2013, data of Corporate Income Tax (CIT), Value Added Tax (VAT) and Economic Growth (GDP) was estimated using the Ordinary Least Square (OLS) technique. The empirical result suggests that the hypothesized link among corporate income tax, value added tax and economic growth indeed exist in the Nigerian context. Thus the result offer tantalizing evidence that taxation is an instrument of economic growth in Nigeria. This conclusion points to the need for additional measures by government in ensuring that taxpayers do not avoid and evade tax so that income can be properly redistributed in the economy.

Theoretical framework of the study focused on revenue productivity theory which authorities in finance considered an important benchmark used to judge a good tax. The two aspects of revenue productivity agree that the tax base must be large enough and that the cost of operating the tax system must below the revenue it generates. Adam Smith also argued that it made little sense to institute a tax system in which the cost of collecting the tax is higher than the realized tax revenue. Others like, Hollander (1982) emphasized this prominence by putting revenue first in their division of public finance into three namely; "revenue, expenditure and public debt". The major essence of introducing

VAT was to raise revenue; the law setting up VAT affirms this position. (Ndukwe, 1991) called it the look-inward approach.

This is another important criterion used to judge a good tax. The two aspects of revenue productivity agree that the tax base must be large enough and that the cost of operating the tax system must be low. In furtherance of the economy principle, the revenue productivity theory agrees that it makes little sense to institute a tax system for which the cost of collection is higher than the realized tax revenue. The theory further emphasizes the aspects of having a large enough tax base to cover at minimum cost and stresses an efficient tax administration. Other theories was also considered among which include socio political theory, expediency theory and benefit received theory respectively.

3. Methodology

Survey research design was used as it is advantageous in measuring large population, especially where a small portion is to be derived from the large population, therefore, entire indicators of taxation and economic growth was adopted over the last 10 years. The sample chosen for this study was a non-probability sampling. It entails selecting those elements having particular characteristics of interest to the researcher and accessible (Nworgu 2006). The sample size comprises of the VAT and the GDP. The justification for the use of non-probability sampling is to allow the researcher to include any category of the population that is of interest to him. Secondary data was employed for the study, information from the secondary source includes review of previous studies and findings on the subject matter from test books, magazines and journals. Specifically we collected data on VAT and Gross Domestic Product (GDP) in Nigeria, federally collected revenue and inflation in Nigeria, over a period of 10 years, ie 2008-2017. Time series data was used to ascertain the relationship between capital and recurrent capital and their impact on growth within the period under consideration. The major sources of data are the publications of Central Bank of Nigeria, National Bureau of Statistics (NBS), World Bank Reports, International Financial Statistics (IFS), and Federal Ministry of finance.

4. Data Analysis and Discussion

Data Analysis- both quantitative and qualitative methods were employed in the data analysis. For quantitative aspects, Statistical Package for Social Sciences (SPSS) and excel, frequency distributions, percentages and descriptive analysis of assessing the implication of Value Added Tax on revenue generation in Nigeria were also employed.

The techniques for the analysis of the effect of VAT on the overall economy centre on time service analysis. The variables collected were tabulated, while the regression and correlation analysis were adopted to test for significance in the hypothesis formulated for the study.

Data presentation-the data for the analysis of the hypotheses of this study is presented in Table 4.1. The Data is for a 10 year period i.e. 2008 – 2017. The data show the real GDP in Millions; the Value Added Tax for the same period, and Federally Collected Revenue in Millions.

Table 4.1. Data for Analysis of the Models

Year	Real GDP (N million)	VAT (NM)	FCR (N Million)
2008	672,202.55	388.35	3,931.14
2009	718, 977.33	449.63	2,831.72
2010	776,332.21	540.34	3,865.87
2011	834,000.83	623.52	5,085.40
2012	888,892.99	**681.74**	**5,288.34**
2013	642,631.00	763.80	5,988.70
2014	528,587.00	762.50	6,070.50
2015	71,713.94	747.60	4,369.80
2016	80,092.56	778.60	3,107.90
2017	89,043.62	**928.90**	**4,370.70**

Source: Centre Bank of Nigeria, Statistical Bulletin Various Issues, National Bureau of Statistics.

Table 4.2. Analyses of the Descriptive Characteristics of the Variables

	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
RGDP	530247.4030	326157.20650	-.694	.687	-1.375	1.334
VAT	666.4980	166.35857	-.362	.687	-.472	1.334
FCR	4491.0070	1111.88309	.038	.687	-1.016	1.334
Jarque-Bera	1.619730	1.597015	122.8008	122.8008	0.580704	0.580704
Valid N (listwise)						

Mean and standard deviation were used to describe the behavior of the variables. Then Jarque-Bera statistic explained the normality of the variables at 0.05 level of significance, RGDP, VAT and FCR are normally distributed because their P. values are above 0.05.

Table 4.3. Correlation matrix of the variables

		RGDP	VAT	FRC	INF
RGDP	Pearson Correlation	1	-.638*	.250	-.450
	Sig. (2-tailed)		.047	.485	.192
	N	10	10	10	10
VAT	Pearson Correlation	-.638*	1	.410	.148
	Sig. (2-tailed)	.047		.240	.682
	N	10	10	10	10
FCR	Pearson Correlation	.250	.410	1	-.287
	Sig. (2-tailed)	.485	.240		.422
	N	10	10	10	10

*. Correlation is significant at the 0.05 level (2-tailed).

The result of the correlation matrix was used to test for multicolinearity. The decision rule is to accept any coefficient above 0.7 as strong correlation. The presence of strong correlation implies collinearity. It signals presence of multicolinearity. In the results on Table 4.3, there is no strong correlation in the explanatory (independent) variables. Thus, we conclude that there is no multicolinearity in the models.

Test of Hypothesis one

H_1: Value Added Tax significantly influence federally collected revenue in Nigeria

Ho_1: Value Added Tax does not significantly influence federally collected revenue in Nigeria

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.410[a]	.168	.064	1075.83570

a. Predictors: (Constant), VAT

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1867176.334	1	1867176.334	1.613	.240[b]
	Residual	9259379.636	8	1157422.455		
	Total	11126555.970	9			

a. Dependent Variable: FCR

b. Predictors: (Constant), VAT

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2666.166	1476.471		1.806	.109
	VAT	2.738	2.156	.410	1.270	.240

a. Dependent Variable: FCR

The coefficient of determination (R-Squared) is 0.168 which means that about 16.8% of changes in the dependent variable (FCR) can be explained by VAT proceedings. The B-statistics is 2666.166 with a probability value of 0.109. Since the p. value is less than 0.05 level of significance, we conclude that VAT has overall significant effect on FCR. The result of the coefficient of VAT (0.410) Significant at 0.05% confirms the result.

Test of Hypothesis Two

H_2: Value Added Tax significantly influence Real Gross Domestic Product

Ho_2. Value Added Tax does not influence Real Gross Domestic Product

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.638[a]	.407	.333	266305.31686

a. Predictors: (Constant), VAT

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	390058535858.739	1	390058535858.739	5.500	.047[b]
	Residual	567348174284.943	8	70918521785.618		
	Total	957406710143.682	9			

a. Dependent Variable: RGDP

b. Predictors: (Constant), VAT

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1364307.421	365475.882		3.733	.000
	VAT	-1251.407	533.597	-.638	-2.345	.047

a. Dependent Variable: RGDP

There is no relationship between Value Added Tax and Economic Growth of Nigeria. The test of the Hypothesis is as shown in the analysis. From the analysis, the value for the T-Statistic is 7.842894 with a probability value of 0.0000. The P value is less than the 0.05 level of Significance. Here the T-Statistic is greater than the P-value. Thus the VAT has a significant effect on economic growth.

Discussion of Findings

The study shows a positive and significant relation between Gross Domestic Product (GDP) and Value Added Tax in Nigeria. It has been argued that VAT encourages savings by discouraging excessive consumption thereby encouraging investment (capital formation) which leads to economic growth. In the same vein, VAT revenue leads to an increase in government revenue and government expenditure.

Secondly, it has been pointed out in the analysis that, though there has been a tremendous increase in government revenue with the introduction of VAT which helps improve government commitment to community development, however there seems to be a need to improve FIRS staff welfare which will serve as motivation that will increase efficiency and effectiveness in tax collection. Also, the accounting system adopted by the government to audit tax returns by corporate institutions on-behalf of government seems weak, hence there are false declaration of sales figure that prevent full disclosure of VAT revenue.

The expansion of a country's economic and socio-economic infrastructure is a prerequisite for sustainable growth and development is in this regard that government and public corporations plan an invaluable role in facilitating and propelling the investment process by creating a conducive and investor friendly environment, and the provision of the necessary economic infrastructure, which will lead to the crowding in of increased private sector fixed investment to enhance the country's productive capacity.

5. Conclusions and Recommendations

Conclusions

Having critically examined the research questions, tested the hypotheses, and the research findings, the following conclusions were made based on the information gathered:

This study shown that VAT have significantly influence on the economic growth of the Nigeria economy. Also, VAT has a strong relationship with federally collected revenue and affects government spending to a lager extent. Government expenditure has an important role in stimulating growth in the Nigeria. Change in VAT revenues to the federal, state and local governments have direct effects on the pattern of expenditure of these units and thus the growth rate of the natural economy.

Payment of VAT has improved the prospects of business organizations and industries in Nigeria, there has been an improvement in power supply recently and stability in the prices of petroleum and allied products.

Finally, Despite the Positive side of the introduction of VAT, there are still resentment in some quarters on its policy formation and implementation.

Recommendations

In the light of the above, the study thus recommends the following:

i. To broaden the tax base and to bring VAT administration closer to the taxpayer, new local VAT offices should be established all over the country.

ii. The government should strengthen tax administration to ensure more efficient tax collection, through training of staff, awareness campaigns and computerization of customs tariff.

iii. Government on its part should use VAT proceeds to improve on the standard of living of the populace and improve on infrastructures such as transport, power, communication and information technology so as to strengthen the productive capacity and motivate taxpayers in paying their taxes.

iv. Prosecution of corrupt tax officials and tax payers that default on tax payment should be intensified.

v. Government should be made to cut down unnecessary expenditure rather than increase tax rate.

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