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EFFECT OF VALUE ADDED TAX REFORM ON GROSS DOMESTIC PRODUCT IN NIGERIA

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Abstract

The impact of the Value Added Tax on Nigerian economic growth was investigated in this study. From 2004 to 2019, the Gross Domestic Product per Capita was used to quantify economic growth over a sixteen-year period. The study used an ex-post facto research design. Federal Inland Revenue Services, the Central Bank of Nigeria, the National Bureau of Statistics, and World Bank Publications provided the time series data. The researchers used descriptive statistics and the Ordinary Least Square (OLS) approach for regression analysis. The study found that Value Added Tax has a significant negative impact on GDP per capita in Nigeria at the 5% level of significance To counteract the negative impact of VAT on GDP per capita, it was suggested that the government ensure that VAT be applied in a transparent manner, avoiding inefficiencies such as tax cascading associated with alternative commodity taxes.

Keywords: VAT, Economic growth and Gross Domestic Product

Introduction

Regular rulers and local regulation enforcement merchants acquired money from their citizens in order to support development programs in their communities in the eighteenth century, and the Nigeria tax device may be traced back to that time. However, the first records of modern taxation date from 1904, when personal income tax was introduced in Nigeria as a neighborhood tax. When the Southern and Northern Protectorates merged in 1914, the Native Revenue Ordinance of 1917 was switched from northern to southern in 1918 and 1927 (Oriakhi & Rolle, 2014). Since then, the tax regime has continuously expanded, with several initiatives to modernize, expand, reform, and improve the method, structure, and sanctions inherent in Nigeria's taxing apparatus. In addition, the Nigerian government has undertaken a number of tax revisions since 1986. The tax reforms aim to: (i) improve public carrier delivery, (ii) increase non-oil tax revenue, (iii) continue to review tax laws to reduce the incidence of tax evasion and avoidance, (iv) improve tax administration to make it more responsive, reliable, skilled, and tax payer friendly, and (v) bridge the gap between the public and private sector (Federal Inland Revenue Handbook, 2012).

The establishment of two learns more groups predated the tax reform of the 1990s. One study group looked at direct taxation, while the other looked at indirect taxation. The adoption of value added tax (VAT) in the year 1993 was a significant result of the 2nd study team. VAT signaled a move from a tax on foreign exchange-related activities to a consumption-based tax (Oriakhi & Rolle, 2014). Previously, the VAT contribution of the federal, kingdom, and local governments was 20 percent, 50 percent, and 30 percent, respectively (Ogbonna & Ebimobowei, 2011). For this reason, by 1995, the sharing components had been altered in favor of the central authority (Central government, 35%; State government, 40% and Local government 25%). Sub-national government agitation prompted each subsequent reform of VAT, resulting in a 15 percent, 50 percent, and 25 percent sharing scheme for the central, state, and local governments, respectively (Oriakhi & Rolle, 2014). The tax reform of 2004 was the result of suggestions provided by the research crew (2002). The National Economic Empowerment and Development Strategies included this tax reform (NEEDs). Essentially, the research team advised that Nigeria implement a national tax policy that is primarily focused on national development. President Goodluck Ebele Jonathan introduced the countrywide tax policy record on April 7, 2012.

Multiple factors have hampered tax administration in Nigeria, including insufficient and unreliable data, a lack of administrative capacity, a scarcity of expert manpower, corrupt tax officials, a high incidence of tax avoidance and evasion, complicated tax codes, and the hydra-headed monster of multiple taxation (Herbert, Nwaorgu & Nwaiwu, 2017). Since 1991, the Nigerian government has implemented a number of tax reforms. Prior to tax reforms, tax administration was characterized by inefficiencies, such as flaws in the tax administration and collection system, complex legislation, and apathy on the part of individuals outside the tax nets. The difference between the two; According to one study, there is a poor association between tax reforms and production (Feng & Eko, 2014; Asaolu, Olabisi, Akinbode & Alebiosu, 2018). The second stream found evidence of a non-linear outcome (inverse U-shaped relationship) of tax reforms on economic growth (Adeyemi & Disu, 2018; Okeke, Mbonu &Amahalu, 2018; Omondi, 2019), while the third stream found evidence of a non-linear outcome (inverse U-shaped relationship) of tax reforms on economic growth (Adeyemi & Disu, 2018; Bonmwa & Ogboru, 2017; Olaoye & Ayeni, 2019). These disparate empirical results can also be explained by differences in target populations in terms of country, sector, company, and economic periods, as well as the application of various methodological procedures and variations in study variable measurement, resulting in a gap

that this study attempts to fill. In order to fill a gap in the literature, the structured variable of this study will be productivity (variable gap), whereas previous research has concentrated on economic boom or progress. This research was again extended to 2019, as previous projects had ended in 2018, bridging the currency difference. This study therefore examines the effect of Tax Reforms on Nigerian economic growth.

Review of Related Literature

In developing countries, tax reform entails both broad questions of economic policy and specific issues of tax system design and administration (Desislava, 2017). First, there are the fundamental issues of income demands and how to integrate revenue structures into development policies. The impact of alternative taxes on saving and investment, as well as their implications for the economy's macro balance (both domestic and foreign), is a source of concern. Second, ensuring a fair distribution of the tax burden is a critical goal. Among the more specific tax issues, the composition of the tax structure, as well as the design of its key component, must be considered. Most developing country tax structures are complex (difficult to administer and comply with), inelastic (non-responsive to boom and discretionary coverage measures), inefficient (raise little revenue but cause serious economic distortions), inequitable (treat people and groups in similar circumstances differently), and unfair (tax administration a form of discrimination) (Eze, 2020).

Value-added taxation is a type of taxation that is based on a taxpayer's consumption rather than their income. In contrast to a progressive income tax, which imposes more taxes on higher-income people, VAT applies to all purchases equally (Kagan, 2019). A value-added tax (VAT) is a consumption tax paid on products at every point of sale when a price is applied, starting with raw materials and ending with the final retail transaction. In Nigeria, businesses charge VAT on the income price of the items or services they supply. They also pay VAT on the goods and services they consume, just like consumers. Corporations can use some of the VAT they pay to offset VAT they collect before remitting it to the FIRS (Deloitte, 2019). Jewellery, shoes, bags, televisions, and other items are examples of VATable commodities. VATable Services are any services done in Nigeria by anyone other than those specifically exempted by law. Offerings supplied by lawyers, engineers, accountants, contractors, and consultants, among others, are examples of VATable offerings (Asquith, 2019).

In Nigeria, the main VAT rate is 7.5 percent (raised from 5 percent on 1st February 2020). Only a limited number of substances are zero-rated, which means that any VAT paid can be refunded to the taxpayer.

GDP

The gross domestic product (GDP) per capita is a measure of a country's GDP per person. It is computed by dividing GDP by the population of a country. GDP per capita is a widely used indicator of a country's prosperity around the world (Tushar, 2020). The Gross Domestic Product (GDP) per capita measures how much financial manufacturing value can be attributed to each individual inhabitant. Alternatively, as the GDP market fee per man or woman also serves as a measure of prosperity, this translates to a measure of national wealth (Seth, 2020). The gross domestic product of a country is divided by its population to get GDP per capita. The GDP is the total production of goods and services produced inside the country's boundaries in a given year by all of us (World Bank, 2019). The fundamental indicator of a country's economic productivity is its GDP. The financial GDP of a country reflects the market price of the goods and services it produces. GDP per capita is an

important indication of monetary success and a useful unit for comparing average living standards and financial well-being across countries (Amadeo, 2020).

Empirical Review

From 1994 to 2012, Ofishe (2015) empirically examined the impact of value added tax (VAT) on financial growth (GDP) in Nigeria. The data was gathered from the Central Bank of Nigeria's (CBN) statistical bulletin and reports from the Federal Inland Revenue Service (FIRS). Three models were estimated using Ordinary Least Square methods in accordance with the hypotheses. The models' results revealed a strong and significant impact of VAT on financial growth in Nigeria as measured by GDP. It also indicated that there is a strong relationship or influence of VAT on total tax revenue over the time period analyzed.

Bilal (2015) examined the relationship between VAT revenue and financial growth. It additionally evaluated critically the revenue overall performance of VAT in Pakistan at some stage in the length 1991-92 to 2011-12 with a larger focal point on empirically estimating the function of VAT revenue in the economic growth (GDP) of Pakistan. Using Ordinary Least Square (OLS) Regression technique, the key effect from this econometric learn about confirmed sturdy and fantastic influence of VAT income on the financial boom (GDP) of Pakistan. One per cent increases in the increase of net VAT revenue reasons 0.24% increase in the growth of nominal GDP. The results of Granger Causality also confirm the existence of quick run relationship between the growth of VAT income and financial growth (GDP) of Pakistan. Etale and Bingilar (2016) examined the influence of companies' profits tax, value-added tax on financial increase (proxy by way of gross domestic product) in Nigeria. Secondary time sequence panel statistics were accrued for the duration 2005 to 2014 from the Statistical Bulletin of the Central Bank of Nigeria (CBN). The study employed Ordinary Least Squares (OLS) approach based on the computer software Windows SPSS 20 version for the evaluation of data, the place gross Domestic product (GDP), the dependent variable and proxy for financial growth, used to be regressed as a function of enterprise profits tax (CIT) and value-added tax (VAT), the impartial variables. The effects of the analysis confirmed that each enterprise income tax and value-added tax have appreciably fantastic impact on economic growth. Based on the findings, the study advocated that government ought to toughen the tax administration device to broaden the tax income, and embark on tax schooling to make sure voluntary tax compliance.

From 1986 through 2012, Gylych, Abdulrahman, and Abdurrahman (2016) investigated the influence of tax revisions on Nigeria's monetary growth. Relevant secondary facts were gathered from Central Bank of Nigeria publications, Federal Inland Revenue Service publications, Federal Office of Statistics publications, textual content book, published and unpublished thesis to achieve the study's goal. The OLS regression effects using the E-views Windows confirmed that tax reforms are positively and significantly associated to monetary boom, and that tax reforms do indeed generate economic expansion. Nasiru, Haruna and Abdullahi (2016) empirically examined the impact of VAT on the level of economic activities in Nigeria from its inception to 2014. The study used secondary statistics which was once analyzed the use of Johansen (1988) co-integration test. The quarterly facts ranged from 1994 to 2014. During the study period, VAT was also revealed to be favorably connected to economic growth. From 1980 to 2013, Onakoya, Babatunde, and Afintinni (2016) looked at the cointegration relationship between tax revenue and economic growth in Nigeria. Several preliminary exams were undertaken, including descriptive statistics, style analysis, and stationary evaluations utilizing the Augmented

Dickey Fuller (ADF) test. The Engle-Granger Cointegration test was originally used to evaluate whether or not the variables had a long-term relationship. The tax implications, on the other hand, have a negligible impact on Nigeria's economic growth. Kalaš, Mirović and Andrašić (2017) provided an empirical approach to taxes and economic growth in the United States in the duration 1996-2016. The simple goal used to be to figure out how taxes affect economic growth. The model revealed that tax revenue growth and social security payments have a significant impact on gross domestic product growth, whereas private profits tax and corporate earnings tax have little impact. Surprisingly, the predominant tax shape in the US tax structure, the private profits tax, has no significant impact on economic development, in contrast to social security contributions, which account for a smaller percentage of GDP. Miftahu, Tunku and Tunku (2017) evaluated the influence of tax income on the macroeconomic management of the Nigerian economy using a conceptual approach. A comprehensive evaluation of the literature as well as in-depth analysis of tax structure used to be severely conducted. The study explored the income trend in Nigeria for over three a long time in relation to its results on GDP growth. As proven via the literature, the existence of causal relationship between tax revenue and economic increase suggests the fine influence of taxation as a fiscal coverage device in enhancing macroeconomic growth. This is simply the coverage implication of Keynesian propositions. On the other hand, non-existence of causal relationship between tax revenue and monetary increase implies that taxation as a fiscal variable shall be insignificant especially in the lengthy run, as propounded by using the Classical doctrine. Oraka, Okegbe and Ezejiofor (2017) ascertained the extent to which value added tax has affected the Nigerian economy. Ex post facto research design was adopted for this study. In measuring Nigerian economy, Gross Domestic Product (GDP), Per Capital Income (PCI) and Total Revenue (TR) were used in the study for the period 2003 to 2015. The data were obtained from CBN statistical bulletin, Federal Inland Revenue Services federal ministry of finance, and analyzed using Simple regression analysis. Findings show that value added tax has not significantly affected Gross Domestic Product of Nigeria economy. It was also discovered that VAT has a negative relationship with per capital income. Between 1994 and 2016, Okeke, Mbonu, and Amahalu (2018) investigated the relationship between tax income and financial development in Nigeria. The Nigerian Central Bank, the Federal Inland Revenue Service, and the National Bureau of Statistics' Annual Abstract of Information were used to compile the data. At the 5% level of significance, tax revenue has a statistically significant link with labor pressure and gross fixed capital formation in Nigeria. Adeyemi and Disu (2018) reviewed cutting-edge issues in corporate profits tax practices in Nigeria against the historical past of Nigeria's financial system being typically characterized through low tax compliance and enforcement. There is no gainsaying the reality that tax enforcement has end up an indispensable issue of tax administration in view of the ingenious ways corporate taxpayers undermine the revenue generation procedure by means of no longer remitting what is due to government. The study reviewed extant provisions on tax reliefs and incentives relevant to corporate entities to facilitate voluntary compliance and pointers were made on enhancing the successful implementation of the voluntary belongings and earnings assertion scheme (VAIDS) and improve the corporate profits tax culture in order to enhance the gross home product. Asaolu, Olabisi, Akinbode and Alebiosu (2018) examined the relationship between tax income and financial growth in Nigeria. The study adopted a descriptive and historical lookup design; secondary information for twenty-two years (1994 -2015) have been collected from a variety of issues of the Central Bank of Nigeria (CBN) statistical bulletin and annual reports. Olaoye and Ayeni (2019) examined price introduced tax and

customs duties on revenue generation in Nigeria. Secondary data had been sourced from Federal Inland Revenue Service (FIRS) ranging from 2000 to 2016. Autoregressive Distributed Lag (ARDL) and Granger causality exams were used as the estimation techniques. The findings of the study published that the F-statistics value was once 2.883868 which is lesser than both the lower bound and the top certain values of 3.79 and 4.85 respectively at the 5percent level of significance which implies that there is no long-run relationship among value-added tax, customs obligations and revenue generation. It used to be equally revealed that there is no causality among value-added tax, customs duties, and income generation. The study concluded that value-added tax and customs duties have no considerable effect on revenue era and there is no long-run relationship among value-added tax, customs responsibilities and revenue era in Nigeria for the duration of the study period. Thus, it used to be advocated that the fiscal coverage should discourage tax avoidance by emulating measures for compliance of value added tax and customs duties. Omondi (2019) analyzed the effect of custom and excise responsibilities on economic boom in Kenya for the duration 1973 to 2010. Therefore, the study tried to reconcile the different positions and also shut the understanding gap. The study adopted a correlation lookup graph based on its potential decide the electricity and direction of relationships between variables whilst the theoretical framework used to be anchored on endogenous boom model. The empirical outcomes indicated that custom and excise obligations are positively correlated with monetary boom in Kenya.

Ironkwe and Agu (2019) analyzed the relationship between complete tax income and monetary growth in Nigeria. Time sequence information on exclusive sorts of complete tax revenue and economic improv ement from 1986-2016 were accrued from Central Bank of Nigeria statistical bulletin, Federal Inland Revenue Service and National Bureau of Statistics. Multiple regression analysis was once used in analysing the facts with the useful resource of STATA version thirteen. The effects indicated that there exists a sizeable high-quality relationship between whole tax revenue and unemployment in Nigeria; agency earnings tax has no widespread relationship with monetary growth. The study concluded that total tax revenue relate positively to unemployment and recommends that government distribute its social welfare programmes in such a way to supply direct benefit to tax payers. This makes them trust that the component of their tough earned cash paid for purposes, is being efficaciously utilised by means of the government. The tax official wishes improvement through enough education and provision of suitable working materials and facilities.

Nigerian tax device is focused on petroleum and exchange taxes while direct and oblique taxes like the value-added (VAT) are ignored. This is a structural problem for the country's tax system. Although direct taxes and VAT possess the capacity for expansion, their affect is restricted because of the domineering casual sector in the country. Finally, the increasing fiscal deficit has posed a danger to macroeconomic stability and financial boom possibilities, making the notion of tax reform more enticing (Luthans & Stajkovic, 2015; Fuller, 2016). Nigeria's fiscal policy initiatives have been mostly driven by the desire to achieve some macroeconomic goals, such as promoting rapid economic growth, creating jobs, maintaining rate levels, and improving the country's balance-of-payments situation.

Methodology

The purpose of this study was to determine the impact of tax reforms on Nigerian economic growth. Ex-post facto research was used in this study. The use of this research strategy is justified because the study relied on historical data gathered from relevant publications, and so the data are already available.

For sixteen years (2004-2019), time series data were obtained from Federal Inland Revenue Service (FIRS) bulletins from various years, Central Bank of Nigeria (CBN) publications such as Statistical Bulletins from various years, Annual Reports from various years; National Bureau of Statistics (NBS) and World Bank Publications. The variables for which data were sourced include; value added tax, petroleum profit tax, personal income tax, company income tax and GDP per Capita for the study period.

Model Specification

In the determination of the effect of tax reform on productivity, this study adopted the model of Okeke, Mbonu & Amahalu (2018):

$GDP = \alpha + \beta_1 VAT + \mathcal{E}$

Where:

GDP = Gross Domestic Product

VAT = Value Added Tax

α = Intercept

β_1- β_1 = Coefficints of independent variab;

Thus, this study specifies a functional relationship between productivity and tax reform:

Economic growth = f(tax reform) + μ

Representing the equations with the variables of the construct, hence the models below were formulated based on the stated hypotheses:

$GDP_t = \beta_0 + \beta_1 VAT_t + \mu_t$ - - - - i

Where:

GDP_t = Gross Domestic Product for period t

VAT_t = Value Added Tax for period t

μ_t = Error term for period t

β_0= Constant term

β_1= Coefficient of Tax Reforms

t denotes the annual time period

Data Analysis Technique

E-View 10 was used to perform ordinary least square regression on the study data. During the study period, descriptive statistics were used to establish the mean, median standard deviation, minimum, and maximum values. Regression analysis will be used to assess the hypothesis' inferential statistics: it predicts the value of the independent variable based on the value of the independent variable.

Decision Rule

The decision was based on 5% (0.05) level of significance. The null hypothesis (H_o) will be accepted, if probability value (ie. P_{value} or Sig.) calculated is greater than (>) the stated 5% level of significance, otherwise reject.

Data Presentation

The time series data extracted from the publications of Federal Inland Revenue Services, Central Bank of Nigeria, National Bureau of Statistics and the World Bank Publications for sixteen years (2004-2019).

Test of Hypotheses

Ho_1: Value Added Tax has no significant effect on GDP per Capita of Nigeria

Table 1: Ordinary Least Square regression (OLS) analysis showing the effect of VAT,
Dependent Variable: DGDPPC
Method: Least Squares
Date: 11/06/20 Time: 10:40
Sample: 2004 2019
Included observations: 16after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.003857	0.017988	6.955718	0.0000
DVAT	-0.367736	0.256076	-4.699543	0.0001

R-squared	0.838705	Mean dependent var	0.024815
Adjusted R-squared	0.825264	S.D. dependent var	0.078367
S.E. of regression	0.077717	Akaike info criterion	-2.105912
Sum squared resid	0.132878	Schwarz criterion	-1.865942
Log likelihood	33.42982	Hannan-Quinn criter.	-2.034557
F-statistic	62.39778	Durbin-Watson stat	1.732524
Prob(F-statistic)	0.000000		

Source: E-Views 10.0 regression Output, 2021

The model's conclusion is that a one-unit rise in VAT will result in a 36.77 percent fall in GDP per capita. According to table 1, VAT has a significant effect on GDP per capita, as indicated by the t-statistic of -4.699543 and its associated probability value of 0.0001 0.05; the adjusted R squared figure of 0.825264 indicates that the predictors (VAT) explain the variations in the dependent variable (GDPPC).

The fact that the model does not contain auto-correlation is bolstered by the Durbin-Watson value of 1.732524, which is less than 2 roughly, making the regression suitable for prediction. The F-value was 62.39778, with a p-value of 0.000000, as a consequence of the analysis. This demonstrates that the model is extremely trustworthy. As a result, the model can be relied upon to accurately anticipate GDPPC.

Decision

Since the p-value of the test = 0.000000 is less than the critical significant value of 5%, thus H_1 is accepted and Ho rejected. Therefore, this study upholds that VAT has a significant negative effect on GDP per Capita.

Findings, Conclusion and Recommendations

The impact of Nigerian tax reforms on productivity was investigated in this study. The annual series of chosen key macroeconomic variables from 1992 to 2019 was used for this analysis. Data from the value added tax, petroleum profit tax, personal income tax, and corporate income tax were among the tax reform factors. According to the regression results, a one-unit rise in VAT reduces GDP per capita by 36.77 percent. As a result, the t-statistic of -4.699543 and its associated probability value of 0.0001 0.05 imply that VAT, with a negative co-efficient of 0.367736, has a substantial effect on GDP per capita. The regression result for

hypothesis I agrees with Okeke, Mbonu, and Amahalu (2018); Adeyrmi and Disu (2018); Apere and Durojaiye (2016); Etale and Binglar (2016); Bilal (2015); Ofishe (2015), but disagrees with Olaoye and Ayeni (2019); Bonmwa and Ogboru (2019) (2017).

The data show that tax reform components have a considerable impact on Nigeria's productivity at a 5% level. As a result, the research accepts the alternative hypothesis that value added tax, petroleum profit tax, personal income tax, and corporate income tax all have a statistically significant impact on Nigerian productivity at a 5% level.

Based on the findings of the study, the government should ensure that the application of VAT ensures that international trade takes place on a transparent basis and avoids distortions such as tax cascading associated with alternative commodity taxes in order to reverse the negative effect of VAT on gross domestic product per capita.

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