VALUE ADDED TAX AND NIGERIAN ECONOMY: AN EMPIRICAL ANALYSIS

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ABSTRACT

The main objective of this study is to determine the impact of Value Added Tax revenue on the Nigerian economy proxied by Gross Domestic Product, Federal Government Revenue and Federal Government Expenditure. The research design utilized for this study is Ex-post facto design. Time series data on value added tax, gross domestic product, federal government expenditure sourced from Central Bank of Nigeria, Federal Inland Revenue Services and Federal Ministry of Finance were analyzed using simple regression technique with the aid of Eview 9.1. Findings when the independent variable, value added tax was regressed on the dependent variable, gross domestic product, Federal government revenue and federal government expenditure showed that value added tax is positively and significantly related to the gross domestic product, federal government revenue and federal government expenditure. This implies that value added tax has the capacity to boost the Nigerian economy. This paper therefore recommends that the Federal government should make policies to strengthen the administration of value added tax while the informal sector is brought to the value added tax net for more revenue and sustainable economic growth and development.

Keywords: *Value Added Tax, Gross Domestic Product, Federal Government Revenue and Federal Government Expenditure.*

INTRODUCTION

A major challenge confronting Nigeria recently is how to diversify her economy from dependency on crude oil earnings for her survival as a nation. The excess revenue from crude oil earnings to the nation in the 1970's blinded our leaders that other means of revenue generation were neglected. What supposed to be a blessing to the nation turned a curse as the economy became a monoculture economy depending too heavily on crude oil earnings. However, the diversification of the economy became very necessary with the realization that dependency on the oil revenue cannot sustain public expenditures and economic growth and development in Nigeria especially with the fluctuations in the prices of crude oil and consistent decline in the demand by the United States of America and other oil consuming nations of the world (Oriakhu and Ahuru, 2014). This view was upheld by Udo and Ebong as quoted by Afolayan and Okoli (2015) "For the first two decades after independence, the economy was relatively buoyant as a result of favorable balance of payments and oil boom. However, cost of running the government, fluctuation in oil prices, inflation and the recent global economic recession have turned the attention of managers of the nation's economy to the importance and sustainability of taxes especially Value added tax".

Oriakhu and Ahuru (2014) also saw these factors as good signs to our fiscal operations that are oil driven stressing that if proactive actions were not taken, the economy may sink to a collapse. One of the steps taken by the then Federal Military Government of Lt. Gen Ibrahim Babangida was replacement of sales Tax with Value Add Tax. Value Added Tax was introduced in Nigeria following a study group set up by the Federal Government of Nigeria in 1991 to review the nation's tax system so as to help boost government revenue which was declining for many years. As a follow up, another committee was setup to conduct feasibility study on the implementation of Value Added Tax (Thacker 2009 in Okoye Uzu, 2013).

There may be two possible reasons for the Federal Government choice of Value Added Tax as part of her economic reforms and diversification strategy. Value Added Tax as an indirect tax was popular and had gained recognition among developing countries because of its crucial role as an instrument of economic development and increasingly accounting for a significant proportion of government revenue to finance the required level of public expenditures. Adereti, Adesina and Sanni (2011) stated that Value Added Tax was a major source of revenue in many developing countries pointing out that in the sub Saharan African Countries for example, Value Added Tax was introduced in Benin Republic, Cote d'Ivoire, Guinea, Kenya, Madagascar, Mauritius, Niger Republic, Senegal, Togo etc. Evidence from these countries suggested that Value Added Tax has become an important contributor to the government total revenue (Ajakaiye, 2000).

The impressive performance of Value Added Tax in virtually all the countries where it was introduced influenced the then Federal Military Government of Gen. Ibrahim Babangida to introduce Value Added Tax in Nigeria in 1994 (Adereti et' al, 2011). Value Added Tax as a

consumption tax is easy to administer and very difficult to evade and has been embraced by many countries of the world (Federal Inland Revenue Services in Adereti et' al., 2011).

Another reason which might have accounted for the introduction of Value Added Tax in Nigeria is that taxation as an instrument of fiscal policy is vital in generating revenue to finance the activities of government, redistribute income, stabilize the economy as well as stimulate economic growth and development.

Over the years, since the oil boom of the early 1970's revenue from oil has dominated government revenue source. This over dependence on oil makes the economy susceptible to vagaries of the international market. In a bid to address this problem of mono economy led to tax policy reforms that ushered in the introduction of Value Added Tax in 1993 and implemented by the Federal Government of Nigeria in 1994 to generate additional revenue (Olawale, 2013). Since the adoption of Value Added Tax in Nigeria, the performance has been impressive (Ofishe, 2015). Some researchers such as Ajakaije (2000), Aderati, Adesina and Sanni (2011), Owolabi and Okwu (2011), Izedonmi and Okunbor (2014), Chigbu (2014) in their various studies described the performance of Value Added Tax in Nigeria and other sub Saharan African countries as enormous and encouraging. Yet there are some critics who argued that the incidence of the tax system is regressive. Umeora (2013) states that despite the enormous revenue that flows into the government treasury, there are critics who argue that the incidence of Value Added Tax like other indirect taxes is regressive stressing that the poor people spend a large portion of their income on purchases that carry Value added tax.

Despite the favourable and unfavourable arguments, on the impact of value added tax, its real impact on the Nigerian economy appears not to have been empirically investigated. Much of the researches on impact of taxation on the Nigerian economy lumped up all the various taxes together without isolating value added tax and assessing its impact on the economy (Adereti, Adesina & Sanni, 2011; Omeora, 2013; Afolayn, Okoli, 2015; Onaolapo, Aroremi & Ajala, 2013). It is therefore necessary to isolate value added tax from other taxes and assess its impact on the Nigerian economy.

The main objective of this study is to determine the impact of revenue from Value Added Tax on the Nigerian economy.
Specifically, the study shall:
(i)   Ascertain the impact of revenue from Value Added Tax on the Gross Domestic Product of Nigeria.
(ii)   Ascertain the impact of revenue from Value Added Tax on the Federal Government Revenue.
(iii)   Determine the relationship between the revenue from Value Added Tax and Federal Government Expenditure.

REVIEW OF RELATED LITERATURE
Conceptual Framework
Value Added Tax

Much has been written on Value Added Tax since its inception in tax administration worldwide. As its conceptual meaning so many authors have written and defined it in one form or another. Tait, Robert and Tuan (2015) defined Value Added Tax as a broad based business tax imposed at each stage of production and distribution process, typically designed to tax final consumption. Okoye and Gbegi (2013) defined Value Added Tax as consumption tax on economic operations including imports except those exempted as par the provision of the decree. Value Added according to him is calculated by deducting from the value of production or services that were used in the process of production or in the delivery of services. It is on this basis that Anyanwu (1993) states that Value Added Tax is not a tax on the total value of goods and services being sold but only on the value added. (The difference between the value of factors, services and materials that the firm purchases as input and the value that the firm adds to it to the last payer) that a firm adds to it by last seller. Barthia (2009) as quoted by Chigbu (2014) defined Value Added Tax as a tax not on total value of goods and services being sold but only on the value added on it by the last seller; therefore the last seller is liable to pay a tax not on its gross value but net value; that is the gross value minus the value of the inputs. The International Monetary Fund (IMF) (2001) in Chigbu 2014 gave all embracing definition of Value Added Tax as follows:

> *The typical Value Added Tax is an indirect tax imposed on each sale beginning at the start of production and distribution cycle and culminating in the sale to the customer. Each seller in the chain collects the Value Added Tax from the purchaser at the time of the sale (the Value Added Tax is added to the sales price but must be separately stated except on the final sale to the consumer, deducts from this amount any Value Added Tax he himself has paid on his purchases and remits the balance to the government). The net effect of offsetting purchases and sales is to improve tax at each stage of production on the sum of wages, interests, rents and profits and other factors of production not furnished by suppliers subject to the tax at the previous stage of production. Hence it is a tax on "value added". The seller sustains no economic burden on his purchases since he receives a credit from government for any Value Added Tax paid to his suppliers. In effect, the Value Added Tax is pushed forward through the production and distribution chain to the customer. The consumer absorbs Value Added Tax as part of the sales price but receives no credit. Thus, the Value Added Tax is essentially a consumption tax with throughout the production chain.*

The definition of IMF is in agreement with the definition given by economic watch (2010) which states that Value Added Tax is an indirect tax imposed on goods and services at each stage of production, starting from raw materials to final product. Value Added Tax is levied on value additions at different stages of production and distribution. Bird (2005) referred to Value Added Tax as a multi-stage tax imposed on the value added to goods and services as they proceed through various stages of production and distribution and to services as they are rendered which is eventually borne by the final consumer but collected at each stage of production and distribution chain. Jone (2003) opines that Value Added Tax is a tax levied at each stage when supplies exchanges hands. He went further to state that in the case of manufactured items, this could be at the primary producer or manufacturers, wholesaler and retailer stages and it is ultimately borne by the consumer who being registered for Value Added Tax purpose is unable to reclaim it.

From the whole definitions, three characteristics are identified of Value Added Tax:
i.   Value Added Tax is a consumer tax.
ii.   Value Added Tax incidence falls on the final consumer.
iii.   Value Added Tax is a multi-stage tax.

In other words, there are intermediaries through which goods and services must pass before they reach final consumers. Each time goods are passed from one stage to the other in the intermediary, value is added to it. It is this value that is being taxed and eventually borne by the final consumer.

The illustration below as it is applicable in Nigeria shows a multi-stage collection of Value Added Tax at 5%.

Value Added Tax in Nigeria
Basically, two opinions emerged to the history of Value Added Tax in Nigeria. Chigbu (2012) quoting Ola (2001) traced the history of Value Added Tax in Nigeria to Ola's income tax law and practice where he strongly made a case for the introduction and implementation of Value Added Tax in Nigeria. According to them, this led the then Federal Minister of Budget and Planning Dr. S.P. Okongwu in 1991 to inaugurate a twenty member study group to review the entire tax system. The report of the study group came out with the idea of introducing Value Added Tax in Nigeria as a result of the low voluntary compliance with our tax laws by experts and tax practitioners.

However, Okoye Uzu (2013) and Onaolapo and Fasina (2013) traced the introduction of Value Added Tax in Nigeria to the advice of the International Institutions such as International Monetary Fund (IMF) and the World Bank that advised developing nations like Nigeria to replace trade taxes with domestic consumption taxes particularly Value Added Tax and to maintain relatively high corporate income tax rates. The intention according to Okoye Uzu (2013) was to assist Nigeria to increase its non-oil revenue. Umeora citing Casanegra (1986)

states that since Value Added Tax was introduced in France in 1954, it has been adopted in most countries of the world. According to him, in developing and transitional countries it has been introduced within the last three decades. During this period he added, Value Added Tax system has formed a major innovation in their tax systems. This was buttressed by Bird (2003) when he said "over the last few decades, Value Added Tax has swept the world". The reason for the rapid worldwide adoption of Value Added Tax has been attributed to the early adoption by European Union. The other reason is the key role of International Monetary Fund (IMF) in propagating the message of Value Added Tax to developing nations.

These may have given impetus to the then Federal Minister of Budget and Planning Dr. S. P. Okongwu to find wisdom to inaugurate a twenty member study group that recommended introduction of Value Added Tax in Nigeria. According to Chigbu (2012) "The government in 1991 formed a study group on indirect taxation to study the feasibility of introduction of Value Added Tax as an improvement on the sales tax in existence then." The study group recommended inter alia, the introduction of in Nigeria. The government accepted this recommendation but however set up Value Added Tax implementation committee referred to as "Modified Value Added Tax committee to undertake feasibility studies on its implementation in Nigeria. Nwekeazu (2005) as cited by Chigbu (2012) states that the committee worked in close collaboration with the Federal Inland Revenue Services (FIRS) till January 1993 when the Federal Government agreed to introduce the new tax into the country with the promulgation of Decree 102 of 1993 that gave legal teeth to the new tax policy. The actual implementation of Value Added Tax in Nigeria was with effect from 1st January 1994.

Value Added Tax in Nigeria was a replacement of the existing sales tax which was in operation under the Federal Government legislated Decree 7 of 1986 and was operated on the basis of residence (FIRS Information Circular, 1993). According to the circular, the rationale for the replacement of sales tax with Value Added Tax is as follows:

i.   The sales tax operated under Decree 7 of 1986 was narrow. It covered only nine categories of goods plus sales and services in registered hotels, motels, and similar establishments. The narrow base of the tax was considered to negate the fundamental principle of consumption tax which by nature is expected to cut across all consumable goods and services. Value Added Tax base is broader and includes most professional services and banking transactions which are high profit generating sectors.

ii. The sales tax Decree 1986 targeted only locally manufactured goods which might not be the intention of the law. Value Added Tax is neutral in this regard. Under Value Added Tax a considerable part of the tax to be realized is from imported goods. This means that under the new Value Added Tax, local manufactured goods would not be placed at a disadvantage relative to imports.

iii. Finally, since Value Added Tax was based on the general consumption behavior of the people, the expected high yield from it would boost the fortunes of the state governments with minimum resistance from the payers of the tax.

It was believed that the introduction of Value Added Tax by the Federal Government of Nigeria in January 1993 and its implementation in 1994 was a means of avoiding taking loans from international agencies (Ochei, 2010). Analysts were of the view that Value Added Tax was intended to be a super tax to eradicate completely many other taxes related to goods and services. Value Added Tax was imposed on virtually all goods and services whether produced or rendered in Nigeria or not (Aderati et al., 2011). Value Added Tax is paid on virtually all goods and services with the exception of the following:

- Medical and Pharmaceutical products
- Basic food items such as peas, beans, yam, cassava, maize, rice, wheat, milk, and fish
- Infant food items
- Books, newspapers and magazines
- Educational materials (laboratory equipment)
- Baby products such as carriage, clothes and napkins as well as sanitary towels
- Commercial vehicles and spare parts, tractors, public transport passenger vehicles, motorcycles, tanks and other amoured fighting vehicles and bicycles
- Agricultural equipment such as those for soil preparation or cultivation, harvesting or threshing, milking and diary machinery and poultry keeping machinery
- Veterinary medicine, equipment
- Fertilizers and faming transportation equipment
- All imports are Value added taxable whether imported raw materials or finished goods.

Justifying Value Added Tax as a tax policy, Margolisth and Reuven (2006) centered that consumption taxes are not necessarily regressive as this is offset through a progressive use of tax revenue generated from other sources, mostly the expenditure side of the national budget. Emran and Stighitz (2005), Gordian and Li (2005) in Onaolapo and Fashina (2013) argued that relatively, large informal sector, level of corruption, monetization, high shares of agriculture and small businesses in developing nations may justify a different policy design. The key assumption in their theory is that firms in developing countries can evade taxes completely by shifting entirely to cash transactions and not using financial sector as the functioning of the tax structure. But Gemmel and Morrissey (2003) opined that taxes on intermediaries such as fuel are often regressive because they affect transport costs, the prices of goods consumed by the poor. However what should be most important is that this tax policy as it affects the poor should kept as low as possible since the poor benefits when revenue generated from it is spent for provision of infrastructures needed by the poor.

Value Added Tax as a Source of Revenue in Nigeria
Ajkaiye states that Value Added Tax has become an important contributor to total government tax revenue. Keen and Lockword (2006) in the studies of Organization of European Countries Development (OECD) in Basila (2010) described Value Added Tax as a money machine. Money machine suggests that Value Added Tax effectively generates revenue. There is sufficient

evidence to suggest that Value Added Tax is already a significant source of revenue in Nigeria. For example actual Value Added Tax revenue for 1994 was N8.194 billion which was 36.5% higher than the projected N6m for the year. In 1995, the government raked from Value Added Tax N21 billion compared with the projected N12 billion (Asogwa & Nnolika, 2013).

Value Added Tax also known as goods and services tax is an indirect tax collected from someone other than the person who actually bears the cost of the tax. Value Added Tax returns and payments are made monthly to the local Value Added Tax office on or before the 30th day of the month following that in which supply was made (Economist Nigeria, 2011).

In Nigeria Value Added Tax revenue is administered by the Federal Inland Revenue Services (FIRS) but shared by the three tiers of government from 1999 to date as follows;

Federal government   15%
State government   50%
Local government   35%

(Olawale and Ago, 2013).

In other words revenue from Value Added Tax is a source of revenue to the three tiers of government making funds available for the three levels of government for their infrastructural provisions and developmental projects.

To ensure Value Added Tax's effectiveness, certain amendments were made to the existing tax structures. According to Olusola (2006), these include:

- Reduction of the personal income tax burden through increased tax allowance and reduced tax rate.
- Monetization and taxation of fridge benefits
- Deduction of research and development (R&D) expenditure from the gross earnings of companies.
- Extension of tax-free status of companies in rural areas and granting incentives based on the infrastructure available in the areas.
- Reduction of company tax rate from 40% to 35% and subsequently to 30% and payment of petroleum profit tax in dollar.

Value Added Tax and Gross Domestic Product (GDP)
It has been noted that one of the methods by which economic development of an area can be measured is by calculating Gross Development Product. According to Britannia (2010) in Unegbu and Irefin (2011) one of the most common methods of measuring economic development of an area is by calculating the Gross Domestic Product (GDP) of the area. GDP is defined by them as the value of goods and services produced in a given economy in a given period of time. According to Anyanwuocha (2004) GDP refers to the total value of all goods and services produced in a country within a period of one year by all residences of the country irrespective of their nationality. Thingan (2003) states that GDP is the total measure of the flow

of goods and services at a market value resulting from current production in a course of a year by all residents of a country. The Central Bank of Nigeria (CBN) (2008) as cited by Basila (2010) notes that Nigeria GDP by expenditure is based on expenditure at purchase price including free on board values of exports of goods and services less the free on board value of import of goods and services. The CBN (2008) went further to state that GDP as a concept is calculated without deduction of the value of depreciation and defined GDP as a monetary value of goods and services produced in a country in a period of time regardless of nationality of the producers.

Value Added Tax revenue is generated and shared among the three tiers of government in Nigeria, that is the Federal, State and Local government councils respectively. It is an effort towards diversification of Nigeria's revenue base and reduces over dependence on oil revenue for a sustainable economic growth and development.

GDP measured in expenditure could reveal a strong and significant positive relationship with Value Added Tax which is tax on consumption expenditure (Basila, 2011). For example, Lin (2004) on evaluating the Value Added Tax in China states that a relationship exists between Value Added Tax and GDP. Expenditure refers to the aggregate expenditure on goods and services during the year. These include private consumption expenditure. Mathematically, expenditure method of GDP is expressed as the sum of private consumption expenditure (c) + gross domestic private investment (I) + net foreign investment (x-m)+government expenditure on goods and services (G). thus aggregate national expenditure (NE) = C+I+(x-m)+G (Basila 2010) Frank and Bernanke concurred that expenditure methods of measuring GDP assumes that goods and services produced in an economy are all purchased by economic agents, who are householders, firms, governments and foreign sector. Total spending by these economic agents equals the market value of goods and services produced in the economy for the given period. Some of these goods and services are Value Added Tax registered which in other words forms Value Added Tax revenue. Value Added Tax is an indirect tax that can be described as polite, in that it is paid unnoticed by the consumers. Without expenditure by all forms of consumers, whether they are government establishments, institutions and/or individuals there would not be Value Added Tax revenue. This work finds out the relationship between Value Added Tax and Gross Domestic Products.

Value Added Tax and Government Expenditure
Nnamaocha (2005) as cited by Unegbu and Irefin (2011) stipulates that public expenditure impacts positively on citizenry's economic and human development. Britanna (2009) agreed with this stipulation and explains economic development as a process whereby simple, low-income national economies are transformed into modern industrial economies. Economic development projects involve large capital expenditure on infrastructural developments (Roads, Irrigation networks, housing), industries, education, security, hospitals and financial institutions. Odewale (2004) states that tax is a major contributor to government's revenue and Value Added

Tax is an aspect of tax. Owolabi and Okwu (2011) were in agreement with Odewale and state that Value Added Tax revenue has become a significant source of government revenue for expenditure in Nigeria. Value Added Tax is a tax on consumption; the more you buy, the more you pay. It is also a neutral tax on businesses in that it does not represent real cost to anyone but the end consumer. Everyone pays tax to the government whenever they purchase goods and services. This is collected for the government by the supplier of those goods and services. Therefore the primary objective of fiscal policy is to raise more revenue through Value Added Tax and use same to carry out government expenditure. The tax authorities have been guided by the need to design equitable and efficient Value Added Tax system capable of complementing government expenditure and thus reduce recourse to public borrowing (Omoye & Ilaboya, 2012).

It is a known fact that countries wishing to develop must spend more on economic and social infrastructures which can only be achieved through improvement in tax efforts to realize the required level of public expenditure (Golit, 2008). Value Added Tax is regarded as being superior to other taxes because it discourages consumption rather than production. It is seen as an improvement in the tax effort of Nigeria as a developing country to derive additional revenue for government expenditure (Omoye & Ilaboya, 2012).

Empirical Literature
There are in existence in literature, several research studies on the effect of Value Added Tax on the economy, on the economic growth and development of countries that have embraced Value Added Tax as a means of increasing their revenue base for sustainable growth and development of their economy.

Nwafor (2010) studied the effect of Value Added Tax on the Nigerian economy from 1997 to 2007 using regression analysis. The result shows that Value Added Tax has significant positive effect on the Nigerian economy as well as on the consumption pattern of Nigerians. The work revealed that Value Added Tax has contributed significantly to the standard of living of Nigerians. Owolabi and Okwu (2011) examined the contribution of Value Added Tax to the development of Lagos state economy using simple regression models as abstractions of the respective sectors considered in the study. The results showed that Value Added Tax revenue contributed positively to the development of the respective sectors. However, the positive contribution was statistically significant only in the agricultural sector. Onaolapo, Aroremi and Ajala (2013) carried out a research work on assessment of Value Added and its effects in Revenue generation in Nigeria. Their studies covered federation revenue generated from value added tax in Nigerian economy for a time frame of 2001 to 2010 accounting years while emphasis was placed on the impact of Value Added Tax. The data used for the analysis were Total Federal Collected Revenue (TFCR) Value Added Tax, Petroleum Profit Tax (PPT), Company Income Tax and Education Tax. The empirical result of the study using stepwise regression analysis showed that the Value Added Tax is beneficial to the economy and also revealed that Value Added Tax is statistically significant to revenue generation in Nigeria. The

findings showed that for Nigeria to attain her economic growth and development, she must be able to meet up with the challenges of her expenditures in terms of provision of social amenities and running cost of government.

Onaolapo and Fasina (2013) carried out research on the revenue profiles of south – western Nigeria, that is the revenue profile of Lagos, Ogun, Ondo, and Ekiti states for ten years (2002 to 2011) obtained from approved budgets of the states were analyzed using panel regression method. The findings of the research show that Value Added Tax was positively and significantly related to the revenue profile of the states. The research work of Izendonmi and Okunbor (2014) investigated empirically the role of Value Added Tax in the Economic growth of Nigeria. Time series data on both real GDP (Normal GDP adjusted for the effects of inflation) and Value Added Tax revenue from 1994 to 2010). The analysis was done using COBB DOUGLASS regression model, the result shows Value Added Tax revenue and total income accounted for 92% of variations in the GDP. It shows that components of Value Added Tax and total revenue are important determinants to the economic development of Nigeria.

Unegbu and Irefin (2011) studied the impact of Value Added Tax on the economic development of emerging nations (A case study of Adamawa State of Nigeria) from 2001 to 2009. They used regression statistical tools, Analysis of variance (ANOVA) and discriminant analysis. The study also using multiple regression and ANOVA to measure the proportion of Value Added Tax to allocation to total revenue (2001 to 2009) observed that Value Added Tax has a very significant contribution to the total revenue. The work of Okoye and Gbegi (2013) "The Effective Value added tax: An imperative for wealth creation for ten years 2001 to 2010 using person's product moment correlation co-efficient reveals that Value Added Tax has a very high positive correlation with GDP in the Nigerian economy reflecting a high positive influence Value Added Tax has on wealth creation. The work also discovered that a high positive correlation between Value Added Tax and overall tax revenue and therefore concluded that Value Added Tax is a bedrock of wealth creation in Nigeria as well as economic development as it contributes significantly to the nations GDP. Basila (2010), investigated the relationship between Value Added Tax and GDP in Nigeria using Pearson's Product Moment correlation (PPMC) from 1993 to 2008. The findings of the research show that there is strong positive correlation between Value Added Tax revenue and Gross Domestic Product. Onwucheka and Aruwa (2014) investigated the impact of Value Added Tax on the economic growth of Nigeria. Ordinary least square technique was employed to test the hypothesis. The result shows that Value Added Tax contributes significantly to the total tax revenue of government and by extension to the economic growth of Nigeria.

Omorkhuale (2016) conducted a study on "Evaluation of the contribution of Value Added Tax to Nigeria economy for a period of twelve (12) years (2000 to 2010) using data collected from Central Bank of Nigeria statistical bulletin and Federal Inland Revenue Services bulletin. He used ordinary least square technique. The research reveals a strong positive significant

relationship between Value Added Tax in Nigerian economy. Chigbu (2014) investigated the impact of value added on the economic growth of Nigeria from 1994 to 2012 using econometric tests of Breusch-Godfrey serial correlation LM, White Hetero skedasticity, Ramsey RESET, Jarque Bera, Johansenco-intergration and granger causality. The secondary data was collected from Central Bank of Nigeria and Federal Inland Revenue Services. The empirical analysis shows that Value Added Tax is one of the most important components of indirect taxes in Nigeria that affects the economic growth of the country. Zaman, Okasha and Igbal (2012) examined the impact of Value Added Tax in Pakistan's economy. Using household survey data to grasp the effect of Value Added Tax on the social and economic life of the populace, results show that Value Added Tax would disturb economic order of the society. Salti and Chabaan (2010) studied the effect of increasing rate of Value Added Tax by targeting poverty and inequality. An empirical model based on consumer theory of demand was established to study the impact. Simulation results showed that increased rate of Value Added Tax would have negative significant impact on the poverty level. Ofishe (2015) studied the impact of Value Added Tax on economic growth in Nigeria from 1994 to 2012. Relevant data were collected from Central Bank of Nigeria statistical bulletin and Federal Inland Revenue Services Reports. He used ordinary least square technique for analysis. The result revealed a strong positive relationship of Value Added Tax on economic growth proxy of gross domestic product of Nigeria. The study also revealed that there is positive relationship or impact of Value Added Tax on total tax revenue and recommended that government should put in place pressures to effectively generate tax revenue for infrastructural and economic development and review of tax incentives to attract foreign investors so as to boost economic growth in Nigeria.

Madugha and Azubike (2016) examined the relationship between value added tax and economic developments in Nigeria for a period of eighteen (18) years from 1994 to 2012. They used multiple regression analysis to analyze the data obtained from Central Bank of Nigeria Statistical Bulletin. The result showed negative significant relationship between Value Added Tax and gross domestic product. It also showed a positive significant relationship between gross domestic product and consolidated revenue. Umeorah (2013) carried out a research work on the Effects of Value Added Tax on the economic growth of Nigeria proxy of gross domestic product and total tax revenue from 1994 to 2010 and used time series data sourced from Central Bank of Nigeria Statistical Bulletin, Central Bank of Nigeria Annual Reports and Statement of Accounts and Federal Inland Revenue Services. She used simple regression linear analysis to analyze the data. The empirical study shows that Value Added Tax has significant effect on the Gross Domestic product and total tax revenue. Fasina (2016) empirically investigated determinants of Value Added Tax in South Western Nigeria using panel method covering a period of ten (10) years. The research study showed that Value Added Tax has positive and significant effect on revenue generation.

Okoyeuzu (2013) investigated Value Added Tax remittances from developing countries from 2005 to 2011, a period of seven (7) years. The study targeted evaluation of Value Added Tax as

revenue earner in Nigeria. The researcher utilized survey research design and the data was sourced from Federal Inland Revenue Services. The study revealed that Value Added Tax revenue has been on the decrease for the period of study and recommended that Nigeria government should make adequate provision from retrieving the proceeds of the tax system from companies and other agents of collection. Muhibat, Abdul, Azeez and Tope (2013) carried out investigation on empirical evaluation of the contributions of Value Added Tax to total revenue generation and gross domestic product of Nigeria. The purpose of the study was to examine the impact of Value Added Tax on revenue generation and gross domestic product. It covered a period of 1994 to 2010 and ordinary least square regression analysis was employed for data analysis and the result showed that value added tax has significant impact on gross domestic product. Afolayan and Okoli (2015) studied the impact of Value Added Tax on Nigerian economic development from 1994 to 2012. Time series data on Revenue, Gross domestic product, Value added tax, Petroleum Profit Tax, Companies Income Tax Revenue, Revenue from Customs and Excise Duties were sourced from Central Bank of Nigeria Statistical Bulletin, Annual Reports and Accounts of The Central Bank of Nigeria and collection profile of the Federal Inland Revenue. The finding shows that government sector had the highest overall contribution of 24.5% to Value Added Tax revenue for the period under review. Oloidi and Oluwana (2014) studied the effectiveness and efficiency of Value Added Tax calculated on gross domestic product and adjusted resulting in the adjusted gross domestic product. Also Value Added Tax effectiveness and efficiency were calculated on total consumption expenditure and adjusted total consumption expenditure, the adjusted total consumption expenditure represents private consumption expenditure. The findings revealed that value added was not effective on gross domestic product but effective on adjusted gross domestic product.

Summary of Literature Review
The empirical literature reviewed earlier research works on Value Added Tax and economy or the economic growth and development etc. Izedonmi and Okunbor (2014), Chigbu (2014), Adereti, Adesina and Sanni (2011), Onwuchekwa and Aruwa (2014), Basila (2010), Okoye and Gbegi (2013), Okoyeuzu (2013), Onaolapo, Aroremi and Ajala (2013), Onaolapo and Fasina (2013), Unegbu and Irefin (2011), Ekeocha (2011), Ofishi (2015), Umeohah (2013), Fasina (2016), Omorkhuale (2016), were all in agreement that Value Added Tax has a positive and significant impact on the federally collected revenue, the gross domestic product and the federal government expenditure and consequently Value Added Tax if properly managed will boost the economy and reduce over reliance on oil revenue.

However most of these researches studied value added tax either on its effect on revenue generation in Nigeria, the revenue profile of some states in Nigeria, the economic growth of Nigeria the economic development of Nigeria for a period of about ten to eighteen years. While some of them studied value added tax from its inception to the year 2000, others started from somewhere after the inception to some years in the 2000s. This research work is therefore

positioned to fill the gap by assessing the impact of value added tax on the Nigerian economy from its inception in 1994 to 2014, isolating any other type of tax from the study.

Methodology

Research Design

The research design for this study is Ex-post facto research design. It is a systematic empirical inquiry in which the researcher does not have direct control of independent variables because their manifestations have already occurred or because they are inherently not manipulated (Otuka, Azare & Ogunsola, 2004).

Method of Data Collection

Secondary data is used for this study. Data on Value Added Tax was collected from Federal Inland Revenue Services (FIRS) and Central Bank of Nigeria (CBN). Data on Federal Government Revenue was sourced from CBN and Federal Ministry of Finance (FMF) while data on Gross Domestic Product (GDP) and Federal Government Expenditure were sourced from Central Bank Nigeria.

Analysis of Data

The data which are on four economic variables Value Added Tax, Independent Variable, Gross Domestic Product and Federal Government Revenue and Federal Government Expenditure, The dependent variables were analyzed using simple regression technique. The researcher carried out unit root test to ensure stationarity of the data and eliminate emergence of spurious result.

To conduct the investigation that determines the impact of Value Added Tax on the Nigeria economy, the two constructs include Nigeria economy and Value Added Tax. The model for this study takes the following form (Onalapo, Aworemi & Ajala, 2013).

$y = \beta_0 + \beta X_1 + e$

where,

y = Nigeria Economy (Dependent variable)

X = Value Added Tax (Independent variable)

β_0 = Constant term (intercept)

β = Coefficient of Value Added Tax

e = Error Term / unexplained variable(s)

Explicitly, the equation can be defined as:

NECO = f(Value Added Tax)

Representing the equation above with the variables of the construct, hence the equation below is formulated, which can be written in linear form:

NECO = $\beta_0 + \beta_1$ Value Added Tax+ E

Where

NEco$_{it}$ = GDP; Fed Govt. Rev; Govt. Exp

Legend:

NEco = Nigeria Economy

Therefore:

GDP$_{it}$ = $\beta_0 + \beta_1$ Value Added Tax+ E …………………………… (1)

FGR$_{it}$ = $\beta_0 + \beta_1$ Value Added Tax+ E …………………………… (2)

GEX$_{it}$ = $\beta_0 + \beta_1$ Value Added Tax+ E …………………………… (3)

Legend:

β_0 =   Constant Term (Intercept)

β_{it} =   Coefficient to be estimated

E_{it} =   Error term/unexplained variable(s)

GDP   =   Gross Domestic Product

FGR   =   Federal Government Revenue

GEx   =   Government Expenditure

Value Added Tax = Value added tax

Source: Researcher's computation

DATA PRESENTATION, ANALYSES AND INTERPRETATION
Test of Reliability
The researcher tested for stationarity unit root test in order to fulfill the economic theory which states that variables that must enter a regression model must undergo a stationarity test in order to achieve a realistic (non spurious) result at 1%, 5% or 10% level of significance. The results for the test which is shown below are shown in Appendices I and II.

Value Added Tax, Gross Domestic Product, FGEXP and FGR did not pass through the zero point several times, therefore, have unit root problem; consequently, the data were detrended using the Augmented Dickey-Fuller (ADF) test. The result of the differenced data in order to solve the unit root problem is as shown below:

Table 1   Differenced Results

Variables	Test of critical value	Test statistics			Status
	ADF	1%	5%	10%	Stationary
VALUE ADDED TAX	-3.786252	-2.699769	-1.961409	-1.606610	2(0)
GDP	-2.836549	-2.816740	-1.982344	-1.601144	2(0)
FGEXP	-6.869139	-2.699769	-1.961409	-1.606610	2(0)
FGR	-6.409461	-2.699769	-1.961409	-1.606610	2(0)

Source: Researcher's computation using E-view 9.1

Table 1 indicates that the value of the ADF is less than the test critical values at 1%, 5% and 10% respectively indicating that the unit problem has been solved at second differences.

Test of Hypotheses

Test of Hypothesis One:

Ho$_1$: Revenue from Value Added Tax is not significantly related to GDP

Table 2:   Multiple Regression Analysis showing the relationship between GDP and Value Added Tax in Nigeria Economy

Dependent Variable: DGDP
Method: Least Squares
Date: 06/18/17   Time: 13:01
Sample (adjusted): 1995 2014
Included observation: 20 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-32.49092	10.44445	-3.110832	0.0060
DVALUE ADDED TAX	1.439343	0.160177	8.985966	0.0000

R-squared	0.817717	Mean dependent var	11.31550
Adjusted R-squared	0.807590	S.D. dependent var	94.17364
S.E. of regression	41.30884	Akaike info criterion	10.37467
Sum squared resid	30715.56	Schwarz criterion	10.47424
Log likelihood	-101.7467	Hannan-Quinn criter.	10.39411
F-statistic	80.74758	Durbin-Watson stat	0.671305
Prob(F-statistic)	0.000000		

Source: Researcher's computation using E-View 9.1, 2017

Interpretation of Regressed Result

The regressed coefficient result from table 2 reveals that there exists positive association between value added tax and GDP and statistically significant at 1%.

The adjusted R-squared value shows that 82% of the systematic variations in the dependent variable can be predicted by the independent variable. And 18% was explained by unknown

variables that were not included in the model. The Prob (F-statistic) is statistically significant at 1% level of significance.

The regression effect can be summarized thus:
GDP = -32.49092 +1.439343 Value Added Tax

The implication of the finding is that for there to be a unit increase in GDP, there must definitely be a multiplying effect of 1.439343 of Value Added Tax.

Decision Rule:
Accept the null hypothesis if the P-value of the test is greater than 0.05, otherwise reject.

Decision:
The P-value of Value Added Tax (0.0000) is less than 0.05, therefore H_1 is accepted and H_o is rejected.

Conclusion:
Value Added Tax has a positive relationship and statistically significant effect on GDP of Nigeria economy at 1% level of significance.

Test of Hypothesis Two:
Ho_2: Revenue from Value Added Tax is not significantly related to Federal Government Revenue

Table 3:   Multiple Regression Analysis showing the relationship between FGR and VALUE ADDED TAX in Nigeria Economy

Dependent Variable: DFGR
Method: Least Squares
Date: 06/18/17 Time: 13:03
Sample (adjusted): 1995 2014
Included observations: 20 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	405.7753	361.5482	1.122327	0.2765
DVALUE ADDED TAX	2.877304	5.544732	0.518926	0.0501
R-squared	0.714740	Mean dependent var		493.3460
Adjusted R-squared	0.639997	S.D. dependent var		1402.193
S.E. of regression	1429.960	Akaike info criterion		17.46332
Sum squared resid	36806126	Schwarz criterion		17.56289
Log likelihood	-172.6332	Hannan-Quinn criter.		17.48276
F-statistic	0.269284	Durbin-Watson stat		2.450670
Prob(F-statistic)	0.050134			

Source: Researcher's computation using E-View 9.1, 2017

Interpretation of Regressed Result

The regressed coefficient result in table 3 above reveals that the FGR has a positive relationship with Value Added Tax and statistically significant at 5% level of significance. Though, the regressed result shows the problem of auto correlation, because the Durbin-Watson Statistics is 2.450670, which is above 2 (based on the rule of thumb). Auto correlation is a problem associated with time series data. To correct the problem of Auto Correlation, Auto Regressive (AR) method is employed.

The prob. (F-statistic) which is used to test the overall significance of a model reveals that the tested variables have a collective, statistically significant relationship at 5% level of significance. It was observed from table 3 that a unit change in the independent variable (Value Added Tax) will lead to a change in the dependent variable (FGR). Thus, such relationship could be expressed as follows:

Model Specification

FGR= 405.7753 + 2.877304 VALUE ADDED TAX

The model shows that for there to be one unit increase in FGR, there will be 2.877304 multiplying effect of Value Added Tax.

The implication of the finding is that an increase in Value Added Tax will definitely lead to an increase in FGR.

Decision Rule:

Accept the null hypothesis (H_o) if the p-value of the test is greater than 0.05, otherwise reject.

Decision:

The P-value of the test for Value Added Tax (0.0501) is less than 0.05. Hence, reject H_o and Accept H_1.

Conclusion:

Since the p-value of the test for Value Added Tax is less than 0.05, then there exists enough evidence to reject the null hypothesis and conclude that there is a statistically significant relationship between Value Added Tax and FGR. Furthermore, that Value Added Tax positively and significantly influences the FGR of Nigerian economy.

Table 4:   **Correction of Auto Correlation Problem with the use of Auto Regressive (AR) Method**

Dependent Variable: DFGR
Method: ARMA Maximum Likelihood (OPG - BHHH)
Date: 06/18/17   Time: 20:27
Sample: 1995 2014
Included observations: 20
Convergence achieved after 6 iterations
Coefficient covariance computed using outer product of gradients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DVALUE ADDED TAX	4.230448	10.26730	0.412031	0.0008
C	359.3652	788.8895	0.455533	0.0548
AR(1)	-0.233062	0.263851	-0.883310	0.0001
SIGMASQ	1737564.	403972.4	4.301195	0.0005

R-squared	0.769746	Mean dependent var	493.3460
Adjusted R-squared	0.714677	S.D. dependent var	1402.193
S.E. of regression	1473.755	Akaike info criterion	17.60866
Sum squared resid	34751278	Schwarz criterion	17.80781
Log likelihood	-172.0866	Hannan-Quinn criter.	17.64754
F-statistic	0.399866	Durbin-Watson stat	1.262820
Prob(F-statistic)	0.000007		

Inverted AR Roots	-.23

Source: Researcher's computation using E-View 9.1, 2017

Table 4 shows the Durbin-Watson statistics value to be 1.262820. This indicates that the problem of Auto Correlation associated with time series analysis has been corrected. Since the Durbin-Watson statistics value is less than 2. And the Prob (F-statistic) is statistically significant at 1%.

Test of Hypothesis Three:

Ho$_3$:   Revenue from Value Added Tax is not significantly related to Federal Government Expenditure

Table 5　　　　Multiple Regression Analysis showing the relationship between FGEXP and VALUE ADDED TAX in Nigeria Economy

Dependent Variable: DFGEXP
Method: Least Squares
Date: 06/18/17   Time: 19:42
Sample (adjusted): 1995 2014
Included observation: 20 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DVALUE ADDED TAX	5.373563	0.834232	6.441328	0.0000
C	-41.52593	54.39671	-0.763391	0.0551

R-squared	0.697432	Mean dependent var	122.0185
Adjusted R-squared	0.680622	S.D. dependent var	380.6957
S.E. of regression	215.1445	Akaike info criterion	13.67514
Sum squared resid	833168.5	Schwarz criterion	13.77471
Log likelihood	-134.7514	Hannan-Quinn criter.	13.69457
F-statistic	41.49071	Durbin-Watson stat	0.824164
Prob(F-statistic)	0.000005		

Source: Researcher's computation using E-View 9.1, 2017

Interpretation of Regressed Result

The regressed coefficient correlation result on table 5 shows a positive association between Value Added Tax and ROA at 5.373563 and statistically significantly at 1% level of significance.

The coefficient of determination obtained was 0.69 (69%), which is commonly referred to as the value of R^2. The cumulative test of hypothesis using adjusted R^2 to draw statistical inference about the explanatory variables employed in this regression equation, shows that, there is 69% variation explained in the Federal Government Expenditure (FGEXP) by Value Added Tax chosen for this study. And 31% was explained by unknown variables that were not included in the model.

The predictive power of this model is very high and good for users of financial statement for investment decisions making.

Decision Rule:
Accept the null hypothesis, if the P-value of the test is greater than 0.05. Otherwise reject.

Decision:
The P-value of Value Added Tax (0.0000) is less than 0.05. In view of the rule of thumb, H_1 will be accepted and H_0 rejected.

Conclusion:
It would be concluded that Value Added Tax has positive relationship and statistically significant effect on FGEXP of Nigeria economy.

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS
Summary of Findings
The research study empirically investigated the impact of Value Added Tax on the Nigerian economy from its inception in 1994 to 2014 (a period of twenty one years) using time series analysis of data obtained from Central Bank of Nigeria statistical data (2014), Federal Ministry of Finance and Federal Inland Revenue Services Publications. The result of the study revealed that Value Added Tax is beneficial to the Nigerian economy as can be deduced from the behavior of the behavior of the variables in the research as is precisely shown below.

  i.   The result of hypothesis one shows that Value Added Tax has a positive and significantly relationship with Gross Domestic Product and it is statistically significant with Gross Domestic Product of the Nigerian economy at 1% level significance.
  ii.   The research result also shows that Value Added Tax has positive and significant effect on the Federal Government Revenue (FGR) and it is statistically significant at 5% level of significance
  iii. There is also a positive and significant relationship between Value Added Tax and government expenditure and statically significant at 1% level of significance. Value Added Tax therefore contributes positively to government expenditure.

Conclusion
The result of this study has shown that the independent variable Value Added Tax has a positive and significant relationship with the dependent variable GDP, FGR and GOVT EXP.

This in other words means that Value Added Tax is beneficial to the Nigerian economy. For Nigeria therefore to attain its economic growth and development objectives, she must be able to generate enough revenue in order to meet up with the challenges of her expenditures in terms of provision of social amenities and infrastructural development to the Nigerian populace. If properly harnessed and managed would provide the much needed revenue for national development and economic growth and lesser over reliance on the oil revenue. This is why Basila (2014) regarded value added tax as money machine for the Federal Government of Nigeria to achieve her development objectives.

Recommendations
Following therefore the positive contributions of Value Added Tax to the Nigerian economy, the following recommendations are hereby made as follows:

  1. The government should take strict measures to close all administrative loopholes in the administration and management of value added tax in Nigeria. If this is done, the revenue

accruable from value added tax will increase and boost provision of social amenities and infrastructures in Nigeria.

2. The value added tax base should be widened to bring the informal sector into the value added tax net so as to stem possible evasion.

3. The Federal Inland Revenue Services (FIRS) should embark on public enlightenment and education of its citizens on the importance of value added tax to the economy. What the general populace needed most is adequate provision of social services for a good welfare. When the public are informed of the importance of value added tax and what revenue from value added tax is used for, this will boost the revenue derivable from value added tax as greater compliance will be achieved.

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