VALUE ADDED TAX AND ECONOMIC GROWTH IN NIGERIA

BY

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DECLARATION

I hereby declare that this dissertation 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 of Science (MSc) degree in accounting and finance. All quotations are indicated and sources of information specifically acknowledged by means of references.

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CERTIFICATION

This dissertation entitled Value Added Tax and Economic Growth in Nigeria meets the regulations governing the award of Master of Science (MSc) degree in accounting and finance, of the School of Postgraduate Studies of Nasarawa State University, Keffi for its contribution to knowledge and literary presentation.

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DEDICATION

I want to give all glory to Almighty God for his mercies, love and protection. It was through His grace and divine guidance that I was able to complete this herculean task and persevere through many challenges, delays and difficulties that came with writing a dissertation.

I dedicate this work to my parents, Sir & Lady Dr., L.O. Ebirim, for their love, care, encouragement, relentless efforts and support which made this enduring journey easy and worthwhile. To my siblings, Francis, Nancy and Uchechukwu, thank them all for their support and prayers for the completion of the thesis.

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ABSTRACT

The study evaluated Value Added Tax (VAT) and Economic Growth in Nigeria. Economic Growth was measured using Gross Domestic Product. The study covered a period of 23 years from the inception of VAT in 1994 to 2016. The study tested for the effect of VAT reform on the Nigerian Economy for the period under review using Chow Stability Test. The study used secondary data which was gotten from publications of Federal Inland Revenue Services (FIRS), National Population Commission (NPC), Central Bank of Nigeria (CBN) and National Bureau of Statistics annual bulletins. Regression model was employed for the analysis of data through the use of E-view statistical package. The results showed that VAT has a positive impact on Gross Domestic Product in Nigeria. The chow stability test result also showed that VAT reform affected the Nigerian Economy. Therefore the study recommends that government should make proper use of revenue generated from VAT to provide the needed infrastructure to foster development and develop appropriate economic policies and reform tax laws that will improve the standard of living of the citizens in order to foster the Nigeria's economic growth. The Study also recommends that government should strengthen and improve on VAT administration in Nigeria in order to yield the maximum VAT revenue. This can be achieved by equipping the tax authorities with the appropriate Information technology and adequate trainings to enforce the fight against corruption and block all possible loopholes in VAT revenue generation, collection and administration.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF APPENDICES

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

It is common knowledge that the availability of infrastructure and other necessary facilities usually enhance the development and growth of any given society and the government of the day has the responsibility to provide them. Clearly, the provision of infrastructures calls for funding and government is expected to generate the necessary funds to successfully deliver such obligations to the public (Ugochukwu & Azubike, 2016). For this reason, government of many countries all over the world sorts for ways to raise revenue to meet their ever increasing challenges in public demands and expenditure (Ugochukwu & Azubike, 2016). Taxation could be described as one of Governments main means of generating revenue.

Different scholars have defined tax and taxation in many ways in that vein, Soyode and Kajola (2006) describes tax as a compulsory contribution imposed by the government. According to Soyode and Kajola (2006) tax payers may not receive any specific item in return for their taxes paid, however they will benefit from living in an environment that is good. According to Anyanwu (1997) he described tax as a mandatory transfer or payment from private individuals and institutions or a group to their government. Tax is a compulsory levy that government charges her citizens to enable government meet its obligations to her citizens. Therefore taxation can be described as a burden which the citizens of a country must bear to sustain its government. When the citizens of a country sacrifice their private resources to her government in the form of taxes paid, the citizens expect the government to return the favor by spending public funds generated in such a way that will enhance their welfare.

Most countries globally strive to achieve rapid overall economic development through effective tax collection and expansion of revenue base. In order to achieve this very objective, many countries especially developing countries like Nigeria, introduce new forms of taxes to boost their revenue earning capacity with the aim of improving the standard of living of their citizens and achieve sustainable economic development in their countries. An example is VAT introduced into the Nigerian Tax system dated 1st September, 1993 but however its actual operations commenced on 1st January, 1994. It was introduced as a replacement for the then existing sales tax, which then had a narrow tax base.

It is noteworthy that VAT is a tax charged on consumption that is at each level of consumption and it is borne by the final consumer of the product or service. Soyode and Kajola (2006) described VAT as a consumption tax that is charged at a rate of 5% on all vatable goods and services. VAT can be regarded to have a broader base than the sales tax which it replaced because it includes professional services, banking and other financial transactions. It also extends to goods imported into the country and it is charged at a flat rate of five percent (5%) in Nigeria.

VAT can be said to be one of the most common and popular tax all over the world today. It was first introduced by France in 1954 and its origin is traceable to a French Economist, Maurice Laure a joint director of the French Tax Authority. In France, VAT can be seen to be the most important source of government revenue because it has accounted for nearly 50percent of government revenue (Thacker, 2009; Okoye & Gbegi, 2013). Ever since then, VAT has been introduced in many countries all over the world today. There are evidences to suggest that in these countries, VAT has become an important contributor to total government tax revenues. This impressive performance of VAT in nearly all the countries where it has been introduced is what strongly influenced the decision of the Nigerian Government to introduce VAT into the Nigerian tax system in the year 1993 (Ajakaiye, 2000; Adereti, Adesina & Sanni, 2011).

The major reason why VAT is popular is because it provides a broad revenue base that usually generates significantly more revenue than other forms of taxes on consumption and VAT is a tax charged on consumption which is administered easily and evading it is difficult. Therefore the revenue generated from consumption taxes such as VAT can help boost the revenue base of any given economy.

It is common knowledge that economic development can be described as the quantity and quality changes in an economy as well as a process of improving the quality and standard of living of the citizens of a country. This involves raising their incomes and consumption levels of foods, medical services, education, etc through economic growth. A researcher has it that creating conditions conducive to the growth of people's welfare is achieved through establishing social, political, economic structures and institutions that foster human dignity and respect; and increasing people's freedom by expanding their range of choices, by increasing variety of goods and services consumed (Todaro & smith, 2009).

Economic growth as measured the increase in the national income or total volume of production of goods and services of a country accompanied by improvements in the total standard of living of the people (Chinwuba and Amos, 2011: Onwuchekwa and Aruwa, 2014)

In order to foster economic growth of a country, this is based on how much revenue raised to make available increase in economic capacity in that given country. However one the process of raising the sufficient amount of revenue for providing the economic increase In capacity to promote economic growth is through a tax system that is well-structured (Ogbonna & Appah, 2012). Therefore Taxation which includes VAT promotes the transfer of resources from the people to her government in order to provide the needed economic growth.

According to Abiola and Asiweh (as cited in Onyinyechi, Okafor, Azubuike & Ekwe, 2016) in order to stabilize the economy, income redistribution and making available services as public goods are among the responsibilities or obligations which government owe her citizens.

Through VAT, government can control the production and consumption of certain goods and services, control adverse economic situations, inflation rates and help sharpen the economy and reduce the level of unemployment through building of industries, skill acquisition centers, encourage local manufacturers this will help in reducing the unemployment high rate in a Nation (Ugochukwu & Azubike, 2016).

1.2 Statement of the Problem

Government by nature can be described as a non-profit making organization which therefore means that government sole purpose is not of profit thus to fund its activities it needs to source for revenue.

For over some years now, since the discovery of crude oil in Nigeria, the Nigerian Government has heavily been dependent on Oil Revenue. However recently oil revenue has experienced a down turn thereby prompting a decline of funds available. As a measure to salvage the decline in revenue, this prompted the Nigerian government to look out for other sources of revenue such as tax revenue which includes VAT.

During the period under review between the years 2007 and 2008 there was a significant change in VAT revenue therefore the study attempts to establish if there is a difference in the impact of VAT on economic growth as a result of the structural break.

Also another problem is the VAT system itself such as the inadequacies inherent in the administration of VAT as a tool for the growth of the Nigerian economy. According to Okafor (2012) it has been noticed that tax revenue has generally been understated over the years as a result of mismanagement of tax by the tax authorities arising from under assessment and unequipped staffs in administering tax revenue.

Related studies on this topic such as Manukaji and Nwadialor 2016, Onwuchekwa and Aruwa, 2014, Umeora 2013 and Adereti, Adesina & Sanni, 2011 focused on VAT and Economic Growth in Nigeria. However the object here is to extend the period covered till 2016 and look at how VAT reform affected the Nigerian economy.

Considering the above situation, it is therefore necessary to understand how VAT revenue can be of remedy in this situation. On that note this research work attempts to examine value added tax and economic growth in Nigeria especially on gross domestic product with the view to providing reasonable solutions and recommendations to facilitate economic growth in Nigeria which would assist improve the Nigerian economy and VAT the managed.

1.3 Research Questions

For the purpose of this research work, the following research questions were formulated using two of the proxy of economic growth:

i. What is the impact of VAT on Gross Domestic Product of Nigeria?

ii. Does VAT reform affect the Nigerian Economy?

1.4 Objectives of the Study

The main objective of this research work, is to establish the impact of value added tax on the growth of the Nigerian economy. The overall objective is split into the following specific objectives:

i. To determine the impact of VAT on Gross Domestic Product of Nigeria.

ii. To determine if VAT reform affected the Nigerian Economy.

1.5 Statement of Hypotheses

The following research hypotheses were tested:

Ho_1: VAT does not impact on Gross Domestic Product of Nigeria.

Ho_2: VAT reform does not affect the Nigerian Economy.

1.6 Significance of the Study

The study would immensely benefit both public practice and academic fields. In the public practice perspective, the research work will aid accounting and auditing firms as well as tax consultants to have an enhanced knowledge and understanding of VAT, as it will help them when auditing their clients and performing other financial activities.

The study would benefit the tax authorities and policy makers, as it will serve as a source document that would help to throw more light on the understanding of VAT in their operations, administrative, requirements and standards.

The study would assist organizations and businesses as well as interested public individuals to understand how VAT is charged, remitted, and administered. And also to know how the excess of input VAT is claimed.

In the academic perspective, the study will contribute to the enrichment of available literatures on VAT and economic growth. The study will prompt students, scholars and other academicians to research further.

1.7 Scope and Limitations of the Study

The study sets out to determine the impact which VAT has on the economic growth in Nigeria. The study covers a period of 23 years, ranging from 1994 to 2016. The period was helpful in determining the impact of VAT on economic growth in Nigeria since VAT inception in 1994 to 2016.

During the course of the study, the major challenge encountered was few existing literatures on VAT and economic growth in Nigeria testing for structural break using chow stability test.

1.8 Definition of Terms

For this research work, the terms hereunder were defined in relation to the research work:

Value Added Tax (VAT): it is a tax that is charged on each consumption phase and the final consumer of the goods or service bears the burden.

Economic Development: it is the process an enhancing the quantity and quality of the standard of living of the people of any given economy.

Economy: it is a situation of a country that is based on the production and consumption of goods and services as well as money in circulation.

Registered persons: An organization or business that has registered with FIRS for VAT purposes.

Taxable Persons: This includes an individual, manufacturers, wholesalers, importers or suppliers of Taxable goods or services for consideration.

Input Tax: VAT charged for purchased taxable goods and services that is not exempted from VAT.

Output Tax: VAT charged on taxable goods and services sold that is not exempted from VAT.

Taxable Goods and Services: Goods and services that are the not exempted from VAT under VAT Act.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Concept of Value Added Tax (VAT)

VAT can be described in simple terms as the tax on value added which is one of the indirect forms of taxation. According to Naiyeju (1996) VAT is a multi-stage consumption tax which is charged at each stage from the production, to distribution and to consumption of goods and services. It is an indirect tax which someone collects from another person who really absorbs the tax cost (Ochei, 2010). According to Bickley (1994) VAT is a tax that is charged at each stage of production that is value being added on a firm. Oldman and Woods (1994), VAT is a multi-stage consumption tax is charged on the difference between an entity's sales value and purchased value used in the production of goods. Bird (2005) described VAT as a multi stage tax charged on the value added to goods and services each time the transit different production and distribution stages as well the services.

From the various definitions of VAT above, it is quite obvious that VAT is a consumption tax that is levied at each stage of production, borne by the final consumer and indirect. However, this shows that VAT has three very important attributes and these attributes where also stated by Soyode and Kajola (2006) and they are as follows:

VAT has the attributes for a consumer tax.

VAT has the attributes for a multi-stage tax.

VAT has the attributes for being borne by final consumer.

However, where a tax satisfies the three attributes mentioned above, it is a classical VAT but where only one or two of these characteristics are present then it's not VAT. It maybe some other form of tax or a Modified Value Added Tax (MVAT).

According to Onyinyechi, et al. (2016) the Nigerian tax system comprises of both indirect and direct tax, regulated by different types of tax and both administered by the Federal and Local Governments. Direct tax is a kind of tax that is imposed directly upon or on the property of the person paying the tax. As while indirect tax is a tax where a different person bears the burdens. It is therefore under indirect tax that VAT comes in when taxes have been imposed on goods and services and the burden is transferred to another consumer.

According to Ola (2001) whenever value is added at each stage VAT is paid. VAT has the attributes of multi-stage tax that is charged whenever goods and services are supplied by the manufacturers. He also said that VAT are charged on the value added or gained on goods before being sold that is VAT is an output tax less input tax. He went further to say that VAT is one of indirect taxes collected by the government however the incidence of tax is borne by either the producer or the final consumer or shared by both. Therefore, VAT is a consumption tax that can be administered easily and not easily evaded. The VAT yields can serve as a measure of growth of an economy based on the fact that purchasing power which establishes yields increases with economic growth. VAT can be described as a tax that is self-assessment in nature and it's paid whenever services are rendered. VAT has a system of output tax and input tax which makes VAT self-policing because it encourages the collection of receipts at each level of transaction. Therefore the VAT to be paid is output tax less input tax. It is the VAT that the final consumer of the goods and services pays that government will collect.

2.1.2 Consumption as a VAT Base

Based on the fact that VAT is a tax charged on the consumption of goods and services and the final consumer bears the burden, it is therefore necessary to look at consumption as a base of VAT. Anyanwu 1995 (as cited in Obiakor, Kwarbai & Okwu, 2015) looks at consumption as the goods and services spent by households such as clothing, refreshments, and purchasing of assets etc. Therefore it could be pointed out that the relationship that exist between rate of consumption and disposable income is established by the concept of consumption function. Naiyeju (1996) defines consumption as the purchase and utilization of goods and services for the gratification of the desires of an individual or a business organization. According to Naiyeju (1996) from a macroeconomics perspective, consumption may be divided into public and private consumption where public consumption is referred to as an expenditure for the purchase of goods and services (including defense and security) by a government, its agencies and functionaries while private consumption is an expenditure by non-government consumers including the purchase of goods and services by non-profit organizations.

It can be said that all forms of consumption tax are considered as indirect taxation. Therefore a tax on public or private consumption is an indirect tax since it is levied on purchasing power and indirectly on the goods and services purchased. In other words when a consumer has the purchasing power but refuses to exercise it, he can avoid paying the consumption tax. However, the imposition of a consumption tax therefore defines the tax as a compulsory transfer of corporate or personal power to the government whenever that power is performed (Naiyeju, 1996).

According to Leach (as cited in Onolapo, Aworemi & Ajala, 2013), consumption taxes have a wider coverage since the cause of adverse variance can be adequately controlled under proper administration. In the study by Onolapo et al. (2013) the revenue generated from consumption taxes can help to boost the revenue base of any economy. This however involves maximizing the full potential and introducing a consumption tax that will recognize the tax payers as utility minimizing individuals and safeguarding their evading behavior rate.

One of the reason why consumption is taxed instead of income is as a result of tax on consumption will discourage consumption, promote savings, thereby source higher economic growth (James and Asaama 2012; Obiakor et al., 2015).

2.1.3 Introduction of Value Added Tax in Nigeria

When it became obvious that Nigeria could not survive by just depending heavily on oil revenue, this prompted the need for government to diversify its source of revenue thereby restructuring the economy. As part of the efforts at comprehensively country’s tax system (Olaoye, 2013).

The year 1991 represents a year that carved out changes in the Nigerian Tax system. During this period their existed two study groups, the Professor Edozien led study group who focused on the review of the Nigerian Tax System and while study group under the leadership of Dr. Sylvester Ugoh looked at Indirect Taxation. The study group led by Dr. was given the mandate to look at the feasibility of introducing VAT in Nigeria as an improvement of the then existing sales tax. After making several research, the group based on their finds recommended the introduction of VAT in November, 1991. This recommendation was actually accepted and this decision was made public in 1992 budget speech. As a follow up to this, on 1st June 1992, a committee was set up to carry out the initial phase on the introduction of VAT which was led by Ijewere known as Modified Value Added Tax (MVAT) committee whom later on handed over the baton of VAT administration to the Federal Inland Revenue Services (FIRS) (Naiyeju, 1996).

Many Nigerians saw the introduction of VAT as a medium through which borrowing from international organizations will be discouraged (Ochei, 2010).

During the introduction of VAT, a problem arose on which organization that will be suitable to administer VAT. In line with this the Federal government directed the then Honorable Minister of Finance to commence the new tax on an experimental basis with a small outfit within the Ministry of Finance. But later the FIRS took over fully the implementation and administration of VAT.

Another issue that came up during the introduction of VAT was what should be the roles of the Federal, States and Local governments in the administration of VAT. The state government argued for their right to administer VAT and also have full claim of the VAT revenue. This argument was based on the states government historical involvement in the sales tax which VAT replaced. However, the Federal government disagreed with this argument, stating that VAT is an improvement on sales tax and not just an ordinary replacement. The shortcomings of the sales tax in all ramifications were what prompted the Federal government to review the Nigerian Tax System, so leaving VAT in the hands of the State Government will expose VAT to the unfortunate faith of the sales tax. Therefore the Federal Government stood on its constitutional rights to legislate on tax matters which include indirect taxation (consumption tax).

Again, another issue that arose was the issue of the appropriate VAT rate to be adopted. This issue caught the attention of the World Bank team that had visited Nigeria to review the Nigerian VAT proposal. The team advocated for a higher VAT rate of between 15% and 17% instead of the proposed VAT rate of 5%. The team's argument was based on the fact that a lower rate of 5% would not produce paltry revenue of about 4 to 4.5 billion Naira in the first year. However, the Nigerian Government was not impressed with this, therefore decided to reject it and stick with the 5% VAT rate because Government wanted to start the new tax (VAT) with a very low penetration rate in order to avoid public resistance. The first year collection of VAT revenue of over eight (8) billion Naira in 1994 had vindicated government stand on the matter (Naiyeju, 1996).

According to Olaoye (2013) the introduction of Value Added Tax (VAT) was intended that government revenue priorities will shift from revenue sources that can be influenced by the changes in prices of petroleum in international market sources such as interest from crude oil, sales, oil royalties and Petroleum Profit Tax, to internally generated revenue that is more stable. Internally generated revenue could be seen as the heart of efficient government fiscal policy, it can be seen as the resources needed for society growth.

2.1.4 Value Added Tax as an Improvement on Sales Tax in Nigeria

VAT can be described as a major government revenue source which has been adopted by many countries which also includes Nigeria. In Nigeria, VAT was introduced into the Nigerian Tax system on 1st September 1993 but however its actual operations commenced on 1st January, 1994. It was introduced as a replacement to the then existing sales tax which had been in operation under the Federal Military Government Legislated Decree 107 of 1986 but was operated by the states on the basis of residence. The Federal Military Government of Nigeria then, put in place a sales tax act which empowered the State Government with the administration of sales tax. The sales tax revenue realized from each state government formed part of the Consolidated Revenue Fund and was used for independent projects at its discretion (Sales Tax Act No. 7 of 1986). According to Soyode and Kajola (2006) the reason for changing VAT in place of sales tax are stated hereunder;

Sales tax revenue base in Nigeria was narrow. The sales tax only covered nine classes of goods including sales and services from motels and hotels that were registered.

The Act of sales tax only focused on goods that were manufactured locally.

In the same vein according to Onolapo et al. (2013) the reason behind government adopting VAT in Nigeria can be summarized based on the need to achieve:

Simplify indirect tax.

Enhance tax neutrally in international trade.

Reduce tax evasion.

Expand the tax base for investment.

Adereti et al. (2011) were of the opinion that sales tax was adequately replaced by VAT which in the constitution VAT was meant to be administered by states rather than Federal Government.

VAT is a tax charged on consumption which is based on people's general attitude towards consumption thereby having a large tax base. Vat has a tax refund or tax credit system which eliminates the cascading effect that sales tax had. The sales tax has a narrow which does not follow the fundamental principles of consumption tax such as VAT which naturally includes all forms of consumable goods and services. Excluding goods and services that are consumed, banking transactions and professional services are also included in VAT's base. Since VAT is based on people's general consumption behavior, it is supposed to have a high return which will enhance Nigeria's revenue accompanied with the less resistance of tax payers which is also an advantage. VAT is relatively more efficient than the sales tax it replaced. It has replaced inefficient, distorting or badly administered taxes, such as taxes on capital goods, exports or imports (Ezejelue, 2001).

2.1.5 Value Added Tax Administration in Nigeria

The administration of VAT in Nigeria adopts a rate of 5% of the value of goods sold and services rendered. The administration of VAT is vested on the Federal Inland Revenue Service (FIRS) and it is collected across the entire federation of Nigeria. The

FIRS is currently in the process of reviewing the VAT Act, which will introduce significant changes to the current VAT system in Nigeria.

Formerly, Federal Board of Inland Revenue (FBIR) had a unit called FIRS which had the responsibility of managing and administering VAT in Nigeria this it performed through a VAT directorate, whose Head office was situated in Abuja. It had a network of Zonal Offices and Local VAT offices all over Nigeria. These Zonal offices were headed by Zonal Coordinators while the Local VAT offices were headed by the Local VAT Officers. The Local VAT Officers were field officers responsible for giving publicities and enlightenment campaign to the public (VAT payers). The FIRS had six operational departments of which VAT was one of them.

However, in the year 2007 there were major changes and reforms in the Nigerian tax system which includes the establishment Federal Inland Revenue Service (establishment) Act, No. 13 of 2007 which gave the FIRS operational and financial autonomy to assess, collect and account for the tax revenue for the Federal Government of Nigeria and refund excess tax paid to the affected tax payers. FIRS succeeded the FBIR which was created and operated under the Companies Income Tax Act of 1993 (as amended). This tax reform brought about a change in the administration of VAT and it was carried out in order to enhance FIRS overall effectiveness and efficiency and to ensure this, certain structures where introduced.

According to Desai, Foley and Hines (as cited in Adereti et al., 2011), government have available many tax facilities such as VAT and company income tax that it can use to fund its activities. When selecting which of the tax facility to adopt and which rate that should be applied on the tax facility, governments usually considers taxation effects on investment and economic activities. The 5% VAT adopted by Nigeria is charged on both domestic and imported. This rate was increased to 10% on May 23, 2007. But, Nigerians rejected the hike in the VAT rate and the Nigeria Labour Congress (NLC) went on five days strike which eventually jeopardized the economy. And this made the Federal government to reverse to the old VAT rate (Onolapo et al., 2013).

Taxable persons are those charged with responsibility of collecting VAT. A taxpayer is should to register for VAT either within six month that the VAT Act commences or within six month that the taxpayer commences business, whichever one that comes first. Failure to do so will attract a fine of N10, 000 in the month that this failure occurs and subsequent month that failure continues to occur N5,000 each (Abiola, 2012). A registered taxable person is required to remit VAT collected not later than the 21st day of every month after the month which the transaction occurred that is the month which the purchase or supply was established as failure to remit VAT within this stipulated period of time will attract a penalty of N5,000 each month that this failure occurs. The period for fling return was reduced from 30 days to 21 days by the 2007 Amendment Act.7 (Abiola, 2012).

According to Value Added Tax Act (2007) a situation where output tax exceeds the input tax then the difference or excess of it is remitted to FIRS but in a situation where input tax exceeds the output tax then the tax payer will be entitled to a refund of such difference or excess from FIRS after making available the required documents backing such a claim.

Considering the fact that Nigeria operates a Federalism system, VAT revenue collected is shared between the three tiers of government based on a sharing formula. This sharing formula has undergone series of changes in the past. Details of these changes are shown in table 2.1.5.1 below.

Table 2.1.5.1: VAT Distribution Formula

Government	**1994**	**1995**	**1996**	**1997**	**1998**	**1999-2016**
Federal Government	20%	50%	35%	35%	25%	15%
State Government	80%	25%	40%	40%	45%	50%
Local Government	-	25%	25%	25%	30%	35%

Source: FIRS Tax Information Pack

In Nigeria the year 1994 VAT revenue was N7.3 billion, which was greater than the expected N6 billion for the year. In the same vein, for 1995 VAT revenue was N20.8 billion in contrast of N12 billion that was budgeted for that year. Comparing VAT based on its contribution to total federal revenue generated, VAT amounted to about 4.06% in 1994 and 5.93% in 1995. In the year 2008, VAT revenue collected was N404.5 billion which was 5.1% of total revenue (Izedonmi & Okunbor, 2014). This classifies VAT revenue as a major revenue source in Nigeria and its contribution as a revenue means in Nigeria is feasible.

2.1.6 Problems of Value Added Tax Administration in Nigeria

For a tax system to succeed or fail depends mainly on the level of how it is properly managed (Unwabuike, 1998; Okoye & Gbegi, 2013). According to Onyinyechi, et al. (2016) a good tax system should include tax policy, tax law and tax administration. Certain problems have hindered the smooth and proper administration of VAT in Nigeria which has prevented VAT from yielding its full potential as a major means of revenue to the Government of Nigeria. Naiyebu (1996) identified some of these problems and they include the following:

Administrative Complexity.

Public resistance.

Small enterprise exemption.

Tax refund.

Accounting culture.

Illiteracy level and Inflation.

Ogunbiyi (2014) further enumerated some of these problems affecting the administration of VAT in Nigeria:

It is only input VAT directly attributable to production that can be claimed from output VAT making all other forms of input VAT unclaimed. He gave an example where manufacturer of Oil can only claim the input VAT charged on the purchased input material from the output VAT but other input VAT on Electricity Bill used during the process of production, input VAT on disposal of production waste, input VAT charged on external professional consultants involved etc. If VAT is a tax that should be suffered by the final consumer of the taxable goods and services, then the Nigerian VAT system has only shared the burden of VAT between the producer of the goods and the final consumer because input VAT that cannot be claimed on the manufacturers expenses thereby depriving the shareholders of the manufacturer of those cost either as profit or retained earnings.

Another problem in the administration of VAT is the absence of an effective refund mechanism which is usually faced by many companies in Nigeria. A situation where the input VAT exceeds output VAT the tax payer expected to request for a refund for the excess. Only a few tax-payers have been granted these refunds even after the field audit conducted by FIRS to ascertain the accuracy of the refund. Section 10 (1) of VAT Act mandates all Oil and Gas companies in Nigeria to deduct VAT at source and remit same directly to FIRS further complicates the situation. Also for a tax-payer who is already in a significant recoverable position with the FIRS, this further compounds the situation as the output VAT which supposed to be used to reduce the input VAT's excess has been mismanaged. Tax payer who had their VAT deducted at source by its customer is also shares the burden of administration responsibility of demonstrating that the customer that made the VAT deduction has actually remitted to FIRS by providing evidence such as remittance schedules of the customer and receipts. To hold responsible a tax-payer for not remitting VAT that was deducted at source by a customer is nearly impossible.

There is also an issue of charging VAT on sales of land property. Sometimes FIRS is of the opinion that VAT should be charged on any sales made by a company except those exempted under the VAT Act. A question is often thrown at FIRS whether the sales of Land or property by a company qualifies as either goods or services, what is the value being added to a land or property which the tax-payer is no longer using and wants to sell it? Tax laws in some other countries removes this complication by expressly define what qualifies as “goods” and “services” or making such zero rated.

Another criticism of the administration of VAT is the fact that VAT is charged on commercial banking services. For an economy like Nigeria that has a high rate of banking transactions, VAT is charged on banking transactional fees such as Commission on Transfer, Interest and other banking charges. This act has go on to compound the cost of doing business in Nigeria thereby making goods produced locally less competitive internationally.

He recommended that in order to improve on the administration of VAT, all input VAT that is directly charged on the production process should be recoverable. As this is will encourage the investors of the entity. In order to achieve this it will require the amendment of section 17(1) of the VAT Act. The VAT refund system should be re-examined to ensure that tax-payers with valid claims are promptly and adequately refunded their claims and the definition of ‘goods’ and ‘services’ should be looked into as well in the VAT Act.

2.1.7 Concept of Economic Growth

The concept of economic development is seen to be wider than concept of economic growth. This is based on the fact that economic development reflects progress in the economy and requires economic growth. Growth is an important condition for development, but this condition is not sufficient because it does not guarantee development. According to Sen (2001) development involves providing freedom for people and removing obstacles to enable a greater freedom. People will be encouraged to choose their own destiny in a situation where there is a bigger freedom. The Obstacles that hinder freedom as well as development includes lack of infrastructures, poverty, lack of economic opportunities, corruption, high level unemployment, lack of education, lack of health and poor governance.

According to Todaro and Smith (2009) economic growth can be described as a steady increase in the productive capacity of the economy thereby leading to an increase in income nationally. Economic growth is regarded as the rate at which the national income or the total volume of goods and services produced by a country increases (Tawiah, 1979). Owolabi and Okwu (2011) described the yields raised from VAT can serve as a measure economy growth based on purchasing power which determines VAT yields improves with economic growth.

However, on the other hand, economic development can be described as the regarded as an increase or expansion of the national income or total volume of production of goods and services of a country as well as improvements in the political, social, technology and economic lives of the citizens of a country (Tawiah, 1979). Economic development can be seen as a sustained activities of policy makers that promote the standard of living and economic welfare of a specific jurisdiction.

According to United States Agency for Industrial Development (USAID) (as cited in Adegbie, Jayeoba & Kwabai, 2016) economic growth is referred to as a situation of increase in per capital national output or net national product over a certain period of time. Growth depicts that the rate on increase in total output must be greater than the rate of population growth.

A country can be said to be economically developed if it has a high percentage of Gross Domestic Product (GDP) and income distributed equitably (Alvaro, 2004). Therefore, GDP and a good income distribution can be described as indicators of economic development of a country.

2.1.8 Measures of Economic Growth

Putting into consideration various kinds of indicators will aid in determining the extent to which a country has grown for this study below will be considered:

2.1.8.1 Gross Domestic Product

GDP is described as the total value of all goods and services produced in a country usually for a period of one year, by all the inhabitants of the country (Anyanwuocha, 2004). According to Jhingan (2009), GDP is the total measure of the flow of goods and services at a market value realized from current production during a year by all residents of a country.

GDP is a specific measure of economic welfare (Abata, 2004; Adegbie et al., 2016). He went on to enumerate that economic growth is the growth of an economic output of goods and services which is sometimes referred to as the Gross National Product (GNP). When the growth rate of GNP declines, unemployment results and the income generally falls. When this happens the government has a duty to set policies that will set up the economy output to achieve sustained economic growth (Abata, 2004; Adegbie et al., 2016).

GDP can provide an estimate of the level of economic welfare of citizens within a country. According to peter (2003) GDP serves as measure of growth and it likely to be the most important indicator, for if people want to be in a position to be able to buy products of their needs they will an income to be able to achieve that.

2.1.9 Value Added Tax and Economic Growth

Having independently reviewed the concept of Value Added Tax and the concept of economic growth, there is however a need for the concept of Value Added Tax (VAT) and concept of economic growth to be reviewed together.

According to Ugochukwu and Azubike (2016) the need for the government perform its responsibilities by providing social amenities, engage in developmental projects is a basic requirement for an improved standard of living. But government has been constrained by the lack of revenue to carry out these projects, therefore there is need for government to intensify its revenue generation effort through taxation which includes VAT.

Mentioned previously in this chapter, the three tiers of government share the VAT revenue generated between themselves. However one of the recurrent problems of the three-tier structure of the government in Nigeria is dwindling revenue generation which is reflected in the yearly deficit budget and insufficient funds for economic growth and development (Onolapo et al., 2013). VAT revenue generated can aid them in undertaking developmental projects such as Construction of roads, provision of education, creation of employment for graduates, ensuring security for the nation etc instead of resorting to external or domestic borrowings which will be of great burden to the future generation. These activities can help in promoting economic growth by expanding the national income or total volume of production of goods and services this will then lead to a standard of living that is improved thereby encouraging an economic growth that is sustained. Based on this reasoning, Value Added Tax can be described as a major tool for sustainable economic growth in Nigeria, as it serves as a means of making funds available for government to establish an improved economy.

Aguolu (2004) taxation may not be described as the major government revenue source that is based on the volume of revenue generated from taxation, taxation however still remains the most important source of revenue to the government based on the premises of certainty, control and consistency of taxation thereby making taxation an important revenue source for government. Based on powers conferred to government, it imposes taxes, the government can be assured of generating tax revenue at all times no matter the circumstance. This is an aspect where taxation has an advantage over other sources of revenue to the government.

A good tax system should encourage efficient and full use of a nation productive capacity without hindering the allocation of resources. It should also yield the revenue needed to fund government activities without hindering economic growth and sustainable economic development. The environment created by government should encourage the establishment of new business, sustain the existing business and the infrastructures provided serves as a key factor of a good structured tax system that will make available the needed funds for government to carryout re-current (administrative) and capital expenditure (infrastructure) (Ifurueze et al., 2014; Onyinyechi, et al., 2016).

According to Naiyeju (1996) for a tax system to succeed or fail will depend on how the tax system is managed properly. For a tax system to meet its main objective of being established it this depends on how the tax law is publicized, interpreted and implemented.

In that case the main objective of an adopted tax system such as the Nigerian Tax system will be to encourage and sustain economic growth and development in Nigeria. The Nigerian Tax system should not hinder economic growth as it is through sustained economic growth that the potential ability to provide improvements on the well-being of Nigerians will be established. Thus, the proxy of economic growth that's Gross Domestic Product was used to determine the level of the impact of VAT on economic growth in Nigeria.

It is believed that countries with a high population and increased level of economic activities are likely going to experience appreciable increase in VAT revenue based on the fact that VAT is a tax that is charged on taxable goods and services consumed whether imported or produced in a country. Nigeria can be classified as a country with a high population and increased economic activities.

In Nigeria currently VAT contributes a high proportion of the total government revenue generated making available funds to embark on activities that are developmental in nature thereby enhancing economic development in the country (Ugochukwu & Azubike, 2016).

2.2 Empirical Literature

Adegbie, Jayeoba and Kwabai (2016) assessed Value Added Tax on the Growth and Development of Nigeria Economy. Their data for VAT and GDP obtained covered a period from 1994-2015, and analyzed in order to determine the relationship that might exist between them. From their analysis VAT has a relationship that is positive with GDP. They were of the conclusion VAT rate should be increased and exempted goods and services defined clearly. They recommended that VAT rate of 5% should be increased to 10% and Tax authorities should be strengthened in order to increase their efficiency and effectiveness, FIRS should address the issue of tax evasion, government should make judicious use VAT revenue so as to encourage tax payers. They also recommended that there should be a revisit of the definition of exempted goods and services by government in order to charge those goods that are vatable but currently are not vatable.

Akhor and Ekundayo (2016) examined the Impact Indirect Tax Revenue has on Economic Growth in Nigeria. The independent variable for their research work included VAT revenue, custom and excise duty revenue and while their dependent variable were economic growth was proxy by real gross domestic product. The study used secondary data which was gotten from CBN statistical bulletin for a period of 1993 to 2013. From their analysis VAT had an impact on real gross domestic product which was a negative although it was significant. Also their result also showed that custom and excise duty had a negative and weakly significant impact on real gross domestic product. The study therefore recommended that tax administrative loopholes should be curbed in order for tax revenue to contribute immensely to the development of the economy based on the fact that VAT, custom and excise duty had a negative impact on economic growth although it was significant.

Apere and Durojaiye (2016) examined the Impact of Value Added Tax on the Revenue Generated by Government and on Economic performance of the Nigerian Economy. Their study was for a period of 1994 and 2014. From their analysis total revenue, VAT and GDP of Nigeria has a long-run relationship that is significant and positive. The study therefore recommended that more attention should be given to Value Added Tax as it will serve as a tool for stimulating greater revenue generation and economic growth. There is a need to apply Information technology also known as "ICT" in all tax offices in Nigeria thereby creating a possibility that tax payers and tax authorities stating united and consistent claims hence avoiding tax evasion in Nigeria.

Inyiama and Ubesie (2016) examined the effect of Value Added Tax and Customs and Excise Duties on Nigeria Economic Growth. Secondary data sources was used while simple regression technique was employed in data analysis to test the hypotheses of the study. Correlation analysis was applied in the assessing the relationship between the non-oil revenue sources and Nigeria Gross Domestic Product. From their analysis all for non-oil tax revenue affects for GDP of Nigeria. On the side of the relationship among the variables studied, the strength of their relationship is very high for all the variables.

Manukaji and Nwadialor (2016) analyzed the Impact of Value Added Tax (VAT) on Economic Growth in Nigeria from 2005-2014. Their study adopted a simple regression model and through the help of SPSS their hypotheses developed was tested.

Their result showed that VAT positively contributes to the total revenue generated by government and by extension the economic growth of Nigeria. The study recommended that revenue collected from VAT needed to be boosted. This can be achieved by not increasing the VAT rate of 5 % instead through blocking loopholes of VAT revenue, sensitizing the managers of companies operating in Nigeria on the need to remit the VAT revenue collected and those responsible with the administration of VAT should be provided with proper training.

Omokhuale (2016) evaluated the Contribution of Value Added Tax to Nigeria, from 2000 to 2012. In estimating the model Ordinary Least Square techniques was adopted. From their analysis VAT and Nigerian economy has strong positive significant relationship. The study recommended a variable VAT rate that will take more for high income earner and that exemption should be given to some categories of goods and services to encourage even income distribution.

Onyinyechi, Okafor, Azubuike and Ekwe (2016) looked at the possibility of Re-engineering Administration of VAT in Nigeria for Economic Development. For a period of 1994 and 2014. Secondary data used was gotten FIRS Website, CBN & NBS Annual Statistical Bulletins. The regression model was examined through the use of Statistical Package for Social Sciences (SPSS). The study found that VAT benefits government immensely. Government makes sure that resources generated are channeled towards relevant projects in the society through taxation. Although VAT has been mismanaged in Nigeria.

Ugochukwu and Azubike (2016) looked at the relationship between Value Added Tax and Economic Development in Nigeria. Their study focused on an 18 year period that is 1994 to 2012. Multiple regression was used in analyzing the data gotten from Central Bank of Nigeria (CBN) Statistical Bulletin for the 18 years under review. From their analysis GDP and VAT had a negative relationship between them and significant. Their result also showed that Gross Domestic Product and Total Consolidated Revenue had a positive significant relationship between them.

Afolayan and Okoli (2015) examined how VAT may have impacted on Nigerian economic growth. In order for their study to analyze the impact VAT has on economic growth of Nigeria which the proxy was real Gross Domestic Product Ordinary Least Square technique was employed. The result was put beyond reasonable doubt by assessing the performance different sectors in the Nigerian economy towards the contribution to VAT revenue. The result showed that there exist a positive and insignificant correlation between VAT Revenue and real GDP. Although VAT Revenue was more stable there was a great fluctuation in VAT Revenue and real GDP over the period. Granger Causality Test also showed that real GDP granger causes VAT revenue and the relationship between VAT and real GDP is unidirectional and a lag period of four years. They recommended that government should formulate policies that will favor all economic growth determinant factors in order for VAT to contribute significantly. They also recommended that all the problems and administrative loopholes identified in VAT administration should be curbed. This should be done by considering the fact that any action carried out on either VAT or GDP will take up to four years in order to establish.

Chigbu and Njoku (2015) looked at how Taxation has impacted on the Nigerian Economy. Their study was for a period of 1994 to 2012. Gross Domestic Product (GDP) served as a means to measuring economic growth, inflation and unemployment were their dependent variables. Augmented Dickey Fuller Unit Root test was employed in testing the series data gotten from FIRS and CBN statistical bulletin as a means of preventing spurious results which the variables were stationary. Their independent variables that is VAT, PIT, CIT, PIT and Custom and Excise Duties as for the dependent Variables that is Gross Domestic Product, Unemployment had a relationship that is positive between them. They recommended that the Nigerian Tax System should be restructured totally in order to promote provision basic welfare.

Ibadin and Oladipupo (2015) looked at how Indirect Taxes has Impacted on Economic Growth of Nigeria. The study used time series data covered a period of 34 years, from 1981 to 2014. They collected data from secondary sources and which was analyzed and tested for unit root stationery test, using the Augmented Dickey-Fuller test. The study evaluated the impact of VAT, Petroleum Profit Tax (PPT) and Custom Excise Duty on the Real GDP. From their analysis VAT and PPT have a relationship that is positive and significant on the Real GDP. It also showed that custom excise duty which was lagged for 2year period has a positive relationship with Real GDP and VAT which was lagged for 2year period has a negative but significant relationship with Real GDP.

Nwanyanwu (2015) examined the relationship between Irrecoverable Invoices and VAT Compliance. Descriptive statistics and Pearson product moment coefficient of correlation through the use of statistical package for social sciences (SPSS) for their analysis. Findings showed that there exist a significant moderate negative relationship between irrecoverable invoices and VAT compliance. The study recommended that the tax authority can make use of their findings to decide on the measures to adopt to achieve efficient VAT administration putting irrecoverable invoices into consideration.

Obiakor, Kwarbai and Okwu (2015) looked at Value Added Tax and Consumption Expenditure Behaviour of Households in Nigeria, for the period 1994 - 2014. Multiple regression models was used as a tool to analysis. From their analysis VAT and consumption expenditure is on durable goods lagged of one period affected households' consumption expenditure is on durable goods significantly. The result also indicated that VAT in relation to households' consumption expenditures on non-durable goods had a significant effect that's positive. They recommended that 5% which is the current VAT rate should remain uttered because any increase would lead to a negative effect on households and it will increase the consumer price index to a level that is unfavorable.

Chigbu and Ali (2014) analyzed VAT and Economic Growth the relationship Nigeria. Engle and Granger Co-integration technique was adopted on data which covered the period of 1994 to 2012. From their analysis VAT had an effect that was positive on economic growth which was proxied by real GDP. Their results also revealed that VAT and GDP had no short-run and long-run relationship between them. Their study recommended that government should put in place measures that will improve productivity in order to increase the contribution of VAT to Economic Growth in Nigeria.

Izedonmi and Okunbor (2014) looked at the Roles of Value Added Tax in the Economic Growth of Nigeria. Their study examined how VAT has fostered the development of the Nigerian economy. Simple regression analysis and descriptive statistics was employed. From their analysis VAT Revenue and total revenue is responsible for a significant 92% variation in GDP in Nigeria.

Okoli, Njoku and Kaka (2014) looked at Taxation and Economic Growth in Nigeria, covering the period 1994-2012. Secondary data used for the study were sourced from FIRS and CBN Statistical Bulletin. Their sourced data was subjected to Granger Causality Approach. From their analysis for Taxation and Economic Growth in Nigeria had on a positive significant relationship between them. The researchers recommended that government should promote the development of entrepreneurship in Nigeria because this will lead to an increase in government revenue through taxation and reduce the rate of unemployment in Nigeria.

Onwuchekwa and Aruwa (2014) examined VAT's Impact on the Economic Growth of Nigeria. Their result revealed that VAT contributes significantly to the governments total tax revenue there by extending to the economic growth of Nigeria. The growth rate in VAT revenue had increase which was consistent although it was not as high as that of the GDP. Their study recommended that in order to boost tax revenue then VAT revenue needs to be boosted. This can be achieved by closing every VAT revenue leakage, sensitizing the directors and managers of companies that operates in Nigeria on the need to file VAT revenue collected and proper training of the FIRS staff that have the responsibility of VAT revenue administration rather than increasing the VAT rate from 5 percent.

Asogwa and Nkolika (2013) examined how VAT has impacted on Investment Growth in Nigeria. Their study made use of time series data on investment, government expenditure, real exchange rate, real interest rate and trade openness which was sourced from the CBN statistical Bulletin. Multiple regression analysis was employed. From their analysis VAT has significant effect on Investment Growth in Nigeria. The study recommended that all the agents of VAT should be dedicated and apparent honest regarding VAT collection and government should try as much as possible to improve on the means through which VAT is collected.

Ikpe and Nteegah (2013) examined the how VAT has influenced Price Stability in Nigeria adopting partial equilibrium analysis. Multiple regression analysis in static form was employed. Data was sourced for a period of 1994-2010. From their analysis the pressure of VAT for on price was as a result of effect of VAT the on intermediate outputs. The study excluded the option of VAT exemptions for intermediate outputs as a solution, as a result of the difficulty in differentiating between intermediate and final outputs. The study recommended that a detailed post-VAT cost-benefit analysis should be carried out in order to assess the social desirability of VAT policy in Nigeria.

Musa and Sanusi (2013) investigated the relative impact of value added tax on economic growth in Nigeria. Result of Co-integration test the showed no sign of a long-run equilibrium relationship for among the variables. Employed for analysis and drawing policy interferences was an unrestricted vector auto regression technique. The results derived from the impulse response function and forecast error variance decomposition revealed that VAT have a positive impact on economic growth in

Nigeria, where variation in this variables growth rate will cause variation in real economic activity with about 50 percent in the near future.

Okoye and Gbegi (2013) examined the influence of VAT revenue generated on Wealth Creation in Nigeria. Their results revealed VAT revenue generated has a significant influence on wealth creation in Nigeria because there is a positive correlation that exist between VAT and Gross Domestic product. The study also showed that VAT revenue generated has a significant effect on total tax revenue generated in Nigeria. From the findings of this study, since VAT significantly contributed to Nigeria's GDP, it was observed that VAT serves as a center of wealth creation in Nigeria and development of the economy.

Olaoye (2013) looked at Value Added Tax (VAT) and Inflation in Nigeria. The main objective of the paper was to determine the impact of VAT on the generated revenue in Nigeria and the opinion of the citizen on VAT and Inflation. Descriptive research approach was employed. From the researchers findings the increase or decrease in Inflation rate has not been affected by VAT.

Onolapo, Aworemi and Ajala (2013) examined the impact of Value Added Tax on revenue generation in Nigeria. From their analysis VAT had a significant statistically effect on generated revenue in Nigeria. A stepwise regression analysis was used in analyzing the data. From their findings, they were of the suggestion that in order for Nigeria to gain economic growth and development, government must be able to generate revenue to aid it in meeting up with her expenditures in terms of provision of basic social amenities and the running costs of the Government. The study recommended that all agents of VAT should be dedicated and honest in their responsibility of collecting and payment of VAT.

Umeora (2013) examined the VAT effects on economic growth in Nigeria. The study's main objective was to find out the contribution of VAT to total tax revenue of the Nigeria and the contribution of VAT to economic growth through GDP. For a period of 1994 to 2010 time series data of GDP, Total Revenue and VAT was analyzed using Simple Linear Regression model. From the researcher's analysis VAT influence on Total Tax Revenue and GDP was significant. The researcher recommended that government should convince her citizens on the need to increase the tax rate in order to expand its annual revenue base for economic development.

Wambai and Hanga (2013) looked at Taxation as a tool for Societal Development in Nigeria. The questionnaire was administered using survey method to 40 respondents to source data that was measured on a percentage of opinions or simple majority. It was observed that lack of awareness is a self-reported reason for lack of tax compliance in a sample of individuals and businesses who also answered questions on a number of issues. Their findings showed that ensuring tax compliance has to do with adequate campaign and judicious utilization of tax funds.

Ogbonna and Appah (2012) examined the Tax Reforms Impact on the Economic Growth of Nigeria. Their study covered a period of 1994 to 2009. Their study adopted descriptive statistics and the data collected was subjected to the following test: Augmented Dickey Fuller test, White test, Ramsey RESET test, Granger Causality test and Johansen test. Tax reforms had a relationship to economic growth that was positive and significant and that tax reforms granger cause economic growth from the different test results. Their study recommended that sustainable economic growth cannot be achieved by a process of tax reform unless the obsolete tax laws and rates are reviewed in line with the objectives of macro-economic, corrupt-free and efficient tax administration personnel that are accountable and transparent in the management of tax revenue.

Okafor (2012) looked at generated tax revenue in Nigeria and Nigerian economic development. To examine income taxes contributions to the development of the Nigerian economy which was proxied by GDP was the researcher’s main objective. From the analysis a significant relationship and positive and but the actual tax revenue generated during this period under review fell below expectations and this was as a result of loopholes in tax system, dis-functionalities in the income tax system, and inefficient tax administration.

Adereti, Sanni and Adesina (2011) evaluated revenues of VAT, Total Tax, Total Federal Government on economic growth of Nigeria based on GDP for 1994 to 2008. From their analysis VAT Revenue ratio to GDP averaged 1.3% compared to Indonesia of 4.5%, though in Nigeria VAT Revenue accounts the for 95% significant variations in GDP and also there is a correlation that the exists between VAT Revenue and GDP it’s of a positive significance.

Adegbie and Fakile (2011) looked at company income tax on Nigeria’s economic development. From there findings company income tax and Nigerian economic development had a significant relationship between them and tax avoidance and evasion are major obstacle to revenue generation.

Owolabi and Okwu (2011) evaluated VAT influence on the development of economy of Lagos State. Agricultural sector development, infrastructural development, education sector development, environmental management, youth and social development, transportation sector development and health sector development were the aspects of development considered. From their analysis the contribution of VAT revenue to the above mentioned sectors development was positive. However, the agricultural sector development was the only positive contribution that's statistically significant.

Unegbu and Irefin (2011) evaluated Value Added Tax impact on the economic and human developments of emerging Nations. Their scope of study centered on Adamawa state of Nigeria for the period 2001-2009. Regression, discriminant analysis and ANOVA were used in testing the hypotheses. From the analysis expenditure pattern of Adamawa State of 91.2% variations was a result of VAT allocations. Their result also showed that within the period VAT allocations to Adamawa state were very significant comparing it with total revenues of Adamawa State.

From the empirical literatures reviewed above, it is noteworthy that all the literatures on VAT and Economic Growth none performed a Chow Stability Test to test for structural break.

2.3 Theoretical Framework

The government has responsibilities and obligations to her citizens of which one of them is the provision of basic infrastructure and facilities in the community as this will enhance the development and growth of any given society. Therefore for government to perform this obligation, it sources for revenue both internally and externally which includes imposing taxes (VAT) on the public and the public in return expects to benefit from the government expenditures. This clearly goes to show the relationship that exists between taxes paid and benefits received from government activities. Based on this thinking, the following theories of taxation was considered:

The Benefits-Received Theory:

The benefit theory is said to have been developed by Erik Lindahl in the year 1919. According to this theory, government should charge individuals based on the benefit provided for them. Therefore the more benefits someone derives from government activities, the more the person should pay to the government. In this theory, tax payable can be automatically determined, as a result of taxpayers pay a percentage based on the government benefits they have received. This implies that the individuals who benefit the most from government activities pay the most taxes.

There exist a direct relationship between revenue and expenditure in a budget this is a plus that benefit theory has. However, benefit received theory has been subjected to some criticisms as a result of the following:

If government maintains a certain direct connection between the benefits provided and the benefits derived. It is not in line with the basic principle of the tax.

Most of government expenditures is usually for the general benefit of its citizens, therefore it is practically impossible to determine the benefit that an individual enjoys in a year.

Where this theory is applied practically, the poor will pay the most taxes this is because they benefit more from government activities. Where more taxes paid is from the poor then it is against the principle of justice.

The Cost of Service Theory:

The cost of service theory emphasized on the semi-commercial relationship that seems to exist between the government and her citizens. According to this theory, the cost of running government and the cost government incurs in providing social welfare and infrastructure should be collectively met by her citizens who are the main receivers of the government services.

A balanced budget will be established when the cost of service theory is adopted because the costs incurred is refunded with the generated government revenue. But realistically this is practically impossible so this theory suffers from the limitation that it is not possible to have a conceptual clarity of the measurement of cost. The main implication of this theory is that citizens are not entitled to any direct benefits from the government but instead they should refund the government the cost incurred in providing government services to them.

Ability to Pay Theory:

The ability-to-pay theory is said to have been developed by Arthur Cecil Pigou. The theory is of the opinion that taxpayers should be charged based on their strength to pay. This theory is one of the standing theories of taxation, which is usually interpreted based on of sacrifice. This theory reflects the progressive taxation under any of three possible interpretations of sacrifice which includes the equal, equal-proportional, and least-sacrifice theories. Those individuals and organization that earn a higher income are placed on higher tax burden based on the progressive taxation. The theory implies that the persons who earn more money can be able to pay more in taxes.

It can be described as one of the most accepted principle of equity or justice in taxation as it is of the opinion that citizens of a country should pay taxes to her government based on their ability to pay. Charging taxes based on the taxable capacity of an individual seems just and very reasonable. This ability-to-pay theory looks at government revenue and expenditures separately.

The benefit received theory and cost of service theory are both similar in nature, therefore for the purpose of this research work both the benefit received theory and cost of service theory will be adopted in this study based on the fact that VAT as a consumption tax is paid by each citizen base on the level of goods and services consumed (Ugochukwu & Azubike, 2016).

2.4 Summary

In summary, Value Added Tax (VAT) is a tax that is charged on consumption at each level and the final consumer of the goods or service bears the burden. VAT is also a form of indirect taxation that is collected and administered by the Federal Inland Revenue Service (FIRS) in Nigeria and it is charged at VAT rate of 5%.

While economic growth can be described how much more an economy produce for sale during a certain period of time irrespective of whether they are sold domestically or abroad. Gross Domestic Product (GDP), Per Capita Income can serve as indicators of economic growth of a country.

VAT was introduced by Government of Nigeria in 1993 to replace Sales Tax but its actual operations commenced on 1st January, 1994. VAT was introduced as an additional means of increasing government revenue base in order to provide the needed funds for developmental projects to aid economic growth. In different countries whom have adopted VAT, it has proven to be an important contributor to total government tax revenues.

Nigeria is a developing country that is highly dependent on crude oil revenue for which government has no control over. However in recent times there has been a decline in crude oil revenue which has prompted the Federal Government to face other sources of revenue such as Tax revenue for which VAT is a form of Tax revenue which enables the Federal Government still meet it's ever increasing public expenditures such as the development of the Nigerian economy. This reveals how beneficial VAT is to the Nigerian economy.

If an economy produces more, businesses become more profitable and stock prices increases. As a result this leads to offering of companies more capital to invest and also hire more employees thereby reducing the level of unemployment in the country.

The study also attempts to determine if there is a change in the impact of VAT on the economy of Nigeria after the significant change in the proceeds of VAT revenue in the year 2007.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research work adopted a descriptive design for the study in order to determine relationships between variables. Descriptive design can be adopted as a medium of establishing the characteristics of a subject being studied. It involves observing and describing the behavior of a subject that is determining the relationship and influence between variables and how the variables behave.

3.2 Population and Sampling Technique

Since the research work is studying the Nigerian economy in general, therefore no population and sample size was established. The study covered the period of 1994 to 2016, which is a period of 23 years.

3.3 Methods of Data Collection

The study made use of time series data therefore the study purely adopts secondary data as its information sources. The secondary data was used because the information relating to the study is readily available from various text books, journals and publications of the relevant government agencies and parastatals in Nigeria such as Federal Inland Revenue Service (FIRS). bulletin, Central Bank of Nigeria (CBN) statistical bulletin, National Population Commission (NPC). and National Bureau of Statistics (NBS) bulletin.

3.4 Procedure for Data Analysis and Model Specification

For the purpose of analyzing the data that were helpful in testing the hypotheses on the impact of VAT on the economic growth of Nigeria. Multiple Regression Model was the statistical tool that was adopted which examined the dependent and the independent variables.

The equation below represents multiple regression model:

$GDP_t = B_{0t} + B_1VAT_t + B_2INF_t + e_t$ ……………………………. (1)

Where:

GDP = Gross Domestic Product

VAT = Value Added Tax

INF = Inflation Rate

Et = Error Term

Decision-Rule:

The decision rule formulated that formed the criteria for acceptance or rejection of the hypotheses is at a 0.05 level of significance.

3.5 Justification of Methods

In order to establish the relationship between the variables and how their behaviour, the descriptive design was adopted for the study because the study attempted to explore and explain while providing additional information about the topic of the study and also tried to establish the relationship between the study's dependent and independent variables of this work. Therefore for this study, the independent variable is Value Added Tax and the dependent variable is Economic Growth proxy by Gross Domestic Product.

The use of secondary data as the study's source of information was because the nature of information required for the study were already available in various textbooks, articles, journals and publications of the relevant tax authorities and parastatals in Nigeria.

The study covered a period of 23 years, ranging from the inception of VAT in 1994 to 2016 so as to examine the influence of Value Added Tax on economic growth in Nigeria.

Multiple regression model was statistical technique utilized in testing and analyzing the hypotheses that was developed. Multiple regression model is used when we want to predict the value of a variable based on the value of two or more other variables. This model was very relevant in testing the hypotheses as it attempted to predict the impact of one of the variables, VAT on the other variable which is economic growth. Inflation Rate was introduced as a control variable in the analysis. This analysis was achieved through using E-Views Statistical Package computer software.

3.6 Summary

In summary, the research design adopted for the study is the descriptive design so as to establish the relationship and influence the independent has on the dependent variables. The study focused on Nigeria as a whole there its target population was made up of the population of the 36 states of the federation as well as the Federal

Capital Territory (FCT). The study covered a period from the inception of VAT in 1994 to 2016 which amounted to a period of 23 years. The study made use of time series data and therefore the major source of information used for the study was the secondary data that were readily available in textbooks, articles, journals and publications of the relevant government agencies and parastatals in Nigeria which includes the Federal Inland Revenue Service (FIRS). bulletin, Central Bank of Nigeria (CBN) statistical bulletin, National Population Commission (NPC). and National Bureau of Statistics (NBS) bulletin. The statistical technique that was adopted in testing and analyzing the hypotheses was the multiple regression model through using E-Views Statistical Package computer software.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

The presentation of the data encapsulates the important data which is related to the objectives of the study. Table 4.1 represents the stated data such as Gross Domestic Product (GDP), VAT(Value Added Tax) and Inflation Rate (INF) which were gathered from Nigerian Stock Exchange and CBN Statistical Bulletin, Volume 20, 2016 spinning from 1994-2016.

Table 4.1.1:
Gross Domestic Product (GDP), Value Added Tax (VAT) and Inflation Rate (INF), 1994 – 2016

Year	VAT	GDP	INF
1994	7.3	345.2	57.0
1995	20.8	352.6	72.8
1996	31.0	367.2	29.3
1997	34.0	377.8	8.5
1998	36.9	388.5	10.0
1999	47.1	393.1	6.6
2000	58.5	412.3	6.9
2001	91.8	431.8	18.9
2002	108.6	451.8	12.9
2003	136.4	495.0	14.0
2004	159.5	527.6	15.0
2005	178.1	561.9	17.9
2006	221.6	595.8	8.5
2007	289.6	634.3	5.4
2008	404.5	672.2	15.1
2009	468.4	719.0	13.9
2010	562.9	776.3	11.8
2011	649.5	834.0	10.3
2012	710.2	888.9	12.0
2013	795.6	950.1	8.0
2014	794.2	1,015.0	8.0

2015	889.7	1,084.8	9.5
2016	1,207	2,156.8	17.5

Source: CBN statistical Bulletin, 2016

4.2 Unit Root Test of Data

Macroeconomic time series data are generally considered by stochastic trend which can be removed by differencing. Unit root test therefore is a test of stationarity or non-stationarity of series data used in the model. This is to find out if the association between economic variables is false or nonsensical. This test is conducted by adding the lagged values of the dependent variable so that the error term is serially uncorrelated.

As is the case with similar studies, the Augmented Dickey-Fuller (ADF) test was used to ascertain whether the three variables of the study exhibit unit root property. This is to find out if the relationship between economic variables is unauthentic or nonsensical.

Table 4.2.1:
Summary of Unit Root Test Results

Variables	ADF Test Statistic(at Second difference)	P-Value
GDP	-4.748655	0.0393
VAT	-4.441927	0.0026
INF	-3.039111	0.0467

Source: Authors Computation, 2017 (Eview-9)

From the table 4.2 above, it was revealed that all the variables used in the analysis were found stationary at level. Likewise, GDP, VAT, and INF were found stationary at 5% level of significance. The next specification test that was computed is the Pairwise Granger Causality Tests of these variables.

4.3 Granger Causality Test

Table 4.3.1: Test for Granger Causality

Null Hypothesis	F-Statistic	Probability
VAT does not Granger Cause GDP GDP does not Granger Cause VAT	0.28598 0.63437	0.7550 0.5431
INF does not Granger Cause GDP GDP does not Granger Cause VAT	0.03378 1.51983	0.9668 0.2506

Source: Authors Computation, 2017 (Eview-9)

The outcomes of the granger causality show that VAT does not granger cause GDP. This implies that value added tax does not lead to economic growth but economic growth does not affect or influence value added tax. However, the result also shows that INF does not cause GDP and GDP does not cause INF evidence from the p-value which is insignificant at 5%. There is therefore a unidirectional causality between VAT, INF and GDP.

4.4 Heteroscedasticity Test

Table 4.4.1 Heteroscedasticity Test Result

Heteroscedasticity Test: Breutsch-Pagan-Godfrey

F-statistic	0.691815	Prob. F(2,20)	0.5123
Obs*R-squared	1.488218	Prob. Chi-Square(2)	0.4752
Scaled explained SS	9.288594	Prob. Chi-Square(2)	0.0096

The Breutsch-pagan\ cook-weisberg test for heteroscedasticity was used to test the presence of the heteroscedasticity. Accordingly, table 4.4.1 shows the p-value is greater than 5%. This shows that there is no evidence for the presence of the heteroscedasticity.

4.5 Normality Statistics (Descriptive Statistics)

Table 4.5.1: Normality Distribution Test

	GDP	VAT	INF
Mean	670.9565	291.1881	16.95652
Median	561.9000	159.5000	12.00000
Maximum	2156.800	889.7000	72.80000
Minimum	345.2000	1.207000	5.400000
Std. Dev.	395.8858	299.2257	16.18955
Skewness	2.407456	0.779948	2.546394
Kurtosis	9.649943	2.094122	8.571502
Jarque-Bera	64.59659	3.118312	54.60404
Probability	0.000000	0.210313	0.000000
Sum	15432.00	6697.327	390.0000
Sum Sq. Dev.	3447963.	1969792.	5766.237
Observations	23	23	23

The Jarque-Bera statistics for all the variables are significant except the VAT; hence we reject the null hypothesis and conclude that the series are normally distributed (or have a normal distribution) for INF.

4.6 VAT does not impact on Gross Domestic Product of Nigeria

Table 4.6.1: Regression Test Result

Variable	Coefficient	T-statistics	Probability
VAT	0.000379	3.081732	0.0059
INF	-0.001963	-0.863769	0.3980
R-squared	0.414900		
F-statistic	7.091091		
Prob(F-statistic)			0.004702
Durbin-Watson stat			0.349707

Source: Authors Computation, 2017 (Eview-9)

The analysis of the table above began with the interpretation of the combined effect of both the explanatory variables and the explained variable. The R2 which is the co-efficient of determination gives percentage or proportion of total variation in the dependent variable measured by the amount of GDP in Nigeria which is explained by the independent variables jointly. Hence, the result of R2 signifies that 41% of total variation in GDP in Nigeria is caused by Value added tax and inflation rate in Nigeria. The table further reveals that F-statistics is 7.091091 and F-significance is 0.004702 which shows that the model is fit and significant at 1%. Furthermore, the test of autocorrelation using D.W test shows that the D.W value of 0.3 falls within the inconclusive region of D.W partition curve. Hence, we can clearly say that there exists no degree of autocorrelation.

The result in respect of GDP reveals a coefficient value of 0.000379 and a t-value of 3.081732 with a p-value of 0.0059. The positive coefficient value implies that there is positive relationship between GDP and VAT in Nigeria. That is, as VAT increases, their GDP also increases which is consistent with a priori expectation of the study. Thus, the p-value of 0.0059 which is significant at 5% level signifies that VAT is significantly influencing in Nigeria for the period under reviewed. This implies that for every 1% increase in the VAT in Nigeria, GDP tend to increase by 1%.

Furthermore, the coefficient of inflation rate reveals a negative but insignificant impact on economic growth in Nigeria since the coefficient is -0.001963 and p- value is 0.3980. This implies that for every 1% increase in inflation rate there is a resulting 1% decrease in Gross Domestic Product with statistically insignificant evidence. This implies that the inflation rate reduces with Gross Domestic Product.

4.7 VAT Reform does not affect the Nigerian Economy

Table 4.7.1 Chow Breakpoint Test Result

Chow Breakpoint Test: 2007
Null Hypothesis: No breaks at specified breakpoints
Varying regressors: All equation variables
Equation Sample: 1994 2016

F-statistic	11.59204	Prob. F(3,17)	0.0002
Log likelihood ratio	25.61545	Prob. Chi-Square(3)	0.0000
Wald Statistic	34.77611	Prob. Chi-Square(3)	0.0000

The study was extended further by testing for structural breaks in the period of the sample there by testing for the effect of VAT reform on the Nigerian economy. The result of F-statistic, Log likelihood ratio and Wald Statistic tests in table 4.5.1 above suggest that we cannot accept the null hypothesis of absence of breakpoints in 2007. The result shows that the nature of the relationship between the variables changed from 2008. Therefore, it is concluded the value added tax has significant positive impact on economic growth in Nigeria.

4.8 Discussion of Findings

From the regression result of this study, it was observed that Value Added Tax (VAT) has a positive impact on Gross Domestic Product (GDP) for the period of study, 1994-2016. This goes to show that an annual increase in VAT revenue has a marginal significant impact positively on the economic growth of Nigeria. This finding is in agreement with Onwuchekwa and Aruwa (2014) and Adereti, Sanni and Adesina (2011) who observed that VAT accounts for significant variations in GDP of Nigeria that is as VAT increases, GDP also increases. Therefore VAT revenue has significant positive impact on the Nigerian economy but these observations contradicts the findings of Ugochukwu and Azubike (2016) who observed that the GDP of Nigeria and VAT revenue has a negative relationship. Further to the results, the Chow Stability Test shows that VAT has a significant positive impact on the economic growth of Nigeria for the period under study. This shows that the VAT reform affected the Nigerian Economy in a positively. The structural break in the period of sample is as a result of the reform in government policies that is the amendment of VAT act in 2007.

4.9 Summary of Findings

Having analyzed and tested the hypothesis using multiple regression model through the use of E-view statistical package computer software, from the analysis VAT has a positive impact on gross domestic product. This shows that VAT has a significant positive impact on the economic growth of Nigeria this tends to meet the expectations for the introduction of VAT to provide funds to enhance economic growth of Nigeria. The implication of this result goes on to emphasizing the relevance of VAT to the economy of Nigeria therefore government has to properly utilize the benefits of the introduction of VAT in Nigeria by expunging the loop holes in the administration of VAT as well as corruption and abuse of positions in the system of governance in Nigeria.

The study went on to look at the effect of VAT reform on the Nigerian economy. The result shows that VAT has a positive significant impact on the economic growth in Nigeria. This result reflects the fact that VAT reform affected the Nigerian economy positively. Hence the cause of this structural break might be as a result of the reform of VAT Act 2007.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study focused on determining the impact Value Added Tax has on the economic growth of Nigeria for a period of 23 years, 1994 to 2016. The research work was prompted by the concern of the recent decline in the highly depended oil revenue and the observed lack of the desired level of growth in Nigeria. Consequently, the study used gross domestic product to serve as a measure of economic growth in Nigeria. the main objective of the study is to determine the impact of VAT on the economic growth of Nigeria which was further spitted into specific objectives of determining the impact of VAT on gross domestic product of Nigeria and also to determine if there is a change in the impact of VAT on the economic growth of Nigeria as a result of structural break.

Two research questions were developed and the two hypotheses were tested and interpreted. The study looked at the concepts of Value Added Tax and economic growth. The study reviewed empirical literatures carried out by other researchers.

The data that was analyzed was gotten from secondary sources that are already existing. The analysis was done using the multiple regression model through the use of E-view statistical package computer software. Inflation rate was introduced as a control variable in the regression analysis. The results showed that VAT has a positive impact on gross domestic product of Nigeria and that even with the effect of structural break VAT still has a positive impact on economic growth of Nigeria.

5.2 Conclusion

Based on the examined research questions, the tested hypotheses, and the research findings, the study concludes that VAT has a positive impact on gross domestic product of Nigeria. The study went further to conclude that VAT reform affected the Nigerian economy positively. Therefore in general the study concludes that VAT has an impact on the economic growth of Nigeria.

5.3 Recommendations

Based on the findings of the study discussed and the conclusions been drawn, the following recommendations were made:

Government should endeavor to make proper use of revenue generated from VAT to provide the needed infrastructural development that will enhance the standard of living of her citizens in turn foster the Nigeria's economic growth.

Government should develop appropriate economic policies and reform tax laws that will be able to meet the expectations of her citizens and improve the Nigerian economy.

Government should strengthen and improve on VAT administration in Nigeria in order to yield the maximum VAT revenue. This can be achieved by equipping the tax authorities with appropriate Information technology and organize trainings as well as fighting corruption to block all weak ends in VAT revenue generation.

Government should also create a tax awareness and enlightenment program for potential tax payers, both individuals and organizations in order to checkmate tax avoidance and evasion.

The tax authorities should let go of the cordial relationship that exist between them and professional tax consultants involved in tax matters in order to reduce the tax malpractices perpetrated by tax payers to ensure consumer appropriate tax payments.

Government needs to also address the issue of tax refunds in the event of Input VAT exceeding the Output VAT in order to encourage tax payers and ensure integrity driven process.

5.4 Suggestions for Further Study

The research work focused on a developing economy like Nigeria, similar research work can be carried out using other parameters. Also the research work focused on VAT, similar research work can be carried out using other forms of tax or tax revenue as a whole on economic growth.

The author is convinced that if further studies as recommended are carried out, the growth and development of the Nigerian would have been enhanced and improved.

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APPENDICES

Appendix 1: Data for the study

Year	VAT	GDP	INF
1994	7.3	345.2	57.0
1995	20.8	352.6	72.8
1996	31.0	367.2	29.3
1997	34.0	377.8	8.5
1998	36.9	388.5	10.0
1999	47.1	393.1	6.6
2000	58.5	412.3	6.9
2001	91.8	431.8	18.9
2002	108.6	451.8	12.9
2003	136.4	495.0	14.0
2004	159.5	527.6	15.0
2005	178.1	561.9	17.9
2006	221.6	595.8	8.5
2007	289.6	634.3	5.4
2008	404.5	672.2	15.1
2009	468.4	719.0	13.9
2010	562.9	776.3	11.8
2011	649.5	834.0	10.3
2012	710.2	888.9	12.0
2013	795.6	950.1	8.0
2014	794.2	1,015.0	8.0
2015	889.7	1,084.8	9.5
2016	1,207	2,156.8	17.5

Appendix 2: Results of Unit Root Test

Null Hypothesis: VAT has a unit root
Exogenous: Constant
Lag Length: 2 (Automatic - based on SIC, maxlag=2)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-4.441927	0.0026
Test critical values:	1% level	-3.808546	
	5% level	-3.020686	
	10% level	-2.650413	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(VAT)
Method: Least Squares
Date: 02/02/18 Time: 09:30
Sample (adjusted): 1997 2016
Included observations: 20 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.

Null Hypothesis: INF has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=2)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-3.039111	0.0467
Test critical values:	1% level	-3.769597	
	5% level	-3.004861	
	10% level	-2.642242	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(INF)
Method: Least Squares
Date: 02/02/18 Time: 09:31
Sample (adjusted): 1995 2016

Null Hypothesis: D(GDP) has a unit root
Exogenous: Constant
Lag Length: 1 (Fixed)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-4.748655	0.0393
Test critical values:	1% level	-3.808546	
	5% level	-3.020686	
	10% level	-2.650413	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(GDP,2)

Appendix 3: Result of Granger Causality Test

Pairwise Granger Causality Tests
Date: 02/02/18 Time: 09:34
Sample: 1994 2016
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
VAT does not Granger Cause GDP	21	0.28598	0.7550
GDP does not Granger Cause VAT		0.63437	0.5431
INF does not Granger Cause LOGGDP	21	0.03378	0.9668
GDP does not Granger Cause INF		0.52667	0.6005
INF does not Granger Cause VAT	21	0.07327	0.9297
VAT does not Granger Cause INF		0.15269	0.8596

Appendix 4: Result of Heteroscedasticity Test

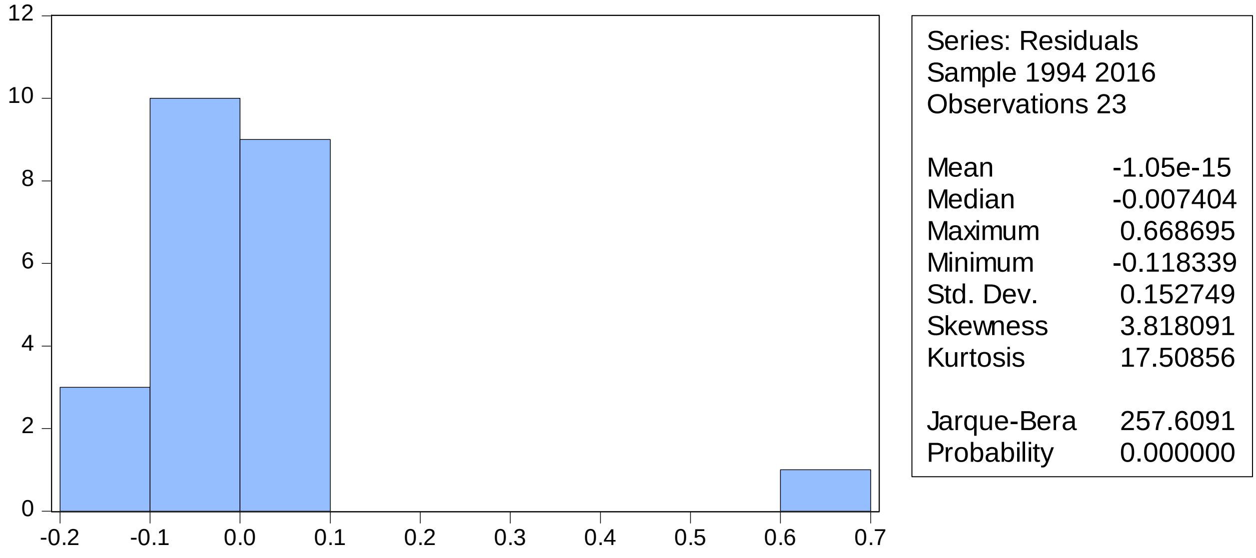
Heteroscedasticity Test: Breutsch-Pagan-Godfrey

F-statistic	0.691815	Prob. F(2,20)	0.5123
Obs*R-squared	1.488218	Prob. Chi-Square(2)	0.4752
Scaled explained SS	9.288594	Prob. Chi-Square(2)	0.0096

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Date: 02/02/18 Time: 09:35
Sample: 1994 2016
Included observations: 23

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.056542	0.041128	1.374775	0.1844
VAT	-8.49E-05	7.22E-05	-1.176134	0.2534
INF	-0.000560	0.001334	-0.420126	0.6789

R-squared	0.064705	Mean dependent var	0.022318
Adjusted R-squared	-0.028824	S.D. dependent var	0.092717
S.E. of regression	0.094044	Akaike info criterion	-1.769002
Sum squared resid	0.176885	Schwarz criterion	-1.620894
Log likelihood	23.34352	Hannan-Quinn criter.	-1.731753
F-statistic	0.691815	Durbin-Watson stat	0.804368
Prob(F-statistic)	0.512254		



Appendix 5: Result of Normality Statistics (Descriptive Statistics)

	GDP	VAT	INF
Mean	670.9565	291.1881	16.95652
Median	561.9000	159.5000	12.00000
Maximum	2156.800	889.7000	72.80000
Minimum	345.2000	1.207000	5.400000
Std. Dev.	395.8858	299.2257	16.18955
Skewness	2.407456	0.779948	2.546394
Kurtosis	9.649943	2.094122	8.571502
Jarque-Bera	64.59659	3.118312	54.60404
Probability	0.000000	0.210313	0.000000
Sum	15432.00	6697.327	390.0000
Sum Sq. Dev.	3447963.	1969792.	5766.237
Observations	23	23	23

Appendix 6: Result of Regression Analysis

Dependent Variable: LOGGDP
Method: Least Squares
Date: 02/02/18 Time: 09:28
Sample: 1994 2016
Included observations: 23

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.699403	0.070062	38.52891	0.0000
VAT	0.000379	0.000123	3.081732	0.0059
INF	-0.001963	0.002273	-0.863769	0.3980

R-squared	0.414900	Mean dependent var	2.776456
Adjusted R-squared	0.356390	S.D. dependent var	0.199694
S.E. of regression	0.160205	Akaike info criterion	-0.703620
Sum squared resid	0.513311	Schwarz criterion	-0.555512
Log likelihood	11.09163	Hannan-Quinn criter.	-0.666371
F-statistic	7.091091	Durbin-Watson stat	0.349707
Prob(F-statistic)	0.004702		

Appendix 7: Result of Chow Breakpoint Test

Chow Breakpoint Test: 2007
Null Hypothesis: No breaks at specified breakpoints
Varying regressors: All equation variables
Equation Sample: 1994 2016

F-statistic	11.59204	Prob. F(3,17)	0.0002
Log likelihood ratio	25.61545	Prob. Chi-Square(3)	0.0000
Wald Statistic	34.77611	Prob. Chi-Square(3)	0.0000