IMPACT OF VALUE ADDED TAX ON NIGERIA ECONOMIC GROWTH FROM 1994 TO 2016

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A PROJECT SUBMITTED TO SCHOOL OF POSTGRADUATE STUDIES, NASARAWA STATE UNIVERSITY, KEFFI, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD MASTER DEGREE IN PUBLIC SECTOR ACCOUNTING

DEPARTMENT OF ACCOUNTING

FACULTY OF ADMINISTRATION

NASARAWA STATE UNIVERSITY, KEFFI NIGERIA

DECLARATION

I hereby declare that this Project has been written by me and it is a report of my research work. It has not been presented in any previous application for Master Degree in Public Sector Accounting. All quotations are indicated and sources of information specifically acknowledged by means of references.

TANKO, LYDIA WUYEP ---------- ----------

NSU/ADM/MSC/PSA/156/15/16 *Sign.* *Date*

CERTIFICATION

This dissertation entitled “Impact of value added tax on Nigeria economic growth from 1994 to 2016” meets the regulations governing the award of master in public sector accounting of the School of Postgraduate Studies of Nasarawa State University, Keffi for its contribution to Knowledge and literary presentation.

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DEDICATION

This project is dedicated to God the father, God the Son and the Holy Spirit. To all my family and friends especially Samuel Pada Tanko my true friend I will always love you; always in my heart.

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It all about God, who make this journey a successful, I am grateful, thank you father.

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ABSTRACT

Governments around the globe especially, those of developing countries are encouraged to come up with policies that will stimulate and guide towards economic and social development. They are to continue to strive towards developmental advancement. Importance of tax lies in its ability to generate revenue for the government. This study therefore, examined the impact of value added tax on Nigeria economic growth from 1994 to 2016. The study adopted descriptive research approach for the study the subject matter. This study also adopted the ex-post facto and longitudinal methods based on the existence of data used for analysis, on one hand and given the time series data the relevant variables for the years 1994 to-2016. Multiple Regression Analysis was used to determine the influence of VAT on economic growth. The excise duty within a long run period of 1994 to 2016 shows a positive significant relationship with gross domestic product. The Custom Duties shows a negative significant relationship with gross domestic product. Results showed that there is a positive relationship between the contribution of taxes and GDP and that tax revenue has a great impact on the GDP of Nigeria. it is therefore recommended that: government should ensure to embrace strategies that will help to maintain adequacy of accounting procedure in the tax system in order to spur VAT efficiency. Government should increase the number of VAT agencies in the country to boost VAT productivity. Government should regulate the rise in the level of interest rate in the country in order not to provoke price instability in the country. Government should ensure that taxes are accounted for to the public via print and electronic media. The intent of government with such tax should be communicated to the general public. In so doing, a separate body should be set up to inspect and ensure that the funds generated by government through tax at each level of government is properly used and any level of government that fails to utilize such taxes as communicated to the public should be charged to court.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Governments around the globe especially, those of developing countries are encouraged to come up with policies that will stimulate and guide towards economic and social development. They are to continue to strive towards developmental advancement. Importance of tax lies in its ability to generate revenue for the government, influence the consumption pattern of the people and also regulate the economy through its influence on vital aggregate economic variables such as income, employment, prices of goods and services and host of others. Taxes that are expected to paid by tax payers in any economy are compulsory levy levied by a public authority for which nothing is received directly in return (James & Nobes, 1992).

Nightingale (2001) argued that, it is a compulsory contribution, imposed by government, and while taxpayers may receive nothing identifiable in return for their contribution, they nevertheless have the benefit of living in a relatively educated, healthy and safe society. She further explains that taxation is part of the price to be paid for an organized society and identified six reasons for taxation: provision of public goods, redistribution of income and wealth, promotion of social and economic welfare, economic stability and harmonization and regulation. The Nigerian tax system has not been able to perform the expected role of revenue generation and regulation of income redistribution. This stemmed from the structural and administrative defects of the tax system. The machinery and procedures for implementing tax systems are inadequate resulting into tax evasion and avoidance by most individuals and institutions. On the other hand, the need for more sources of revenue for the government cannot be over emphasized.

Revenue continues to fluctuate due to price fluctuations in the world market. Moreover, revenue from the non-oil sector has been grossly insufficient to meet public needs due to the rise in pressing social and economic needs. It was against the above background that the Edozien – led committee was inaugurated in 1991 to review the Nigerian tax system.

The idea of introducing value added tax (VAT) was recommendation made by a study carried out by a group that was set up by the federal government in 1991 to review the then exiting tax system as a replacement of sales tax. After extensive deliberation and consultation on the group submission, VAT was introduced as a federal tax and back by Decree 102, made on 24th August, 1993 in Abuja by the then Head of state and Commander in Chief of Nigeria, General Ibrahim Babangida who gave a legal backing for its administration. VAT has become a major source of revenue in many developing countries. In sub-Saharan Africa for example, VAT has been introduced in Benin Republic, Cote d'Ivore, Guinea, Kenya, Madagascar, Mauritius, Niger Republic, Senegal, Togo and Nigeria. Evidence suggests that in these countries, VAT has become an important contributor to total government tax revenues (Ajakaiye, 2000).

Tait, Robert and Tuan (2005) in their words, described VAT as a broad based business tax imposed at each stage of production and distribution process typically designed to tax final household consumption. It is a type of indirect tax that is imposed on goods and services which plays an important role in the economic development of a country by influencing the rate of revenue accruable and consumption (Jayakumar, 2010).

The relevance of tax revenues is a core motive for suggesting that emerging economies such as Nigeria must increasingly mobilize their internal resources to enhance economic growth and reduce fiscal deficits through the implementation of an effective tax policy (Wawire, 2006). Economy plays a large part in any society and therefore touches upon a multitude of sectors

within a country. Economic growth as a concept is viewed differently by different scholars. Salami, Apelogun, Omidiya and Ojoye (2015) describe economic growth as the sustained increase in per capita national output or net national product over a long period of time. According to them, economic growth occurs when a nation's production possibility frontier shifts outward. According to the Business Dictionary, economic growth is the increase in a country's productive capacity, as measured by comparing the gross national product in a year with that of the previous year. Increase in the capital stock, advances in technology, and improvement in the quality and level of literacy are considered to be the principal causes of economic growth. Economic growth can be proxied, using different economic indicators, ranging from Gross National Product (GNP), Market Capitalization, Gross Domestic Product (GDP), and Per Capita Income.

1.2 Statement of the Problem

Evidence so far agreed that VAT has become a major source of revenue in developing countries but its effect is yet to be felt in Nigeria. Taxation as an important instrument of fiscal policy in an economic, has suffered from some from one reform and the other in Nigeria, thereby making it difficult to successfully perform the expected the role of revenue generation and regulation of income redistribution, prominent among this problem may be traceable to public attitude towards tax matters in terms of perception, and adherence to tax rules and regulations. Oladipupo and Izedonmi, (2013) affirmed that VAT has failed in its contribution to revenue generation of the nation. In the same vein, Shop (1989) argued that VAT may cause consumers to reduce their consumption of certain commodities that have direct and indirect effects on labour productivity. Ebeke and Ehrhart (2010) asserted that tax revenue instability in sub – saharan Africa leads to

public investment and government consumption instability, which in turn generates a lower public investment ratio, and is therefore detrimental to long-term economic growth.

However, Unegbu and Irefin (2011) has contrary opinion, they found that VAT has a significant impact on the economic growth. In the same vein, Nasiru, Haruna and Abdullahi (2016) found evidence of a significant positive impact of VAT on economic growth. Due to inconclusive evidence of past studies on the role of VAT on Nigeria economic growth. On that note, the will examine the effect of Value Added Tax on Economic Growth in Nigeria looking at the difficulties experience the government of Nigeria because of drop in oil price in the international market.

1.3 Research Questions

i. What is the impact of Value Added Tax on Economic Growth in Nigeria?
ii. Do Indirect Taxes jointly have significant impact on Economic Growth in Nigeria?
iii. What is the relationship between Excise Duties and Economic Growth in Nigeria?
iv. What is the effect of Custom Duties on Economic Growth in Nigeria?

1.4 Objective of the study

The general objective of this study is to examine the impact of value added tax on Nigeria economic growth from 1994 to 2016. While the specific objectives are:

i. To determine the relative effect of Value Added Tax on Economic Growth in Nigeria.
ii. To investigate if Indirect Taxes jointly have significant impact on Economic Growth in Nigeria
iii. To examine the relationship between Excise Duties and Economic Growth in Nigeria.
iv. To assess the effect of Custom Duties on Economic Growth in Nigeria.

1.5 Statement of Hypotheses

H_{01} There is no significant relationship between Value Added Tax and Economic Growth in Nigeria.

H_{02} Indirect Taxes jointly have no significant effect on Economic Growth in Nigeria

H_{03} There is no significant relationship between Excise Duties and Economic Growth in Nigeria.

H_{04} Custom Duties does not have any significant impact on Economic Growth in Nigeria.

1.6 Significance of the study

The study will contribute to the existing literature on the VAT structure in Nigeria. It can be used to design growth oriented programs and implementation of value added tax changes that are growth enhancing. It will equally provide an empirical groundwork on Nigeria's VAT revenue structures upon which prudent tax measures could be based. The study will be timely, given the current efforts toward changing the constitution, and some government structures privatizing state enterprises, rationalizing the budget, eradicating poverty and reforming tax structure.

1.7 Scope of the study

The study captured the accounting periods of 1994 to 2016 for a number of reasons, this period is long enough to capture the pre and post introduction of VAT in Nigeria. Furthermore, this period had covered twenty-one years through which government had the opportunity to devise its own tax policies, regulations and administrations for two decades. Meanwhile, several changes had

taken place within the period of study. For instance, the economy has experienced persistent shocks such as the oil price crises of 2008, 2009 2015 and 2016 that had far reaching repercussion on growth and fiscal deficits. This period therefore will capture the impact on VAT revenue of such events like trade liberalization, privatization, tax modernization programme and the establishment of VAT agencies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Concept of Value Added Tax

The revenue structures of most developing countries have not been as productive as desired. The growth in revenue has failed to catch up with government spending pressures, a situation that has occasioned huge imbalances between the demand and supply of public budgetary resources (Onaolapo & Fasina, 2013). Ariyo and Raheem (1990) as cited in Onaolapo and Fasina, (2013) drew the attention to the fact that the unsynchronized revenue and expenditure profile since

1970s caused the recurrent fiscal deficit profile of Nigeria to be unsustainable. However, Alade (2003) was of the opinion that fiscal deficits could stimulate aggregate demand and set a country on the path of recovery. Iyoha (2004) was of the opinion that given the structural and systematic problems commonly associated with less developed countries, budget deficit invariably appears in the course of governance and such are usually financed by either by borrowing from the central bank, non-banking public and external sources. He emphasized that fiscal deficits raise the level of money supply which in turn sets in motion private sector wealth and asset portfolio decisions with respect to financial and real assets. These countries had to carry out a lot of reforms in tax structures, with the general objectives of revenue adequacy, economic efficiency, equity, fairness and simplicity (Osoro, 1993). The general advice of international institutions such as the International Monetary Fund (IMF) and the World Bank given to developing countries like Nigeria over the past few decades has been to replace trade taxes with domestic consumption taxes, particularly VAT and to maintain relatively high corporate income tax rates

Tanzi and Howell (2000) further emphasized that an alternative approach to assess whether the overall tax level in a developing country is appropriate has been to compare the average tax burden of a representative group of both developing and developed countries , taking into account some of these countries characteristics.

According to Owolabi and Ekwu (2011), as cited in Onaolapo and Fasina, (2013) VAT is a tax on consumption; the more you buy the more tax you pay. It is also a neutral tax on businesses in that it does not represent a real cost to anyone but the end consumer. Everybody pays tax to the Government whenever they purchase goods or services. This tax is collected for the government by the supplier of those goods and services. VAT revenue has become a significant source of government revenue in Nigeria. Therefore, the primary objective of fiscal policy is to raise more revenue through value added tax. The tax authorities have been guided by the need to design equitable and efficient VAT system capable of complementing government expenditure and, thus, reduce recourse to public borrowing. VAT rate in Nigeria has been determined in a way that minimizes disincentive effects on economic activities. The effects of low tax effort in Nigerian have been strengthened by the value added tax system. This, in turn, has addressed part of the worries of Kaldor (1963) who asked "will underdeveloped countries learn to tax?" To meet the global aspiration of attaining the Millennium Development Goals (MDGs) come 2015, these countries 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).

The concept of value added refers to the additional value of a commodity over the cost of commodities used to produce it from the previous stage of production. It is this value added that VAT is levied upon. Consequently, value added tax on goods and services is tax on exchanges at

different points. Personal end consumers of products and services cannot recover VAT on purchases, but businesses are able to recover VAT on the materials and services they use as input on goods directly or indirectly sold to end-users. In this way, the total tax levied at each stage in the economic chain of supply is a constant proportion of the value added by a business to its product (Onaolapo and Fasina, 2013).

VAT was introduced by The Federal Government of Nigeria in January, 1993. It was believed by many Nigerians that the tax was introduced as a means of avoiding taking loans from international agencies (Ochei, 2010 cited in Adereti, Sanni & Adesina, 2011). According to analysts, the tax was intended to be a "super tax" to eradicate completely many other taxes related on goods and services. VAT was then imposed on virtually all goods and services, whether produced or rendered in Nigeria or not. Exemptions however were granted in respect of medical and pharmaceutical products, basic food items, fertilizers, agricultural and centenary medicine, books and educational items, farming and transport equipment, etc. VAT effectively replaced the former sales tax, which, under the constitution, was supposed to be charged by states and not the Federal Government. Although very few literature exists on the subject of VAT in less developing countries, extensive studies have nevertheless been done on the alternation prominence of Indirect Tax in developing countries in general and Nigeria in particular. The core function of taxation as a revenue generating tool in developing countries has been studied by eminent scholars. Naiyeju (1996) argued that the positive result received from any tax depends on the extent of how it is properly managed. The extent of how the tax law is interpreted and implemented as well as the publicity brought into it will determine how a particular tax is able to meet its objectives. Ariyo (1997) in his study on productivity of the

Nigerian tax system reported a satisfactory level of productivity of the tax system before the oil boom.

The report underscored the urgent need for the improvement of the tax information system to enhance the evaluation of the performance of the tax system and facilitate adequate macroeconomic planning and implementation. Ajakaiye (2000) worked on the impact of VAT on key sectoral and macroeconomic aggregates, using a Computable General Equilibrium (CGE) model considered suitable for Nigeria. The study developed three scenarios. In order to approximate the presumed Nigerian situation, the study assumed that government pursued an active fiscal policy involving the re-injection of the VAT via increases in government final consumption expenditure in combination with a presumed non-cascading treatment of the VAT.

Two other simulations considered an active fiscal policy combined with a cascading treatment of VAT and a passive fiscal policy combined with a non-cascading treatment. As it turned out, the scenario of a cascading treatment of VAT with an active fiscal policy not only had the most deleterious effects on the economy, it was also the one that most closely approximated the situation in Nigeria. VAT revenues under this scenario are more than 3% lower than the first scenario, the general price index increases by 12%, and wage and profit incomes fall by 8.54% and 12.27% respectively. Overall, the GDP declines by 11.34%. Such a situation, as observed by the researcher, poses a great threat to the sustainability of VAT.

VAT is a consumption tax levied at each stage of the consumption chain and borne by the final consumer of the product or service. Each person is required to charge and collect VAT at a flat rate of 5% on all invoiced amounts, on all goods and services not exempted from paying

VAT, under the Value Added Tax Act 1993 as amended (Adereti, Sanni & Adesina, 2011). Where the VAT collected on behalf of the government (output VAT) in a particular month is more than the VAT paid to other persons (input VAT) in the same month, the difference is required to be remitted to the government, on a monthly basis, by the taxable person (Oserogho and Associates, 2008). Where the reverse is the case, the taxpayer is entitled to a refund of the excess VAT paid or more practically, to receive a tax credit of the excess VAT from the government. All exports are zero rated for VAT, i.e. no VAT is payable on exports. Also, VAT is payable in the currency of the transaction under which goods or services are exchanged.

According to Adereti, Sanni and Adesina (2011), every person, whether resident in Nigeria or non - resident in Nigeria, who sells goods or renders services in Nigeria under the VAT Act (as amended) is obligated to register for VAT within six months of its commencement of business in Nigeria. Registration is with the Federal Board of Inland Revenue (FBIR). The VAT Act (as amended) provides that a foreign non-resident person or company that carries on economic activities in Nigeria is also obligated to register for VAT, using the address of the person with whom it has a subsisting economic activity for purposes of correspondence with FBIR and for compliance with the VAT Law. The foreign non-resident person or company is required upon registration for VAT to include in its invoice VAT at 5% with instructions to the receiver of the goods or services to remit the VAT in the currency of the transaction to the

Nigerian government on behalf of the foreign nonresident person. A taxable person, whether Nigerian resident outside Nigeria, who fails or refuses to register for VAT administration within six months of engaging in any economic activity in the territory of Nigeria is liable to pay a penalty of $67.00 for the first month that the failure occurs and a further penalty of $34 for each subsequent month in which the failure continues. In addition to the fines for non-registration,

Section 32 of the VAT Act (as amended) authorizes the FBIR to seal up the premises from where the economic activity in question is being carried on within the territory of Nigeria (Adereti, Sanni & Adesina, 2011).

Value added tax is a consumption tax imposed on certain category of goods and services introduced in Nigeria following the recommendation of the panel set up by the government in 1991 (Nwezeaku, 2005). According to Bhartia (2009), value added belongs to the family of sales. It is a tax not on the total value of the good being sold, but only on the value added to it by the last seller. Also Anyanwu (1993) state that the value added tax is not a tax on the total value of the good being sold but only on the value added (the difference between the value of factor services and materials that the firm purchases as inputs and the value of its input) the value that a firm adds by the virtue of its own activities to it by the last seller. Scholars have observed that value added tax has become a major source of revenue in Nigeria. However, others have criticized the regressive nature of value added tax. Therefore, the objective of this paper is to examine the impact of value added tax on the economic growth of Nigeria for the period 1994 to 2012.

According to Ola (2001), value added is the difference between "the increase in the value of goods or services in the process of their production of delivery. Value added is calculated by deducting from the value of goods or services the cost of the input of the other goods or services that were used in the process of the production of the goods or in the delivery of the services. It is the basis that Anyanwu (1993) stated that value added tax is not a tax on the total value of goods or services being sold but only on the value added (the difference between the value of factor services and materials that the firm purchases as inputs and the value of the its inputs) the value that a firm adds by the virtue of its own activities to it by, the last seller. Bhartia (2009)

provided another definition of value added tax as: VAT is a tax not on the total value of the good being sold, but only on the value added to it by the last seller. The seller, therefore, is liable to pay a tax not on its gross value, but net value: that is the gross value minus the value of inputs.

Ola (2001) reported that the history of Value Added Tax in Nigeria can be traced to Ola's "Nigerian Income Tax Law and Practice" where he made a strong case for the introduction, modus operandi and implementation of VAT. This led to the inauguration of a 20-member study group by the former Federal Minister of Budget and Planning Dr. S.P. Okongwu in 1991 to review the entire tax system. The report of the study group came with the idea of introducing VAT in Nigeria, as a result of the low voluntary compliance with our tax laws by the experts and the tax practitioners. In 1991 the government formed a study group on indirect taxation to study the feasibility of introduction of VAT as an improvement on the sales tax in existence then. The study group recommended inter alia, the introduction of VAT in Nigeria which the government accepted. But the government set up the Modified Value Added Tax, MVAT committee, to undertake feasibility studies on the implementation of VAT in Nigeria. The committee worked in close collaboration with the Federal Inland Revenue Service (FIRS) until January, 1993 when the Federal Government agreed to introduce the new tax into the country with the promulgation of Decree No. 102 0f 1993 to give legal effect to the new tax system (Nwezeaku, 2005). The VAT scheme came into operation in 1994.

Tax can be defined as a compulsory levy imposed by the government on the income, profits, and properties of both individuals and corporate bodies for the sole administration of that government which has no compensatory benefit. Whereas, taxation is a gamut of activity which results in payment of tax. There are two major types of taxes, that is the direct and indirect taxes. The direct tax as its name implies is levied or imposed on the income, profits and properties of

individuals and corporate bodies (Okpe, 1998). Examples of direct taxes include personal income tax, companies' income tax, petroleum profit tax, capital gains tax, education tax etc. Indirect tax on the other hand is defined as taxes levied on goods and services rendered which are shifted in part or in full to the final consumer who does not even know either when he pays or the exact amount he pays (Okpe, 1998). Examples of indirect tax include Value Added Tax (VAT) which is the main subject of this study, as source of revenue generation in Nigeria.

Value Added Tax (VAT) has its origin traceable to the French Economist, Maurice Laure in 1954 originally referred to as "taxesur la valueur" (Wikipedia.org). He envisioned that a sales tax on goods does not affect the cost of manufacture or distribution but was collected on the final price charged to the consumer. VAT, having being introduced in France in 1954 and recorded an influential increase of 45% on the state revenue and consequently, the formation of common market in Europe (presently the European Union) it became a sin-qua-non requirement for joining of the union for all member countries (Ezejulue, 2001).

In Nigeria, Value Added Tax (VAT) was introduced though Decree No 102 LFN of 1993 to replace sales tax which was in existence. VAT is imposed on goods and services. However, according to the act, certain goods and services are exempted from VAT which include the following: Medical and Pharmaceutical products, product meant for kids, basic food items, Commercial vehicles and their parts, books and other educational Materials, fertilizer, faming machine, Agricultural products, faming transportation equipment and ventinary machine and magazines and Newspapers (Owolabi and Okwu,2011). VAT is imposed on the net sales value of non-exempt qualifying goods and services in Nigeria (Okoyeuzu, 2013. Ezejulue, 2001, Okpe, 1998). It is levied on individuals, corporations, group, body corporate or organization that consumes buys, procures or imports taxable goods and services.

The beauty of value added tax (VAT) lies in the relative merits when compared with other types of taxes (Ezejulue, 2011). Hence, the credible performance of VAT in countries where it existed created the need for its introduction in Nigeria, which became obvious in 1993 but came into force in January 1994 through decree No 102 LFN of 1993 as amended to date. It has supplanted the income tax as the most important single source of revenue for several governments. AS a consumption tax, it is easy to administer and of course difficult to evade and has been embraced by many counties worldwide (Federal Inland Revenue Service, 1993). Evidence so far supports the view that VAT revenue is already a significance source of revenue to Nigeria government as it contributed 7. 26 billion which is 36.5% to federal government revenue in 1994 when it was first practiced in Nigeria. In the same vein, it contributed about 20.76 billion 1995 while the budgeted revenue from VAT was 12 billion naira in the same year. In 1996, revenue from VAT increased to 31 billion naira and 1997 also witnessed revenue of 34 billion naira. In terms of total contribution in total federally collected revenue, VAT accounted for about 4.6% in 1994, 5.93% in 1995, 6.2% in 1996 and 5.83% in 1997 respectively. Thus, suffice it to say from the evidences above, that it became compelling that VAT has performed extremely well as it contributed to at least 20% of the total government revenue. Hence, it is assisting in the diversification of revenue source of the government and however, reduces over dependence on oil for revenue (Ajiakaiye, 1999). VAT is a selfassessment tax hence it is a fairly precise measurement of the growth of an economy since purchasing power (which determines yield) increases with economic growth that is paid when returns are being rendered. An observation of the Federal Inland Revenue Services (FIRS) was that VAT being a consumption tax, that its administration will be easy and evasion will be more challenging.

2.1.2 Concept of Economic Growth

According to Sharp, Register and Grimes (2002), economic growth is the long run process that results from the compounding of economic events over time. Similarly, Dwivedi (2002) stated that economic growth means a sustained increase in per capita national output or net national product over a long period of time. It implies that the rate of increase in total output must be greater than the rate of population growth. To measure economic growth, economists generally examine the rate of change in real GDP from one year to the next. The Central Bank of Nigeria (2008) stated that GDP is the money value of goods and services produced in an economy during a period of time irrespective of the nationality of the people who produced the goods and services. It is usually calculated without making any allowance for capital consumption (or deductions for depreciation). Also, GDP by expenditure based is the total final expenditure at purchases' prices (including the f.o.b. value of exports of goods and services) less the f.o.b. value of imports of goods and services. Buhari (1993) clearly states that the GDP is the total volume of production that has taken place in the economy irrespective of the nationality of the people who produced the goods and services. According to him, it is the total production that has taken place in Nigeria by Nigerians themselves and foreigners living in Nigeria by Nigerians themselves and foreigners living in Nigeria.

Economic growth as a concept is relative and thus scholars have view it from different perspective. Todaro and smith (2003) see economic growth as increase in the capacity of an economy to produce goods and services compared from one period to another or a positive change in the level of production of goods and services by a country over a period of time also an increase in living standard, improvement in societal wellbeing.

Jhingan (2007) sees economic growth as the sustained increase in the country's per capital output or income which accompanied by the increase in labour force, consumption, volume of trade. He

describes determinants of growth as structural and technological changes. Kindle-Berger (1956) as cited by Okpe defines economic growth as ore output without a change technical and institutional arrangement. This technical and institutional arrangement refers to the arrangement used to produce the increase output.

Okpe (2013) citing Meir in problem and policies of development explain economic growth as the process whereby per capital income of a country consistently increase over a long period of time. Friedman perceives economic growth as an expansion in the system such as education, agriculture, transportation, institutions without a change in the structure of the social system; economic growth does not entail changes in the system's structure but expansion.

Economist over time have differentiated economic growth from economic development. They argue that economic differs from economic development. Jhingan (2007) puts forward that economic growth is related to sustained increase in the countries per capital output or income accompanied by labour force, consumption, volume of trade ect. He sees economic development as related qualitative changes in economic activities. To Jhingan, development is concerned with quantitative changes. Roger (2000) explains that economic growth occurs when there is an outward shift of the production possibility frontier of a nation denoting that there is an increase in the productive capacity of such nation.

Schumpeter (1934) defines growth as a gradual and steady change in the long run which come about by a gradual increase in the rate of savings and population. In the same vain Marx (1932) contends that economic growth is a process of continuous transformation of a society's social, cultural and political life. By this, it implies that it is economic growth that raises the standard of living. When a nation grows economically, its citizens must be better off at least in some ways, usually in terms of material wellbeing.

The rate of economic wellbeing is measured via:

i. Gross National Product (GNP)

ii. Gross Domestic Product (GDP)

The Gross Domestic Product (GDP) measures the monetary value of all productive activities carried out in a country. The growth in Gross Domestic Product is usually a good indicator of economic growth but fails when earnings from abroad (oversees) are incorporated and thus we use the Gross National Product as a measure.

2.2 Empirical Review

2.2.1 Value Added Tax and Economic Growth

Peter and Adesina (2015) examined the impact of indirect taxes on economic growth of Nigeria, utilizing time series data spanning a thirty-four-year period, from 1981 to 2014. The data collected from secondary sources, were analyzed and tested for unit root, using the Augmented Dickey-Fuller test. The residuals, whose unit root are usually tested at level, were found to be stationary while all other variables, such as the VAT, Petroleum Profit Tax (PPT) and Custom and Excise Duties (CED), except the Real Gross Domestic Product (RGDP), were stationary at second difference, suggesting a long run relationship. Consequently, the study utilized the Error Correction Model to evaluate the impact of VAT, PPT and CED on the RGDP. The findings revealed that VAT and PPT exert a positive and significant relationship on the RGDP. It was also revealed that CED of two period lags has a positive relationship with RGDP and VAT of two-period lags showing a negative but significant relationship with RGDP. On the basis of these findings, it is suggested that some caution on the part of the government is required to identify all administrative loopholes for linkages to plug and to continue to maximize the contribution of VAT revenue to economic growth. This is important when it is realized that any action taken on

VAT, as it relates to RGDP will take a year to become effective while taking two years to slow down the economy. In addition, and to achieve an optimum policy thrust, there must be commitment and honesty on the part of the agents of VAT., PPT., and CED with respect to its collection and payment; special remuneration, training and retraining of these agents, all in an attempt to enhance impact of these taxes on economic growth.

Oyinpreye and Joshua (2016) investigated the relationship between value added tax, government total revenue and gross domestic product; as a means of assessing the impact of value added tax on government revenue generation ant the impact of value added tax on economic performance of the Nigerian economy between 1994 and 2014.Using secondary data obtained from the CBN statistical bulletin (2014). Relevant econometric techniques were adopted in analysing the data for this study and it was observed that all the variables were stationary at their first differences, using the Phillip-Perron unit root test; Correlation test was also conducted to ascertain the strength of their relationship; we further conducted the Descriptive Statistic test, then the regression result showing the empirical relationship between the investigating variables and the direction of causality between the variables was ascertained using the Pairwise Granger Causality test. The study revealed that there is a long-run significant positive relationship between value added tax and each of government total revenue and gross domestic product in Nigeria over the period under review. This study therefore recommends that more attention should be given to value added tax as it is an instrument for stimulating greater revenue generation and economic growth in Nigeria. There is need also for the application of Information technology otherwise known as “ICT” which is seen as the hallmark of the 21st century; in all tax offices in Nigeria thereby making it possible for tax payers and tax authorities to declare uniform and consistent claims to avoid tax evasion in the country. And to promote tax

awareness, understanding and compliance among both potential and existing tax payers, government and her agencies should bring to fore the knowledge, the nature and types of tax under the Nigerian tax laws; so as to achieve increase revenue and economic growth in Nigeria.

Adereti, Adesina and Sanni (2011) examined the impact of VAT on the economic growth of Nigeria. They used the time series data on the GDP, Vat Revenue, Total Tax Revenue and Total (Federal Government) Revenue from 1994 to 2008. These data were analyzed using multiple regression modelling. Their findings showed that the ratio of VAT Revenue to GDP averaged 1.3% compared to 4.5% in Indonesia and indicated a positive and significant correlation between VAT Revenue and GDP. It also showed that no causality existed between the GDP and VAT Revenue but a lag of two years however existed.

Onwuchekwa and Aruwa (2014) investigated the impact of VAT on the economic growth of Nigeria. They employed the Ordinary Least Square technique to test the hypothesis formulated. The result showed that VAT contributed significantly to the total tax revenue of government and by extension, the economic growth of Nigeria. It was also observed that VAT revenue growth had a consistent, although not explosive, increase.

Izedonmi and Okunbor (2014) empirically examined the contribution of VAT to the development of the Nigerian economy. It used time series data on the GDP, VAT Revenue, Total Tax Revenue and Total (Federal Government) Revenue from 1994 to 2010. The data were analyzed using multiple regression modelling. Their findings showed that VAT Revenue accounted for 92% significant variations in Nigeria's GDP. It showed a positive but insignificant correlation between VAT Revenue and GDP.

Bakare (2013) investigated VAT on output growth in Nigeria. Using the Ordinary Least Square regression technique, he found a positive and significant relationship between VAT and output growth in Nigeria. The results of his findings also showed that the past values of VAT could be used to predict the future behaviour of output growth in Nigeria. The main conclusion of the study was that Value Added Tax has the potential to assist in the diversification of revenue sources, thereby providing enough funds for economic growth and development and reducing over dependence on oil for revenue.

Nwafor (2010) carried out a work on the effect on VAT on the Nigeria economy 1997 to 2007 using regression analysis. The empirical result of her Hypothesis shows that VAT has a significant positive effect on Nigeria economy as well as on the consumption patterns of Nigeria. Denis, (2010), investigated the relationship between VAT and GDP in Nigeria. The study finds that VAT is not effective as revenue earner; this implies that significant parts of GDP which represent aggregate national income as well as aggregate national expenditure are not collected as tax.

Adereti, Sanni, and Adesina (2001) empirically investigated the contribution of VAT to GDP in Nigeria1994-2008. They used time series data of GDP and VAT revenue for the period and did simple Regression analysis and descriptive statistical method. Their findings show that VAT revenue to Total Tax Revenue averaged 12.4% which they considered low compared to 30% on Ivory Coast, Kenya and Senegal and 19.71% Mexico.VAT Revenue to GDP averaged 1.3%. Their study also shows that a positive and significant correlation exist between VAT revenue and GDP. The study also observes that there is no causality existing between GDP and VAT revenue. The report concludes by recommending that the government should plug up all identifiable

administrative loopholes for VAT Revenue to contribute more significantly to Nigeria's economic growth.

Ofishe (2015) analyzed the impact of VAT on economic growth in Nigeria from 1994 – 2012. Relevant data were collected from CBN statistical bulletin and Federal Inland Revenue Service (FIRS) reports. The Ordinary Least Square techniques were used to estimate three models in line with the formulated hypotheses. The results from the models revealed a strong positive significant impact of VAT on economic growth as proxy by GDP in Nigeria. It also revealed that there is positive relationship or impact of VAT on total tax revenue over the period studied. Consequently, it was recommended among other things that government should put in place measures to effectively utilize generated VAT revenue for infrastructural and economic development. It also recommends the review of tax incentives to attract both local and foreign investors in order to boost economic growth in Nigeria.

Fredrick and Okeke (2013) examined the impact of value added tax on investment growth in Nigeria. VAT was introduced by the Federal Government of Nigeria in 1993 to replace Sales Tax. The aim was to increase the revenue base of government and make funds available for developmental purposes that will accelerate economic growth. Time series data on investment, government expenditure, real exchange rate, real interest rate and trade openness from the CBN statistical Bulletin were analyzed, using multiple regression analysis. The results show that Value Added Tax has significant effect on investment growth in Nigeria. The study recommends that there should be dedicated and apparent honest on the parts of all agents of VAT with respect to the collection and government should try as much as possible to improve on the way of collecting value added tax.

Lawrence (2015) examined the effect of VAT on economic growth in Kenya. The research design adopted in this study was causal study. The target population for this study consisted of the quarterly reports on the state of the Kenyan economy in relation to productivity as measured by Gross Domestic Product (GDP), consumer prices as measured by consumer price indexes (CPI), and employment as measured by the unemployment rate, from the inception of VAT as administered by Kenya Revenue Authority (KRA) from 1990 to 2014. This study used secondary data which consisted of VAT rates, gross domestic product growth rates, consumer price indices and unemployment rates which were obtained from Kenya Revenue Authority (KRA), International Monetary Fund (IMF), Kenya National Bureau of Statistics (KNBS) and The World Bank data bases respectively, for the study's period as this period is representative and long enough to capture the responsiveness of changing VAT rates. With regard to the effect of VAT rates on economic growth as measured by GDP, the findings indicated that a percent change in the incident rate of GDP is an increase of 7% for every unit decrease in VAT. It can therefore be concluded that there exists a significant negative relationship between VAT rates and GDP; hence the researcher recommended that KRA should strive to reduce and/or maintain a low VAT rate in order to increase overall GDP. As regards the effect of VAT rates on economic growth as measured by CPI, the findings indicated that a percent change in the incident rate of CPI is an increase of 9.2% for every unit increase in VAT. It can therefore be concluded that there exists an insignificant positive relationship between VAT rates and CPI; hence the researcher recommended that KRA should strive to reduce and/or maintain a low VAT rate in order to maintain low levels of inflation (CPI) within the economy. With regard to the effect of VAT rates on economic growth as measured by unemployment rate, the findings indicated that a

percent change in the incident rate of unemployment rate is an increase of 1.2% for every unit increase in VAT.

Michael and Ben (2007) explored the causes and consequences of the spread of value added tax (VAT). A panel study of 143 countries for 25 years were observed. The result shows that VAT has a significant but mixed impact. This implies that while some countries would have gained revenue from the adoption of VAT, others would not. Collectively, the adoption of VAT had a long run increase in overall revenue to GDP ratio of about 4.5 percent. However, allowing the impact of VAT to vary with country specifics will shift the effect to become negative though acting in the opposite direction are gains that tend to be greater in higher income and in more open economies.

Osoro (2003) examined the revenue productivity implications of VAT reforms in Tanzania. In the study, the tax buoyancy was estimated using double log form equation and tax revenue elasticity using the proportional adjustment method. The argument for the use of proportional method was that a series of discretionary changes had taken place during the sample period, 1979 to 1989, making the use of dummy variable technique impossible to apply. For the study period, the overall elasticity was 0.76 with buoyancy of 1.06. The study concluded that the tax reforms in Tanzania had failed to raise tax revenues. These results were attributed to the government granting numerous tax exemptions and poor tax administration.

Denis (2010) investigated the relationship between VAT and GDP in Nigeria. The study finds that VAT is not effective as revenue earner; this implies that significant parts of GDP which represent aggregate national income as well as aggregate national expenditure are not collected as tax.

Wildford and Wildford (2008) estimated income-elasticity and buoyancy of VAT revenue in Central America for the period 1955 to 1974, using an exponential tax revenue function. The study found that income elasticity of the tax revenue was less than unity. This suggested that the tax structure was stable and therefore tax revenue grew less than proportionately in response to growth in income.

Saeed, Ahmad and Zaman (2012) analyzed the revenue effect of the VAT, in the SAARC region. Panel data of SAARC countries from 1995 to 2010 on various macroeconomic factors were obtained to determine the effect of VAT on revenue ratio. The results indicate prosperous set of determinants of VAT adoption as it proves to be a vital instrument to collect tax and enhance revenue ratio. The result shows that most of the SARRC countries that adopted value added tax have gained a more effective tax instrument to upgrade their GDP to revenue ratio.

Zaman, Okasha and Iqbal (2012) examined the impact of VAT in Pakistan's economy. Using household survey data to grasp the effect of value added tax on, social and economic life of the populace. Results show that VAT would disturb economic order of the society.

Milambo (2001) used the Divisia Index method to study the revenue productivity of the Zambian VAT structure for the period 1981 to 1999. The results showed elasticity of 1.15 and buoyancy of 2.0, which confirmed that VAT reforms had improved the revenue productivity of the overall tax system. However, these results were not reliable because time trends were used as proxies for discretionary changes and this was the study's major weakness.

Salti and Chabaan (2010) studied the effect of increasing rate of VAT 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 VAT would have negative

significant impact on poverty. Although the increased rate would have a negative impact on overall consumption, yet its effect on poor is greater compared to the rich. Adereti, Sanni and Adesina (2011) studied the contribution of VAT to GDP in Nigeria. Their findings show that VAT revenue to total tax revenue averaged 12.4% which they considered low compared to other African countries such as Ivory Coast, Kenya and Senegal that had 30%. The study also observed a positive and significant correlation between VAT and GDP.

Smith, Islam and Moniruzzaman (2011) attempt to analysis the contribution and performance of VAT in Bangladesh compared to other developing countries. The result shows that the performance of VAT was quite satisfactory in the initial years; afterwards, VAT collection remained stagnant at a certain level. The study finds that the stagnation happened as a result of: relatively small number of VAT tax-payers, a general lack of awareness, and a weak monitoring system.

Luthuanian, Bikas and Rashkauskas (2011) looked at the impact of VAT standard tariff, reduced tariffs and shadow economy on income from this tax. The Lithuanian VAT structure, the dynamics of income from this tax and amendments in the Law on VAT in terms of narrowing and widening the taxable base according to the theoretical analysis of the sources were analyzed using multiple regression, correlation, and optimization and C-effectiveness ratio analysis. The analysis revealed that, the amendments in the Law on VAT in terms of narrowing and widening the taxable base has influenced the amount of income from VAT collected to the budget.

Samimi and Abdolahi (2011) investigated the impact of implementing VAT on Export of goods and services in selected countries. Four different indices for export; export of goods and services, export of goods and services (BOP), export of goods and services (annual % growth), export of goods and services (% of GDP) to investigate the sensitivity to different definitions. Findings of

the study based on Mean Difference Statistical Test in a two three-year periods before and after introduction of VAT show that, in different indices, the impact of VAT on export is positive.

Ugochukwu and Azubike (2016) examined the relationship between VAT and Economic development: in Nigeria. It is expected that this study will be of immense use to both the Government and general public. The study covered 18years period between 1994 and 2012. Multiple regression was used to analyse the data gotten from CBN Statistical Bulletin of various years. The result of the multiple regression showed a negative significant relationship between value added tax revenue and Gross domestic product. Also, the result showed a positive significant relationship between Gross domestic product and Total consolidated revenue. The study recommended, that federal government should educate the general public more on the essential of VAT payments and also that machineries should be put in place to ensure that VAT revenue does reduce as this will help foster economic development. Also, VAT rate should be increased as it will account for more revenue to the government.

Chigbu (2014) examined the impact of value added tax on the economic growth of Nigeria. To achieve the objective of this paper, relevant secondary data were collected from the CBN and the Federal Inland Revenue Service (FIRS) for the period 1994-2012. The secondary data collected from the relevant government agencies in Nigeria were analysed with relevant econometric tests of Breusch-Godfrey Serial Correlation LM, White Heteroskedasticity, Ramsey RESET, Jarque Bera, Johansen Co-integration, and Granger Causality. The results show that there exists a long run equilibrium relationship between economic growth and VAT. It was also found that VAT does granger cause gross domestic product of Nigeria. On the basis of the empirical analysis, the paper concludes that VAT is one of the most important components indirect taxes in Nigeria that affects the economic growth of the country and therefore should be properly managed to reduce

the level of evasion by the input and output relationship in Nigeria. The paper recommends among others that vatable persons should be properly supervised by the relevant tax authority (FIRS) to reduce the level of tax evasion; government should show more accountability in the management of tax revenue and finally, the level of corruption in Nigeria and that of government officials should be drastically reduced to win the confidence of tax payers for voluntary tax compliance.

Muhibat, Abdul, Azeez and Tope (2013) carried out an investigation on empirical Evaluation of the Contributions of Value Added Tax to total Revenue Generation and gross Domestic Product in Nigeria. The purpose of the study was to examine the impact of VAT on revenue generation and GDP. The study covered the period 1994-2010 and ordinary least square regression was employed for data and the result showed that VAT significantly impact on GDP.

Basila (2010) carried out a study on investigating the relationship between VAT and GDP in Nigeria. The challenge of the study was to find out the relationship between VAT and GDP in Nigeria. The period of study was 1994- 2008. Secondary data gotten from CBN Statistical Bulletin was analyzed with Pearson's product moment correction of coefficient. The result reviewed that VAT is not effective as revenue earner and the study recommends that maintenance of the status quo.

Ofishe (2015) analyzed the impact of Value Added Tax (VAT) on economic growth (GDP) in Nigeria from 1994 – 2012. Relevant data were collected from Central Bank of Nigeria (CBN) statistical bulletin and Federal Inland Revenue Service (FIRS) reports. The Ordinary Least Square techniques were used to estimate three models in line with the formulated hypotheses. The results from the models revealed a strong positive significant impact of VAT on economic growth as proxy by GDP in Nigeria. It also revealed that there is positive relationship or impact

of VAT on total tax revenue over the period studied. Consequently, it was recommended among other things that government should put in place measures to effectively utilize generated VAT revenue for infrastructural and economic development. It also recommends the review of tax incentives to attract both local and foreign investors in order to boost economic growth in Nigeria.

Apere and Durojaiye (2016) investigated the relationship between value added tax, government total revenue and gross domestic product; as a means of assessing the impact of value added tax on government revenue generation ant the impact of value added tax on economic performance of the Nigerian economy between 1994 and 2014.Using secondary data obtained from the Central Bank of Nigeria (CBN) statistical bulletin (2014). Relevant econometric techniques were adopted in analysing the data for this study and it was observed that all the variables were stationary at their first differences, using the Phillip-Perron unit root test; Correlation test was also conducted to ascertain the strength of their relationship; we further conducted the Descriptive Statistic test, then the regression result showing the empirical relationship between the investigating variables and the direction of causality between the variables was ascertained using the Pairwise Granger Causality test. The study revealed that there is a long-run significant positive relationship between value added tax and each of government total revenue and gross domestic product in Nigeria over the period under review. This study therefore recommends that more attention should be given to value added tax as it is an instrument for stimulating greater revenue generation and economic growth in Nigeria. There is need also for the application of Information technology otherwise known as “ICT” which is seen as the hallmark of the 21st century; in all tax offices in Nigeria thereby making it possible for tax payers and tax authorities to declare uniform and consistent claims to avoid tax evasion in the country. And to promote tax

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2.2.2 Customs and Excise Duties and Economic Growth

Ilaboya and Mgbame (2012) investigated the indirect tax-economic growth dynamics against the backdrop of the paucity of empirical literature in developing countries with Nigeria as a reference point. The study adopted a combination of cointegration and error correction

mechanism after series of dagnostic tests which helped to check the adequacy of the specified model. The Engel-Granger two step procedure was used to test the short run dynamic behaviour of the model while the Autoregressive Distributed Lag (ARDL) was used to correct the discrepancies between short and longrun impact of the explanatory variables. The result of the diagnostic tests shows the adequacy of the specified model. The study found a negative and an insignificant relationship between indirect tax and economic growth in Nigeria. The ratio of total indirect tax to total tax revenue reported a negative coefficient of (0.5817). The ratio of total tax to total federal revenue reported a robust t-value of (19.9276) and a positive coefficient of (2.0886) at the 1% level of significance. Against the above result, it was recommended that emphasis should be shifted from indirect tax as a growth driver in Nigeria.

Ebiringa and Emeh (2012) examined the impact of various taxes on the economic growth in Nigeria, using a time period of 1985-2011. Results showed that customs and excise duties was negatively related to gross domestic product, implying that an inverse relationship existed between customs excise duties and economic growth in Nigeria.

Ayuba (2014) analyzed the impact of non-oil tax revenue on economic growth from 1993 to 2012 in Nigeria. The data sourced from the 2012 statistical bulletin of the CBN, were analyzed using the ordinary least square regression technique. The results showed the existence of a positive relationship and impact of non-oil tax revenue on the economic growth in Nigeria.

Salami, Apelogun, Omidiya and Ojoye (2015), empirically investigated the impact of taxation on the growth of the Nigerian economy from 1976-2006. The study employed the use of both simple and multiple linear regression analysis of the ordinary least square method to determine the impact between the endogenous variable, RGDP, and the exogenous variables, PPT, CIT,

CED and VAT. It was discovered that all exogenous variables, including CED, had a significant impact on the economy of the nation.

Onakoya and Afintinni (2016) investigated the cointegration relationship between tax revenue and Economic growth in Nigeria from 1980 to 2013. Various preliminary tests including descriptive statistics, trend analysis, and stationary tests using Augmented Dickey Fuller (ADF) test were conducted. The Engle-Granger Cointegration test was employed to determine whether a long run relationship existed between the variables. The Vector Error correction model was employed to confirm the long run relationship and determine the short run dynamics between the variables. Two post estimation diagnostics tests (autocorrelation, and Heteroscedasticity) were also conducted in order to confirm the robustness of the model. Findings indicated that a long run (but no short run) relationship existed between taxation and economic growth in Nigeria. The result also, revealed a significant positive relationship at 5% level of significance between Petroleum profit tax, Company Income tax and economic growth, but a negative relationship between economic growth and customs and Excise Duties. However, the tax components are jointly insignificant in impacting the Nigerian economic growth.

2.3 Theoretical Framework

2.3.1 Benefits Theory

The theory states that the governments should levy taxes on individuals according to the benefit conferred on them. The more the benefits a person derives from the activities of the governments, the more he should pay to the governments. This principle has been subjected to severe criticism on the following ground:

Firstly, if the government maintains a certain connection between the benefits conferred and the benefits derived. It will be against the basic principles of tax. A tax, as we know, is compulsory contribution made to the public authorities to meet the expenses of the government and the provision of general benefit. There is no direct quid pro quo in the case of a tax.

Secondly, most of the expenditure incurred by the government is for the general benefit of its citizens, it not possible to estimate the benefit enjoyed by a particular individual every year. Thirdly, if this principle is applying in practice, then, the poor will have to pay the heaviest taxes, because they benefit more from the services of the government. If more are collected from the poor by the way of taxes, it is against the principle of justice.

This theory is of the opinion that tax payment should initiate an exchange relationship between tax payers and the government. In the sense that while the government provide certain goods and services to members of the society, the members of the society bears the cost of these supplies to the extent of benefit received. Bhartia (2009) Anyafo (1996) are in support of the benefit received theory, and VAT as consumption tax is paid by each citizen base on level of consumption for goods and services hence, this theory will be adopted in this study.

2.3.2 The Cost of Service Theory

The contra theory to the benefit theory is the „Cost of service" theory of taxation which provides that the government should tax the citizens according to the cost of service rendered by it. The tax, an individual should bear, must be equal to the cost of benefit receives that is, cost-benefit postulation. Yet a complimentary theory, "Ability to pay" theory by Pigou (1920) suggests that every citizen should pay taxes according to his ability to pay, to meet the cost of Government expenditure. The Ability to pay theory of taxation is synonymous with the principle of equity or

justice in taxation. People with higher incomes should pay more taxes than people with lower incomes, thus „no quid pro quo' subsist. It appears more reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual. The major drawback inherent in this theory is the definition of one's ability to pay.

This theory asserts that semi-commercial relationship exists between the state and tax payers. According to the theorist, the state gives up basic protective and welfare functions to cover the cost of the services, this theory is homogenous with benefits received theory and will also be use in this study.

The sacrifice theory by Makinya (2000) attempts to determine the burden that rests upon an individual in virtue of his payment of taxes and how much of his or her income remains for purpose of his own subsistence. According to this theory payment of tax is a sacrifice that an individual makes towards the support of the government.

Some economists were of the opinion that if the state charges actual cost of the service rendered from the people, it will satisfy the idea of equity or justice in taxation. The cost of service principle can no doubt be applied to some extent in those cases where the services are rendered out of prices and are a bit easy to determine, e.g., supply of electricity, postal, etc. But most of the of the expenditure incurred by the government cannot be fixed for each individual because it cannot be exactly determined.

2.3.3 The Theory of Optimal Taxation

The standard theory of optimal taxation posits that a tax system should be chosen to maximize a social welfare function subject to a set of constraints. The literature on optimal taxation typically treats the social planner as a utilitarian: that is, the social welfare function is based on the utilities

of individuals in the society. In its most general analyses, this literature uses a social welfare function that is a nonlinear function of individual utilities. Nonlinearity allows for a social planner who prefers, for example, more equal distributions of utility. However, some studies in this literature assume that the social planner cares solely about average utility, implying a social welfare function that is linear in individual utilities. For our purposes in this essay, these differences are of secondary importance, and one would not go far wrong in thinking of the social planner as a classic "linear" utilitarian.

To simplify the problem facing the social planner, it is often assumed that everyone in society has the same preferences over, say, consumption and leisure. Sometimes this homogeneity assumption is taken one step further by assuming the economy is populated by completely identical individuals. The social planner's goal is to choose the tax system that maximizes the representative consumer's welfare, knowing that the consumer will respond to whatever incentives the tax system provides. In some studies of taxation, assuming a representative consumer may be a useful simplification. However, as we will see, drawing policy conclusions from a model with a representative consumer can also in some cases lead to trouble.

After determining an objective function, the next step is to specify the constraints that the social planner faces in setting up a tax system. In a major early contribution, Frank (1927) suggested one line of attack: suppose the planner must raise a given amount of tax revenue through taxes on commodities only. Ramsey showed that such taxes should be imposed in inverse proportion to the representative consumer's elasticity of demand for the good, so that commodities which experience inelastic demand are taxed more heavily. Ramsey's efforts have had a profound impact on tax theory as well as other fields such as public goods pricing and regulation. However, from the standpoint of the optimal taxation literature, in which the goal is to derive the

best tax system, it is obviously problematic to rule out some conceivable tax systems by assumption. Why not allow the social planner to consider all possible tax schemes, including nonlinear and interdependent taxes on goods, income from various sources, and even noneconomic personal characteristics? But if the social planner is allowed to be unconstrained in choosing a tax system, then the problem of optimal taxation becomes too easy: the optimal tax is simply a lump-sum tax. After all, if the economy is described by a representative consumer, that consumer is going to pay the entire tax bill of the government in one form or another. Absent any market imperfection such as a preexisting externality, it is best not to distort the choices of that consumer at all. A lump-sum tax accomplishes exactly what the social planner wants.

In the world, there are good reasons why lump-sum taxes are rarely used. Most important, this tax falls equally on the rich and poor, placing a greater relative burden on the latter. When Margaret Thatcher, during her time as the Prime Minister of the United Kingdom, successfully pushed through a lump-sum tax levied at the local level (a community charge) beginning in 1989, the tax was deeply unpopular. As the New York Times reported in 1990, widespread anger over the tax threatens Mrs. Thatcher's political life, if not her physical safety. And it may prove to be the last hurrah for her philosophy of public finance, in which the goals of efficiency and accountability take precedence over the values of the welfare state (Passell, 1990). The tax was quickly revoked, and not coincidentally, Thatcher’s term of office ended not long after. As this episode suggests, the social planner has to come to grips with heterogeneity in taxpayers‟ ability to pay. If the planner could observe differences among taxpayers in inherent ability, the planner could again rely on lump-sum taxes, but now those lump-sum taxes would be contingent on ability. These taxes would not depend on any choice an individual makes, so it would not distort incentives, and the planner could achieve equality with no efficiency costs Actual governments,

however, cannot directly observe ability, so the model still fails to deliver useful and realistic prescriptions.

Mirrlees (1971) launched the second wave of optimal tax models by suggesting a way to formalize the planner's problem that deals explicitly with unobserved heterogeneity among

taxpayers. In the most basic version of the model, individuals differ in their innate ability to earn income. The planner can observe income, which depends on both ability and effort, but the planner can observe neither ability nor effort directly. If the planner taxes income in an attempt to tax those of high ability, individuals will be discouraged from exerting as much effort to earn that income. By recognizing unobserved heterogeneity, diminishing marginal utility of consumption, and incentive effects, the Mirrlees approach formalizes the classic tradeoff between equality and efficiency that real governments face, and it has become the dominant approach for tax theorists.

In the Mirrlees framework, the optimal tax problem becomes a game of imperfect information between taxpayers and the social planner. The planner would like to tax those of high ability and give transfers to those of low ability, but the social planner needs to make sure that the tax system does not induce those of high ability to feign being of low ability. Indeed, modern Mirrleesian analysis often relies on the "revelation principle." According to this classic game theoretic result, any optimal allocation of resources can be achieved through a policy under which individuals voluntarily reveal their types in response to the incentives provided. In other words, the social planner has to make sure the tax system provides sufficient incentive for high ability taxpayers to keep producing at the high levels that correspond to their ability, even though the social planner would like to target this group with higher taxes. The strength of the Mirrlees framework is that it allows the social planner to consider all feasible tax systems. The weakness

of the Mirrlees approach is its high level of complexity. Keeping track of the incentivecompatibility constraints required so that individuals do not reduce as if they had lower levels of ability makes the optimal tax problem much harder. Since the initial Mirrlees contribution, however, much progress has been made using this approach. General treatments of the Mirrlees approach are found in Tuomala (1990), Salanie (2003), and Kaplow (2008).

2.3.4 Ibu Khaldun's theory of Taxation

This theory is explained from two-folds; viz: the arithmetic and economic effects. The arithmetic effects states that if VAT rates are lowered the VAT revenue will be lowered by the amount of the decrease in the rate. The reverse is the case for an increase in VAT rates (Ishlahi, 2006). Conversely, the economic effect recognized the positive impact that lower VAT rate have on work, output and employment and thereby providing incentives to increase these activities whereas raising VAT rate has the opposite economic effect by penalizing participation in the taxed activities. Ishlahi (2006), further stated that at a very high VAT rate has negative economic effect which dominates positive arithmetic effect, thereby decreasing VAT revenue.

According to Ibn Khaldun man is 'political' by nature (Ibn Khaldun, 1958). This requires a government and a ruler to look after people's affairs and control them. Anarchy destroys mankind and ruins civilization, since the existence of royal authority is a natural quality of man. It alone guarantees their existence and social organization.

To perform its responsibilities towards the citizens and the economy, every state needs resources which have to be raised by the government through different means, the most important being the taxes, which is the focus of Ibn Khaldun in his Muqaddimah. He stresses that finance is vitally important to run a government. And to manage the revenue and expenditure, the ministry

of taxation is necessary to the royal authority. It should be known that the office (of the tax collections) originates in dynasties only when their power and superiority and their interest in the different aspects of royal authority and in the ways of efficient administration have become firmly established. Ibn Khaldun is in favour of prudent and balanced budget. Income and expenditure balance each other in every city. If the income is large, the expenditure is large and vice versa. And if both income and expenditure are large, the inhabitants become more favorably situated and the city grows.

2.3.5 Harrod-Domar Theory of Growth

The Harrod –Domar models are based on economic growth on the experiences of advanced economists. They are primarily addressed to an advanced capitalist economy and attempt to analyse the requirements of steady growth in such an economy. Harrod -Domar assign a key role to investment in the process of economic growth. But they lay emphasis on the dual character of investment. Firstly, it creates income and secondly, it augments the productive capacity of the economy by increasing its capital stock. The former may be regarded as the demand effect and the later the supply effect of investment. Hence so long as net investment is taking place, real income and output will continue to expand. However, for maintaining a full employment equilibrium level of income from year to year, it is necessary that both real income and output should expand at the same rate at which productive capacity of the capital stock is expanding. Ultimately, it will adversely affect the economy by lowering incomes and employment in the subsequent periods and moving the economy into equilibrium path of steady growth.

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CHAPTER THREE

METHODOLOGY

3.1 Research Design

This study adopted descriptive research approach for the study the subject matter. This study also adopted the ex-post facto and longitudinal methods based on the existence of data used for analysis, on one hand and given the time series data the relevant variables for the years 1994 to-2016. The research data relating to the variables was collected at about the same time to basically describe the relationship between the variables under study.

3.2 Method of Data Collection

The main sources of data for the study was secondary data which was be obtained from annual reports of Federal Inland Revenue Service (FIRS), Nigeria tax news, federal office of statistics CBN Bulletin and federal ministry of finance.

3.3 Technique for Data Analysis and Model Specification

Both descriptive and inferential statistics were employed to analyze the data. Descriptive statistic also will be used to measure the effect of VAT on economic growth. Multiple Regression Analysis was used to determine the influence of VAT on economic growth. To evaluate the effect of value added tax (VAT) on economic growth; mathematically, the model is expressed as follows:

$EG = F(VAT, ITAX, ED, CD)$

$EGt = \beta 0 + \beta 1 VATt + \beta 2\ ITAXt + \beta 3 EDt + \beta 4 CDt + Ct$

Where:

EG = Economic Growth (proxy by GDP) in time t

VAT = Value Added Tax (VAT) in time t

ITAX = Indirect Tax in time t

ED = Excise Duty in time t

CD = Custom Duty in time t

$\beta 0$ = intercept $\beta 1$- $\beta 4$ = regression coefficient

Є= stochastic error term in time t

3.5 Justification of The Model

The choice of this model is based on the fact that diagnostic is best suited for testing the relationship between variables (Guajarati 2004) The reliability of this method has on its desirability properties which are efficiency consistence and un-biasness this implies that its error term has a minimum and equal variance (Guajarati 2004).

CHAPTER FOUR

DATA PRESENTATION, DATA ANALYSIS AND DISCUSSION OF FINDING

4.1 Data Presentation

The time series data obtained for the purpose of this research work is used to empirically investigate the effect of tax revenue on the growth of the Nigerian economy from the year 1994 to 2016. The dependent variable is GDP while the explanatory variables are petroleum profit tax, company income tax, custom and excise duties and Value Added Tax. The data were analyzed with E-views 6.0.

Here an attempt was made to present the data collected from the secondary sources. In doing so, our secondary data was basically obtained from the CBN bulletin of 2016 and the Federal Inland Revenue Service for the period of 10 years 1994 to 2016. In order to know the effect of tax revenue on the growth of the Nigerian economy, the contribution of each of these taxes is compared with the Growth Domestic product GDP is desirable. The data set used for the regression analysis is as per attached in appendix 1.

4.2 Data Analysis

Table 4.1 Descriptive Statistics

	GDP	ITAX	ED	CD	VAT
Mean	12.11034	10.86575	10.14373	10.44946	6.216077
Median	12.37495	10.69415	10.34122	10.65641	10.40430
Maximum	13.46979	12.25682	11.43981	11.38274	11.95497
Minimum	10.71376	9.573684	8.605305	9.208441	0.000000
Std. Dev.	0.955688	0.924910	0.950323	0.800653	5.542528
Skewness	-0.124779	0.221020	-0.172053	-0.264281	-0.254145
Kurtosis	1.584908	1.689594	1.581956	1.527244	1.084246

Jarque-Bera	2.580957	2.390705	2.661571	3.060486	4.910589
Probability	0.275139	0.302597	0.264270	0.216483	0.085838
Sum	363.3102	325.9724	304.3119	313.4839	186.4823
Sum Sq. Dev.	26.48686	24.80831	26.19029	18.59032	890.8690
Observations	30	30	30	30	30

Stationarity Test Results

A stationarity test on the variables is performed. Economic theory requires that variables be stationary before application of standard econometric techniques. This is to avoid misleading results. In performing the stationarity test a maximum lag of 1 is used, and included the intercept.

The result of the stationarity test is presented below.

Table 4.2 ***Result of Stationarity (Unit Root) Test***

VARIABLES	*ADF-STATISTICS*	*CRITICAL VALUES*	*ORDER OF INTEGRATION*
GDP	*-7.719135 (0.0000)*	*1%= -3.699871 5%= -2.976263 10%= -2.627420*	*First difference*
ITAX	*-5.349843 (0.0000)*	*1%= -3.69987 5%= -2.976263 10%= -2.627420*	*First difference*
ED	*-4.758119 (0.0007)*	*1%= -3.689194 5%= -2.971853 10%= -2.625121*	*First difference*

CD	*-5.086221* *(0.0003)*	*1%= -3.689194* *5%= -2.971853* *10%= -2.625121*	*First difference*
VAT	*-6.203041* *(0.0000)*	*1%= -3.711457* *5%=-2.981038* *10%= -2.629906*	*First difference*

In order to investigate the order of integration among the variables such as GDP, ED, CD and VAT, the study has used the Augmented Dickey Fuller (ADF). As stated in the methodology, the tools of unit root tests (ADF) is tested for all the variables by taking null hypothesis as presence of unit root against the alternative hypothesis series is stationary. If the absolute computed value exceeds the absolute critical value, then we reject the null hypothesis and conclude that series is stationary and vice-versa. It is clear from the Table above that the null hypothesis of no unit roots for all the time series are rejected at their first differences since the ADF test statistic values is less than the critical values at one percent levels of significances. Thus, these variables are stationary and integrated of same order, i.e., I (1). Thus it is clear that all the variables have unit root in their level form but at first difference the variables became stationary.

Since all the variables are not stationary at level but at first difference it is quite possible that there is a linear combination of integrated variables that is stationary; such variables are said to be cointegrated. To understand the cointegrating relationship across these variables the study uses Johansen (1991) Cointegration Test. The Akaike information criterion (AIC), Schwarz information criterion (SBC), Final prediction error (FPE), Hannan-Quinn information criterion (HQ) and the likelihood ratio (LR) test collectively suggest an optimal lag length of one and the cointegration results are provided in the table below;

Table 4.3 Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.748834	90.14281	69.81889	0.0005
At most 1 *	0.652351	52.83850	47.85613	0.0158
At most 2	0.474712	24.31136	29.79707	0.1876
At most 3	0.151427	6.928519	15.49471	0.5860
At most 4	0.088271	2.495146	3.841466	0.1142

Trace test ind icates 2 cointeg rating eqn(s) at the 0.05 leve l
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Table 4.4 Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.748834	37.30430	33.87687	0.0187
At most 1 *	0.652351	28.52715	27.58434	0.0378
At most 2	0.474712	17.38284	21.13162	0.1547
At most 3	0.151427	4.433372	14.26460	0.8110
At most 4	0.088271	2.495146	3.841466	0.1142

Max-eigenvalu e test indicate s 2 cointegrati ng eqn(s) at th e 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Both the trace statistics and max- eigen statistics rejected the null hypothesis of no cointegration at the 0.05 level (90.14281 > 69.81889 and 37.30430 > 33.87687). But the null hypothesis of three cointegration among the variables is not rejected at the 0.05 level (24.31136 < 29.79707 and 17.38284 < 21.13162), (6.928519 < 15.49471 and 4.433372< 14.26460), (2.495146 < 3.841466 and 2.495146 < 3.841466) by both the trace statistics and max-eigen statistics respectively. Hence, the Johansen methodology concludes that there exist one cointegrating

relationship among GDP, ITAX, ED, CD and VAT. So, estimation of VECM model is required in this context.

The presence of cointegration between variables suggests a long run relationship among the variables under consideration. The long run relationship between GDP, PPT, CIT, CED and VAT for one cointegrating vector for Nigeria in the period 1994 to 2017 is shown in the Table below. For better understanding of the relationship between GDP and PPT, CIT, CED and VAT, the study has estimated the VEC model for the period of 1981 to 2010 in special consideration to each of the independent variables and their impact on the dependent variable separately. The justification for this is to examine whether each of the independent variable will have more influence on GDP than considering the pooled data and its impact on GDP. When the variables are in logarithms and one cointegrating vector is estimated, the coefficients can be interpreted as long run elasticity.

Table 4.5 Vector Error Correction Results

Variable	Standard Error	t-statistics	Prob
ITAX	*4.07486*	*0.56772*	*2.313364**
ED	*11.7893*	*1.39071*	*16.39553**
CD	*9.17704*	*-1.25606*	*-11.52689**
VAT	*0.37487*	*0.34804*	*0.130470**
R^2	0.728935		
Adj. R^2	0.530153		
F-Statistics	3.667020		
Prob(F-Statistics)	0.00386		
Std error of the Estimates	4.257323		

During the long run period 1994 to 2017, the T statistic for indirect tax is 0.56772, with standard error of 4.07486, while the p value is 2.313364, this implies that every one percent increase in indirect tax is likely to increase gross domestic product by 2.313364 percent and this estimate is significant at 1% level. Thus, it shows there is positive and significant relationship between indirect tax and gross domestic product. In Nigeria, high indirect tax is instrumental to the growth of the economy. As a result of this, we will reject our null hypothesis which stated that indirect tax has no significant impact on gross domestic product. The result agrees with the outcome recorded by Ogbona

The excise duty within a long run period of 1994 to 2016 shows a positive significant relationship with gross domestic product, as the t statistic value is 1.39071 with a standard error of 11.7893, while the p value is 16.39553, this implies that for every one percent increase in excise duty the gross domestic product will increase by 16.39553 percent. the result signifies that taxes realized from excise duty in Nigeria are contributing positively to the growth of the economy. This may be as a result of the effectiveness of the bodies in charge of the collection of such taxes at federal level, that is, the Federal Inland Revenue Service. This was also evident in the study of Ola (2006) and Festus and Samuel 2007 where each of the study shows that excise duty has a positive impact on Nigeria ‘s GDP. As a result of this, we will reject the hypothesis which stated that excise duty has no impact on gross domestic product.

The Custom Duties shows a t statistic of -1.25606 with a standard error of 9.17704 and p value of -11.52689, this implies that custom duties has a negative significant relationship with gross domestic product, that is, for every one percent increase in custom and, gross domestic product will decrease by 11.52689 percent. The negative relationship signifies that as the custom duties increases, the goods entering the country will decrease because the business men and women

will be discouraged and this will have a negative effect on the economy of the country. As a result of this, we will reject our null hypothesis which states that custom and excise duties have no significant influence on gross domestic product. The result here does not agree with the study conducted by Adegbie (2011) which states that a strong relationship exists between custom and excise duties and the economic growth of Nigeria. However, it agrees with the study Buba (2007).

The Value Added Tax within a long run period of 1981 to 2010 shows a t statistic value of 0.34804 with standard error of 0.37487 and p value of 0.130470. This implies that for every one percent increase in Value Added Tax, gross domestic product will increase by 0.130470 percent; this signifies that there is a positive significant relationship between values added tax and gross domestic product. This will make us to reject the null hypothesis which stated that value added tax have no significant impact on gross domestic product as shown in Adegbie (2011).

The study shows that tax revenue has made a significant impact on the economic growth of Nigeria in the period under study. The coefficient of determination reveals a value of 0.729. This implies that tax revenue has explained up to 73% of the variation in economic growth of Nigeria and the remaining 27% is covered by other factors that are beyond the scope of this study. This signifies the fitness of the model, thus, the model is fit and the explanatory variables are well selected and utilized. This is confirmed by the value of adjusted R square which even after the adjustment is still strong and positive at 53%. The f statistics of 3.66 is a proof for the fitness of the model, and it is significant at 1%.

Robustness Test Results

Nature of Test	Chi squre	Probability of Chi square	Comment
VEC Heteroskedasticity Test	336.8224	0.3860	Not Significant at 5%. Shows absence 0f Heteroskedasticity.

Source: Extracted from Eviews 6.0 Results

Heteroskedasticity test was carried out to test whether constant variance exists. This was done using VEC Heteroskedasticity Test. This tests the null hypothesis that constant variance exists. From the result, at 5% level, the chi-square is 336.8224 while probability is 0.3860 indicating that the p-value is not significant. Since the result shows that there is no presence of heteroskedasticity, the study fails to reject the null hypothesis. We hence uphold that our residuals are indeed homoskedastic

4.3 Discussion of findings

Results showed that there is a positive relationship between the contribution of taxes and GDP and that tax revenue has a great impact on the GDP of Nigeria. The Null hypotheses which states that taxation does not have any significant impact on the growth of the Nigerian economy is hereby rejected. It can therefore be said that there is a strong positive relationship between the contribution of revenue from taxes and GDP as shown in the result presented where an R2 73% and adjusted R2 of 53% was reported. This signifies that tax revenue has a very high impact on the economic growth of Nigeria as a source of revenue available to government for the purpose of Growth and development. The finding agrees with the findings of Hall (1993), Brian (2007)

and Adegbie and Fakile (2011) and contradicts the evidence documented by Bonu and Pedro (2009). This implies that taxes contribute largely to Nigeria ‘s GDP as a developing nation unlike in Botswana where tax revenue over the nation ‘s GDP is not impressive.

The test carried out on the various tax revenues to determine their individual impact on GDP shows that petroleum profit tax, company income tax and value added tax has a positive impact on Nigeria ‘s economic growth while custom excise and duties impacts negatively on Nigeria ‘s economic growth. We therefore reject hypothesis H02, H03 and H05 and accept H04 which were earlier stated in null form.

The statistical tool uses to test for the presence or absence of serial correlation is the Durbin Watson Statistics which revealed the nonexistence of autocorrelation. Having obtained an insignificant probability at 5%, we failed to reject the null hypothesis. We hence conclude that our model ‘s residuals are not serially correlated.

Normally by default, most statistical software run regression tests on the assumption of homoskedasticity, e-views 6.0 inclusive. To avoid qualifying a result whose residuals might have violated one of the classical assumptions such as constant variance, we therefore tested for heteroskedasticity- that is whether constant variance exists. This was done using VEC residual heteroskedasticity. This tests the null hypothesis that constant variance exists. Since our probability is not significant here, we again fail to reject the null hypothesis. We hence uphold that our residuals are indeed homoskedastic.

All in all, the study finding can be rationalized by the explanation given by expediency theory, where the theory explains that taxes generated in a nation should be able to meet its economic and social objectives. In Nigeria, the main aim of tax revenue is to raise revenue that can be used

or that can contribute to the growth and development process. The Main issue facing the Nigerian tax system is the effectiveness and efficiency in the administration of these taxes. Changes in Government Policies are done with the hope of promoting and protecting the interest of the reigning government and authorities are often forced to reshape tax structure to accommodate these policies. Tax revenue provides a powerful set of policy tools to the authorities and should be effectively used for remedying economic and social ills of the society such as income inequalities, regional disparities, unemployment, and cyclical fluctuations and so on.

For a Mono-economy like Nigeria with heavy dependence on oil revenue, one can say that taxes generated from oil revenue if captured with other taxes as captured in this study will have a significant impact to the on the national income. The findings of Adereti (2011) and Olaoye (2009) on VAT also supports the fact that because of its indirect form, it is impossible to evade or avoid the payment of VAT a practice most tax payers are fond of doing in Nigeria.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The research work examine the impact of value added tax on economic growth in Nigeria. The study began with providing a background on the Nigerian tax system and the changes that it has gone through as well as providing details of tax revenue in an economy.

The research work critically identify the impact of value added tax on Nigerian economic growth from 1994-2017 and ascertain the relationship that exists between revenue generated from VAT and the Nigerian economy.

The researcher also made frantic efforts to discuss some of the various taxes that form the independent variables of this research work. The researcher concluded the review of literatures by adopting benefits theory, cost of service theory, theory of optimal taxation, Ibu khaldun's theory of taxation and harrod-domar theory of growth which lay emphasis on the fact that revenue from value added tax should be able to link its activities to outcomes evident in a state (Country or Nation). This implies that tax revenue is very important to the growth and development of any country as tax proceeds helps in rural and urban development in the form of road constructions, hospitals, schools and other social amenities.

Efforts were made to describe different tools or techniques that were employed in analyzing the result of the functional test carried out on the hypotheses. The study adopted an econometric method of analysis and data were sourced from secondary means comprising of the CBN annual statistical bulletin. In this chapter, details of the source of data, data estimation criteria, method of data analysis were discussed.

The analysis and interpretation of data was carried out on the data collected for the study under review. Time series data was used to capture the trends of tax revenue in Nigeria, and its contribution to GDP ranging from the year 1994-2017. The data were analyzed with E-views 6.0 using Vector Error Correction Model (VECM). This will indeed contribute to the positive impact taxes have on the economy of Nigeria.

5.2 Conclusion

The findings of this study contribute towards a better understanding of value added tax and economic growth in Nigeria. GDP and four other variables that represent indirect tax, custom duties, excise duties, and value added tax were developed to test which factors best describes economic growth in Nigeria.

The result shows that indirect tax, custom duties, excise duties, and value added tax are significant variables in explaining the economic growth in Nigeria. Out of all the four independents variables, it is only excise duties that shows a negative relationship with economic growth which implies that they are both moving in inverse direction. The remaining three independent variables show a positive relationship with economic growth. The implication of our findings is pointing majorly at policy makers, especially the Federal Board of Inland Revenue as most of our variables shows a positively significant relationship with economic growth, meaning that there should be no area in tax collection that should be taken lightly as they have all proven to be a major variable in connection to the growth of the economy.

The analysis of thestudy has thrown some light on the impact of value added tax on Nigeria ‘s economy. It is glaring that the Nigerian total tax revenue generated has a significant impact on the economy in general.

5.3 Recommendations

The following recommendations emerged from the findings and conclusions of the study:

1. That government should ensure to embrace strategies that will help to maintain adequacy of accounting procedure in the tax system in order to spur VAT efficiency.
2. That government should increase the number of VAT agencies in the country to boost VAT productivity.
3. That government should regulate the rise in the level of interest rate in the country in order not to provoke price instability in the country.
4. The government should ensure that taxes are accounted for to the public via print and electronic media. The intent of government with such tax should be communicated to the general public. In so doing, a separate body should be set up to inspect and ensure that the funds generated by government through tax at each level of government is properly used and any level of government that fails to utilize such taxes as communicated to the public should be charged to court.

5.4 Limitations of the study

The study was conducted only on value added tax, there other areas of taxation that was not captured in this study. The time for this study was limited as such, the research only maximized the limited time by avoiding other details which is believed not to be significant in order to affect he results of the study.

5.5 Suggested Areas for Further Research

There is a need to conduct further study on the assessment of the impact of the VAT on GDP and revenue collection in Nigeria which can be useful in comparative analysis between Nigeria and other African countries thus deviation and experience can be leant. Further questions are posed by the issues of linearity in the Simple regression model, and the study uncertainty of whether omitted variable bias could yet be involved. With these aspects of uncertainty, it seems that further investigation into this relationship is required, more comprehensive and longer term data will continue to become available, and with it a more thorough understanding of the relationship will be possible.

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