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Value Added Tax (VAT) and Economic Development in Nigeria

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Abstract: This study examined the influence of VAT on economic development. Descriptive Survey research design was employed. The sample chosen for this study was a non probability sampling. The sample size comprises of the VAT and the GDP. Secondary data was employed for the study. Data on VAT, Real Gross Domestic Product (RGDP) and federally collected revenue in Nigeria over a period of five years, i.e 2018-2022 were retrieved from the Statistical Bulletin of Federal Inland Revenue and National Bureau of Statistics (2018-2022). Two hypotheses formulated to guide the study were tested at 0.05 level of significance. Statistical Package for Social Sciences (SPSS) was used to analyse the data. The study found a positive and significant influence of VAT on revenue generation, Gross Domestic Product (GDP) and economic development in Nigeria (p. value < 0.05). The study recommended among others that, new local VAT offices should be established all over the country to broaden the tax base and to bring VAT administration closer to the taxpayer, Government should strengthen tax administration to ensure more efficient tax collection, through training of staff, awareness campaigns and computerization of customs tariff; Government 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.
Keywords: Value Added tax, Real Gross Domestic Product, Revenue Generation and Economic Development

Introduction

Taxation is the central part of economy of developed and developing nations. Its significance arises because it is an important part of government revenues (Enokela, 2022). The main objective of taxation is raising revenue. According to Eniola (2020) 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 necessitates the need for tax (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 government's objective is accomplished, many countries in the world 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, 2019).

Increasing revenue through taxation is considered to be the best option for the government because revenue from taxes is more stable and precise than other sources. But the big question is what type of tax should the government focus on? Is it direct taxes? (Taxes levy on factors of production) or indirect tax? (Taxes levy on goods and services). Currently, Nigeria depends on direct taxes as the major source of government tax revenue as most of its tax revenue is gotten from direct taxes such as Companies Income Tax (CIT), Petroleum Profit Tax (PPT), and Personal Income Tax(PIT) that were not enough for economic growth, in the realization of this fact, the Nigeria tax system was redirected towards indirect.

There are several modifications to tax system all over the globe with the aim of increasing the revenue base of the tax authority (government). The Nigerian tax administration has gone through various reforms with the objective of an effective tax system to better the country's revenue generation. One of the tax reforms in Nigeria is the Value-added Tax (VAT) Act of 2004. The concept of Value-added Tax (VAT) was first proposed by a German industrialist in 1918 (Adekunle, 2022). The economic history of both developed as well as developing countries shows that taxation is a weapon that is important in the hands of the tax authority, not only for revenue generation, but also for the achievement of fiscal goals such as influencing the direction of investment and taming the consumption of certain goods and services (Naiyeju, 2021).

Value-added Tax and Revenue Generation

Value-added tax in its simplest form is a tax chargeable on the supply of goods and services and only indirectly on the people who consume such goods and services. Baker and Elliott (2021) explain that VAT is an indirect tax and is imposed on the value-added in production during the different stages of production. Since the introduction of VAT, there have been a lot of arguments for and against it. For those on the supporting side, VAT has been introduced in most countries of the world to replace sale tax and as a source of revenue to the government (Delfin, 2016). VAT is described as a money-spinnerr, it has assisted so many developed countries to increase the percentage of indirect tax contribution to gross tax receipt (Naiyeju, 2021). Keen and Smith (2007) explain that VAT is a money- machine. VAT is one of the major generators of revenue for the government (Olukunle, 2022).

Studies have shown that in countries that are still developing, the growing of VAT is very low even though there is no growing evidence that VAT is not a regressive tax. It was discovered that VAT failed in Ghana in 1995, when it was first introduced and almost failed in Uganda in 1996. The reason for almost failure of VAT in these countries was because of lack of good administration; the VAT was based and concentrated among relatively few firms, particularly, smaller firms are exempted from VAT (IMF, 2002 cited in Owolabi & Okwu 2023).

However, VAT has become the primary source of revenue to a lot of countries that are still developing. For instance, in Sub-Saharan Africa, value-added tax has been introduced in Kenya, Cote d'Ivoire, Mauritius, Guinea, lately, Nigeria, Senegal, Madagascar, Togo and Niger. Evidence shows that in these various countries, value-added tax has become a vital contributor to the entire Government tax revenues. VAT was introduced by the Federal Government of Nigeria in January 1994. According to Owolabi and Okwu (2023), the belief was that it was introduced as a means of income and to avoid dependence/taking loans from different international agencies like IMF, World Bank, Paris Clubs (CITN, 2010).

Over the past century, the VAT has been adopted by many developing and transition countries (Ebrill, Keen, Bodin & Summer, 2023). International Monetary Fund (IMF, 2019) study reports came to the conclusion that the VAT can be a good way of raising revenue or resources. It is a modernized system of tax, but this entails that the tax must be well designed for implementation. Ebrill et al. (2023) discover that VAT is efficient cost of raising revenue and hence higher revenue. They also opine that value-added tax is related to a higher ratio of Government tax revenue and boost revenue efficiently.

Concept of Economic Development

Economic development is defined as economic growth accompanied by desirable social changes in such a way that there is progress in respect of virtually all human endeavors (Fashola, 2020). Economic development can be defined as a long-term sustained increase in per capita real national income that is not accompanied by widening income inequality (Chigbu, 2020). In the words of Mankiw, Weinzierl and Yagan, (2022), it is also important to point out that different patterns of growth and development are common in different parts of the world; countries like Britain, US, Japan, Germany are often referred to as developed nations while countries like Nigeria, Ghana, India are often referred to as developing nations. The variations in the level of development can be due to so many factors. Most often the level of economic development can be measured using the following parameters; income per head, the percentage of resources exploited, capital per head, savings per head, conduciveness to growth of local religion, amount of social capital (roads, railway and schools), degree of education of the working classes. Other factors that may also necessitate economic development are; promotion of individualization, technological development, establishment of educational institutions, good leadership with administrative competence, export promotion, availability of organized market, diversification of the economy, prudent financial resource management and establishment of institutions to check corruption

The Theory of Optimal Taxation

This study was anchored on the theory of optimal taxation. The theory of optimal taxation was believed to have begun with moral philosophers such as John Stuart Mill in the 19th century. The theory posited that a tax system should be chosen to maximize a social welfare function subject to a set of constraints. The notion behind this theory is that a good tax system should be able to promote a utilitarian society in meeting the greatest sum of happiness for the greater number of citizens as a criterion for taxation (Mankiw et. al. 2022). John Stuart Mill stated that the sacrifices required by taxation should put equal pressure as possible upon all taxpayers. This rule suggested that the tax burden should be distributed in such a way that the rich pay higher sums in taxes than the poor.

The theory of optimal taxation was extended a step further by Ramsey in 1927 when he introduced a rule for optimal commodity taxes. He pointed out that instead of uniform taxes on all goods, taxes on commodities should be designed in such a way that introducing them reduces the production of each taxed commodity in the same proportion. He further noted that a social planner who wants to raise a certain amount of tax revenue through taxes on commodities should impose such taxes in an inverse proportion to the representative consumer's elasticity of demand for the good so that commodities which experience inelastic demand are taxed more heavily.

The relevance of this theory to the study is not unconnected with major proposition of the theory that tax is a good source of revenue so as to maximize social welfare functions. In this regard, Owolabi and Adegbite (2013) considered VAT as a tool for generating revenue. The assertion is also in line with the submission of Onaolapo, et al. (2013) when they opined that if more goods and services are taxed, the government will be able to generate enough revenue to meet up with the challenges of her expenditures in terms of the provision of social amenities and the running costs of the Government. Thus, the Nigerian government could extensively explore both direct and indirect form of taxation to generate the needed revenue for economic activities in the country. Therefore, increasing tax revenue through purposive taxations will lead to economic growth and development in the country

Value-added Tax and Economic Growth----- Empirical Review

Economic growth has been one of the most concerns of both the developed and the developing nations globally. The Organisation for Co-operation and Development (OECD) see economic growth has a phenomenon of an active market productivity resulting in increase in Gross Domestic Product (GDP). Economic growth, according to Al-Faki (2006), is the increase in the value of goods and services produced by an economy.

Several studies have examined the nexus between value-added tax and economic growth in both developed and developing countries. Owolabi and Okwu (2011) conducted a study on the empirical evaluation of the contribution of value-added tax to the development of Lagos State Economy and find that VAT a has positive effect on the nation's economic growth and development like provision of infrastructural services, health services and education.

In the same vein, a study carried out by Unegbu and Iretin (2011) found that VAT has a significant impact on economic development. The administration of VAT in Nigeria, according to Afolayan & Okoli (2022) is channeled toward the objective of enhancing government revenue generation in order to provide for infrastructural development towards stimulating the growth of the economy. Babatunde et. al. (2020) examined the relationship between VAT and total tax revenues in Nigeria. Time series analysis was used in the study for the period 2019-2021. The regression result shows that both the VAT on local sales and VAT significantly impacted total revenue. Value-added Tax (VAT) on imports is negatively impacted while that on local sales is positively impacted. The introduction of Automated Teller Machines (ATM) was acknowledged by the revenue authority in the study.

Ogwuche, Abdullahi and Oyedokun (2019) examined the impact of company income tax on economic growth in Nigeria for eleven years from 2007 to 2017. The study employed multiple regression analysis techniques and descriptive statistics to analyze the data that were obtained on gross domestic product and company income tax. The findings indicated that company income tax has a significant influence on economic growth in Nigeria. They, therefore, recommended among others that the policies on company income tax should be reviewed to block the loopholes that encourage tax avoidance which most companies capitalize on to avoid tax payments.

Ilaboya and Mgbame (2022) employ a combination of co integration and error correction models to investigate the effect of indirect taxes on economic growth in Nigeria. The short-run dynamics of the model were accommodated using the Engel-Granger two-step procedure and the discrepancies between the short and long-run impact of the explanatory variable were considered using an Autoregressive Distributed Lag (ARDL). The primary motivation for the study was the drift from direct taxes to indirect taxes from a host of countries. Using data obtained from the CBN from2019 to 2021, the study shows that there was a negative but insignificant relationship between VAT and economic growth.

Yusuf et. al. (2018) examined the causal relationship between value-added tax and economic growth in Nigeria from 2010 to 2016 using a simple linear regression technique to analyze the data that were obtained for the period. The study utilized data from the gross domestic product, value-added tax, domestic investment, degree of openness, corruption index, interest rate and real exchange rate as proxy variables to determine the relationship between value-added tax and economic growth in the country. The findings from the study revealed that value-added tax, domestic investment and degree of openness have significant positive relationships with gross domestic product in Nigeria while the corruption index has a negative significant relationship with gross domestic product in the country. The study, therefore, recommends that tax administrative loopholes should be plugged for tax revenue to contribute to the economic growth of the country. The study also recommends among others that the services of tax professionals should be employed by the government to reduce tax malpractice by taxpayers and other forms of tax evasion.

Owolabi and Okwu (2023) examined the contribution of Value Added Tax (VAT) to development of Lagos State Economy from 2019 to 2023. 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 staudy 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.

Statement of the Problem

The introduction of the VAT in Nigeria was aiming at economic growth by charging a fragment tax cost on vatable goods which forms part of selling price of each items. 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, 2019). Taxes are bedeviled with some challenges, for instance, 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. A number of studies have been conducted in the past on the subject, but the review of prior empirical literature indicates inconsistency in the research findings of previous researchers which shows the existence of a research gap. Abiola and Asiweh (2019) argued in their study that VAT does not significant impact on economic development while researcher like Chigbu (2020) argued that VAT has a positive and significant influence on economic growth. In order to fill this yearning gap and when there is conflicting of views of researchers on issue like this another study become imperative, hence this study.

General objective of the Study

The general objective of this study is to examine the influence of value-added tax on economic development in Nigeria. The specific objectives are to:

1. examine the impact of VAT on revenue generation in Nigeria; and
2. determine the impact of VAT on Real Gross Domestic Product.

Statement of Hypotheses

The following hypotheses have been stated and were tested to 0.05 level of significance**.**

H1: There is no significance influence of Value Added Tax on federally collected revenue in Nigeria.

Test of Hypothesis Two

Ho2. There is no significance in influence of Value Added Tax on Real Gross Domestic Product

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 five years. The sample chosen for this study was a non probability sampling. According to Nworgu 2006), non probability sampling technique will help in the se3kection of those elements having particular characteristics of interest to the researcher and accessible. (The samples were chosen from the VAT, GDP and Federally Collected Revenue). 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 data were collected on VAT, Gross Domestic Product (GDP) and federally collected revenue over a period of five years, i.e 2018-2022. The major sources of data are the publications of Statistical Bulletin of Federal Inland Revenue, National Bureau of Statistics (NBS), World Bank Reports and International Financial Statistics (IFS) Two hypotheses were formulated to guide the study. Statistical Package for Social Sciences (SPSS) and descriptive analysis of assessing the implication of Value Added Tax on revenue generation in Nigeria were also employed. The variables collected were tabulated, while the regression was adopted to test for significance of the hypotheses formulated for the study. The data for the analysis of the hypotheses were presented in Tables. The Data is for a period of five year i.e. 2018 – 2022. So also, the data show the real GDP, Value Added Tax and Federally Collected Revenue for the same period are in Nigerian Million, Billions and Trillions.

Table 1 Data for Analysis of the Models

Year	Real GDP (Nigerian Million/ Billion/Trillion)	VAT (Nigerian Million/ Billion/Trillion)	FCR(Nigerian Million/ Billion/Trillion)
2018	70.536.35b	456b	5.3t
2019	72.094.09b	628	5t
2020	70.800.54b	678	4.9tr
2021	73.382.77b	984b	13.42t
2022	76.768.95b	697b	10.1 t

Source; Statistical Bulletin of Federal Inland Revenue and National Bureau of Statistics (2018-2022)

Table 2: Analysis of the Descriptive Characteristics of the Variables

	Mean	Standard D.	Sleekness		Kurtosis		
	Static	Static	Static	Standard Error	Static	Standard Error	Sig.
RGDP	530247.4030	326157.20650	.694	.687	-.691.375	1.334	0.00
VAT	666.4980	166.35857	362	.687	-.472	1.334	0.00
FCR	4491.0070	1111.88309	.038	.687	-1.016	1.334	0.00

Mean and standard deviation were used to describe the behavior of the variables. The Beta 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 below 0.05.

Test of Hypothesis one

H1: There is no significance influence of Value Added Tax on federally collected revenue in Nigeria

Model	R	R square	Adjusted R Square	Std. Error of the Estimate
1	.410	.168	.064	1075.83570

a. Predictors: (Constant), VAT

ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1867176.334	1	. 1867176.334	1.613	240b
Residual	9259379.636	3	1157422.455		
Total	11126555.970	4			

a. Predictors: (Constant), VAT

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

Coefficients

Model	Unstandardized **Coefficients**		Beta	t	Sig.
	B	Std. Error Beta			
1 (Constant) VAT	2666.166 2.738	1476.471 21.56	.410 1.270	1.806	.0.00 .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 0.00. Since the p. value is less than 0.05 level of significance, it can be concluded 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

Ho2. There is no significance in influence of Value Added Tax on Real Gross Domestic Product

Model Summary

Model	R	R square	Adjusted R Square	Std. Error of the Estimate
1	.638	.407	.333	266305.31686

a. Predictors: (Constant), VAT

ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	390058535858.739	1	390058535858.739	5.500	047b
Residual	567348174284.943	3	70918521785.618		
Total	957406710143.682	4			

Dependent Variable: RGDP
b. Predictors: (Constant), VAT

Coefficients

Model	Unstandardized **Coefficients**		Beta	t	Sig.
	B	Std. Error Beta			
1 (Constant) VAT	7.842894 -1251.407	365475.882 533.597	.638	3.733	.000 . -2.345

a. Dependent Variable: FCR

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 0.00. The P value is less than the 0.05 level of significance. And also the t statistic is greater than the P-value. Thus the VAT has a significant effect on economic development.

Discussion of Findings

The study shows a positive and significant influence of VAT on revenue generation, Gross Domestic Product (GDP) and economic development in Nigeria, (p. value < 0.05). This finding showed 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. This finding is in consonance with the finding of Odu (2022) and Igbaekemen (2019), both found a significant influence of VAT on economic growth in Nigeria.
Secondly, it has been found out in the empirical 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. The expansion of a country's economic and socio-economic infrastructure is a prerequisite for sustainable growth and development**.**

Conclusions

Having critically examined the three variables of this study, VAT, revenue generation and Real Gross Domestic Product, the hypotheses were tested and some findings were uncovered. This study therefore, concludes that VAT have significantly influence on the economic development in Nigeria. Also, VAT has a strong relationship with Real Gross Domestic Product, federally collected revenue and affects government spending to a lager extent. Finally, Government expenditure has an important role in stimulating economic growth in the Nigeria

Recommendations

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

1. New local VAT offices should be established all over the country to broaden the tax base and to bring VAT administration closer to the taxpayer;
2. The government should strengthen tax administration to ensure more efficient tax collection, through training of staff, awareness campaigns and computerization of customs tariff;
3. 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;
4. Prosecution of corrupt tax officials and tax payers that default on tax payment should be intensified; and
5. Government should be made to cut down unnecessary expenditure rather than increase tax rate.

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