The Effect of Value Added Tax on Economic Growth of Nigeria

Introduction

Value Added Tax (VAT) has become a major source of revenue in many developing countries like Nigeria. Evidence suggests that in these countries VAT has become an important contribution to total government tax revenue; (Ajakaiye 2000) the value added Tax decree was established in 1993 and was imposed in 1994. Value Added Tax (VAT) is an ideal form of taxation in Nigeria tax system and has significantly contributed to resources mobilization as well as capital formation to the economy. It has positive and significant impact on revenue mobilization in Nigeria; it also has positive relationship with consumption.

Statement of the Problem

The attitude of Nigerians towards taxation is worrisome as many prefer not to pay tax if given the opportunity. The economy continues to lose huge amount of revenue through the unwholesome practice to tax avoidance and tax evasion this loss of revenue can change the fortune of many economies. Particularly, developing countries like Nigeria. This problem has been lingering for so long and therefore urgent attention and solution is over due to the cost of collecting tax in Nigeria (both social and economic cost) is too high to the extent that if left unchecked the cost may soon outweigh the benefit or value derived from such operation and which is one of the instruments the federal government introduced to generate additional revenue. Yet, most prominent Nigerians and interest groups had spoken against its introduction. It would appear that VAT is froth with some problems. For the purpose of this study shall the implication of VAT on economic growth in Nigeria will be examined.
LITERATURE REVIEW

Conceptual Review

Value Added Tax

Every government takes part in one activity or the other, which leads to some form of expenditure. To be able to attain success it raises funds through various means one of which is taxation. According to Anyanwu (1993), tax is assumed as a more or less compulsory, non-returnable contribution of money (or occasionally for goods and services) from private individuals, institutions or groups to the government. It may be levied upon wealth or income or in form of surcharge on prices. John (1978) said that tax can be seen as a compulsory charge made by the government to pay from the services he/she provides to the country. When making these charges government tries to observe certain rules. They prefer to make none from those who are wealthy than from those who are poor, Mayo (1990). He observed tax to be a compulsory contribution imposed on persons, corporate bodies as well as goods and services. Taxes therefore generate revenue to government to enable her meet its traditional responsibilities of maintaining law and order, general administration and other obligations of providing social and infrastructural facilities to aid economic welfare and development of a country.

Gyani (1990) observed tax as a compulsory contribution imposed by the government on citizens in accordance with legislative provision and paid by them through agents to defray the cost of administration. Famoyin (1990), justified tax as a compulsory contribution imposed upon persons for the general purpose of the government. Once levied, every taxable person must pay tax. He also added that taxes are benefit, but for providing the government with funds necessary for the general administration of the country. Smith (1776) said that the primary goal of the economy is to increase its productivity capacity or the economy growth. He said to achieve this goal is through the principles which he set out and to what he called the canon of taxation namely: canon of equity, canon of certainty, canon of convenience and canon of flexibility.

From the various definitions, it can be seen that the economic history of both developed and developing countries reveals that taxation is an important weapon in the hands of government, not fiscal goals such as influencing the direction of investment and timing the consumption of certain goods and services.

According to Naiyeju (1996), VAT is a multi stage consumption tax, collected at each stage as goods and services pass from production distribution to consumption. Okpe (2000), defined VAT as a “multi stage tax imposed on the value added to goods and services as they proceed through various stages of production and distribution and to services as they are rendered” which is eventually borne by the final consumer but collected at each stage of production and distribution chain. Ola (2001), said that VAT is a tax paid at each stage of value added. It is a multi-stage tax which applies whenever goods and services are supplied by the producers. He also said that VAT are levied on the value gained or added on the products before being sold, VAT is an output tax less input tax. He went further to say that VAT is one of indirect taxes collected by the government in this case the incidence of tax is borne by either the producer or the final consumer or shared by both.

Economic Growth

Kuznets (1955:16) stressed that economic growth is a concept whose proper domicile is in the study of organic units, and the use of the concept in economics is an example of the irrelevant employment of analogy differently. Recently, the position of Kuznets has been seriously undermined because it was founded on a wrong premise. According to Myles (2000), economic growth is the basis of increased prosperity, and since incremental growth is not restricted to organic units, the Kuznets’ position of economic growth cannot stand the test of time. Iyoha (2004) opined that economic growth is the increase in output or per capita income over time. He further described economic growth as means of analyzing the economic performance of advanced countries over time.

The Relationship between Value-Added Tax and Economic Growth

The relationship between value added tax and economic growth has been largely explored, but the inconsistencies in the research report has made the issue still open for further research. The active informal sector of the developing economy such as Nigeria, has been criticised as one of the limitations of the introduction of value added tax, (Okoror and Onatuyeh, 2018), The argument of the informal sector dominance may have resulted in the negative relationship established by Ajakaiye (1999) in his investigation of the influence of value added tax on the economic growth of Nigeria, using the Equitable General Equilibrium approach. According to Emran and Stiglitz (2005), the argument in favour of the replacement of sales tax with value-added tax, as an instrument of indirect tax in most developing countries, is built on a fragile result that relegates the presence of the active informal sector. Weller and Rao (2002), in their investigation of the growth implications of progressive taxes, established that progressive taxes affords policy makers the opportunity to pursue counter-cyclical policies that drives economic growth. According to them, value-added tax can only have positive implication on economic growth if the implementation procedure are well managed. Ugochukwu and Azubihe (2016) investigated the relationship between value added tax, government revenue and economic development.
The result of the study shows a negative relationship between value-added tax and economic development. The poor result of the study maybe attributable to the proxy for economic. Focusing on the economy of Kenya, Njogu (2015) examined the relationship between value-added tax and economic growth and found a negative and statistically significant relationship between value-added tax and the Kenyan economic growth. The result of the study of the nexus between VAT and Nigerian economic growth was also negative according to Madugba and Joseph (2016). Contrary to the negative relationship reported by the previous researches, Iyoha and Oriakhi (2010), relying on Nigerian archival data from 1991 to 2006, found a positive and significant relationship between value added tax and Nigerian economic growth. The result of the study shows a tax buoyancy rate of 1.12 which appears to be the highest compared to other forms of taxes (petroleum profit tax with a coefficient of 1.1 and companies income tax with a buoyancy rate of 0.996). Focusing on the economy of Lagos, Owolabi and Okwu (2011) also reported a significant positive relationship between value-added tax and the growth of Lagos economy. In the same vein, Onwuchekwa and Aruwa (2014) reported a significant positive relationship between value-added tax and economic growth in Nigeria. Smith, Islam and Moniruzzaman (2011) investigated the relationship between VAT and economic growth in Bangladesh and found a satisfactory growth implication of value added tax in the initial years of implementation. Relying on various growth indices, Samimi and Abdilahi (2011) investigated the growth implication of value added tax and found a positive and significant relationship between value added tax and the different export indices, and by implication the growth of the national economy. Adereti, Sanni, and Adesina (2011), relying on macroeconomic data from Nigeria, investigated the relationship between VAT and economic growth and reported a positive and significant relationship between the two variables.

**THEORETICAL REVIEW**

**Endogenous Growth Model**

The theoretical foundation of this study revolves around the endogenous growth model. The endogenous growth model introduced by Barro (1990), Barro and Sala-i-Martin (1992) claimed that the causality running from fiscal policy to economic growth has both negative and positive effects. The theoretical literature on fiscal policy predicts that non-distortionary taxes will have a positive effect on long term growth whereas distortionary taxation will have a negative effect. One of the main rationales for taxing consumption rather than income is that it exempt savings and capital income from tax base and hence it boost household savings and thereby leading to more capital formation and higher economic growth (Musgrave, 1989).

**Empirical Review**

Omondi (2019) analyzed the effect of value added tax /sales tax on economic growth in Kenya for the period 1973 to 2010. The study adopted econometric exposition based on its ability to determine the strength and direction of relationships between variables. The ordinary least square technique was used to estimate the model. The empirical result indicates that a positive and insignificant relationship exist between value added tax and economic growth in Kenya. A positive and insignificant correlation between VAT Revenue and GDP means there are some problems inhibiting its potency. The study concluded that the effect of value added tax on the economy is not large enough to influence the economic growth.

Inimino; Otubu and Akpan (2018) examined value added tax and economic growth in Nigeria from 1994 to 2015. The econometrics methods of Co-integration and ECM were employed as the main analytical techniques. The Co-integration result revealed the existence of a long-run relationship among the variables. The Parsimonious Error Correction result revealed that value added tax, exchange rate and interest rate have a significant relationship with economic growth in Nigeria during the period of study. While, private domestic investment has no significant relationship with economic growth in Nigeria during the studied period. Also, the coefficient of the parsimonious ECM has the appropriate sign that is negative and statistically significant. Meaning that, the short run dynamics adjust to long run equilibrium relationship. The study therefore concluded that VAT revenue impacted on economic growth in Nigeria positively during the period of study.

Oraka; Okegbe and Ejiofor (2017) determined the extent to which value added tax has affected the Nigerian economy. Ex post facto research design was adopted for this study. In measuring Nigerian economy, Gross Domestic Product (GDP), Per Capital Income (PCI) and Total Revenue (TR) were used in the study for the period 2003 to 2015. Secondary data method was adopted in obtaining data on value added tax, gross domestic product, per capital income and total revenue. These data were obtained from CBN statistical bulletin, Federal Inland Revenue Services federal ministry of finance, and journals. The data obtained were analyzed using Simple regression analysis. Findings shows that value added tax has not significantly affected Gross Domestic Product of Nigeria economy. It was also discovered that VAT has a negative relationship with per capital income. Finally, we found that VAT has a positive relationship with total revenue generation of Federal government of Nigeria. The implication of these findings is that Nigerian economy will experience slow development in spite that VAT has a positive effect on revenue generation.
Teki (2017) assessed the effect of value added tax on economic growth in Kosovo. This research will have a descriptive analysis of the trends of VAT collection in Kosovo from 2005-2015 years using different analytical techniques to examine trends and data structure over the years. Two types of analysis were used: one is the descriptive analysis of trends and the other is the contrast of the descriptive analysis of trends that is the econometric technique used to analyze the VAT effect on economic growth in Kosovo. In order to analyze the data generated for the study, the statistical tool utilized is OLS technique (multiple regression). One of the key findings in the collection of VAT has been its dependence on the border. Revenue collection is among the most pressing problems and such situation does not guarantee a country's budgetary stability. Also, based on the findings it was noticed that the VAT share of the gathering in gross domestic product of the Interior of the country has been low compared to other countries in Europe developing, reflecting a low level of economic development. Also from econometric analysis is confirmed that the regression coefficient shows that VAT has an impact on GDP in Kosovo, because the level of significance is .000, or includes the rate of 1%. Also, the correlation between VAT and GDP shows a strong positive relationship, or statistically interpreted with the increase of VAT, will increase the GDP of Kosovo, these two elements conclude that VAT has a significant impact on economic growth in Kosovo.

Seyed and Zaleha (2016) the effect of value added tax on economic growth was examined especially on the developing countries. In details, the effects of VAT on the economic growth of 19 developing countries for duration of 1995 to 2010 were investigated. For analysing the data, the GMM panel was employed because of the structure of the model. Afterwards, the effect of VAT through the channel of saving on the capital accumulation and productivity and ultimately the economic growth was examined. The results revealed that VAT has a negative effect on capital accumulation growth in the level; the positive effect of VAT on the level of economic growth seems to have been imposed through channels other than the increase of saving and its effect on capital accumulation.

Adegbie; Jayeoba and Kwabai (2016) evaluated the impact of VAT on Nigerian economy between its introduction to date to discover the imperativeness of its reform. Ex-post-factor, descriptive and analytical research approach were adopted for the work. Data of VAT and GDP were obtained from 1994-2015, and analyzed to determine the relationship that has been existing between them. It was discovered that VAT has a positive relationship with GDP. The coefficient of the model indicates that a 1% increase in VAT will lead to a 0.88% increase in GDP. This shows a perfect positive correlation between VAT and GDP. It therefore becomes imperative for a reform in VAT. In conclusion, VAT is due for a total reform in rate and clear definition of exempted goods and services.

Apere and Durojayye (2016) investigated the relationship between value added tax, government total revenue and gross domestic product; as a means of assessing the impact of value added tax on government revenue generation and the impact of value added tax on economic performance of the Nigerian economy between 1994 and 2014. Using secondary data obtained from the Central Bank of Nigeria (CBN) statistical bulletin (2014). This study adopted the ordinary least square (OLS) technique. However, in the attempt to establish the contributions of value added tax on government total revenue and the growth of the Nigeria economy two separate linear equations were estimated. The first examined the relationship between value added tax and government total revenue, while the second evaluated the impact of value added tax on economic growth since the evaluation considers a long-run and it was observed that all the variables were stationary at their first differences, using the Phillip-Perron unit root test; Correlation test was also conducted to ascertain the strength of their relationship; we further conducted the Descriptive Statistic test, then the regression result showing the empirical relationship between the investigating variables and the direction of causality between the variables was ascertained using the Pairwise Granger Causality test. The study revealed that there is a long-run significant positive relationship between value added tax and each of government total revenue and gross domestic product in Nigeria over the period under review.

Onaolapo; and Aworemi and Ajala (2013) examined the impact of value added tax on revenue generation in Nigeria. The data for the analysis is the Total Federal Collected Revenue (TFCR), Value Added Tax (VAT), Petroleum Profit Tax, Company Income Tax and Education Tax. Data analysis was performed with the use of stepwise regression analysis. The result depicts the relationship between the dependent variable (total federally collected revenue) and each independent variables (value added tax, petroleum profit tax company income tax and education tax) that meet the entry probability requirement of less or equal to 0.05 (P≤0.05). The result further showed that the four variables, value added tax, petroleum profit tax company income tax and education tax had a strong positive correlation of 0.971 with the dependent variable, total federal collected revenue. This means that the four variables together had a strong relationship with the total federal collected revenue in Nigeria. The relationship between total federal collected revenue and the independent variables value added tax petroleum profit tax and company income tax with the effect of education tax partial out was also stated as 0.957, this indicating a gradual decline in the relationship by 0.014 (0.971-0.957), which means despite the decline in the relationship as a result of partialing out the effect of education tax there exist still a strong relationship.
between total federal collected revenue in Nigeria and the independent variables value added tax, petroleum profit tax and company income tax. In addition, the result showed that value added tax and petroleum profit tax had a 0.934 positive relationship with the total federal collected revenue in Nigeria while partialling out the effects of company income tax and education tax. A reduction in the relationship by 0.023 (0.957-0.934) can again be deduced while maintaining the positive relation. However, the net result still indicated that value added tax had a 0.928 positive relationship with the total federal collected revenue in Nigeria while partialling out the effects of petroleum profit tax, company income tax and education tax leading to a reduction in the relationship by 0.006 (0.934-0.928). The findings shows that value added tax had greater relationship with total federal collected revenue in Nigeria followed by petroleum profit tax,

Alireza, Fariba and Akbarian (2012) examined the effect of value added taxes on GDP as economic growth for Iran economy. In this regard we use annually data for 1979-2009 using auto regressive distributed lags (ARDL). Results showed that value added taxes have significant effect on real output for Iran and it means value added taxes as a fiscal policy tool have useful performance in this country. Also government expenditure, consumption, investment and net exports have significant effects on GDP.

Nelson (2011) established the determinants of VAT revenue and assess the response of VAT structure to changes in the its tax bases. The study is important because its results can be used to design pro-growth tax policies and implement tax changes that are equity enhancing. The paper uses Paul Samuelson's (1955) fundamental general equilibrium analysis of the public sector to derive its main results. In the framework, the demand function for the public good was derived from a constrained model of utility-maximization. In the same vein, tax revenues were taken as functions of household incomes, which paved the way for the estimation of Engel curves for public goods. The study finds that growth elasticity for VAT are all greater than one. The estimation results show that total GDP elasticity of VAT revenues is less than the elasticity with respect to monetary GDP, suggesting the existence of an underground economy in Kenya over the period of analysis. It is found that VAT revenues respond with substantial lags to changes in its determinants and that VAT revenues are sensitive to unusual circumstances.

The first preliminary test that the study employed was unit root test using Augmented Dickey Fuller. This was used to test if variables employed are stationary or not. The result of the unit root is presented in Table 1. The results revealed that, VAT and INF were stationary at level I(0), which implies that, these variables were stationary and they can be used for the estimation without differencing while LGDPPC was not stationary at level. However, LGDPPC was tested at first difference and it was found that, it became stationary at first difference I(1). This implies that, series are stationary at different order, that is, at level I (0) and at first difference I (1). Therefore, the null hypothesis of the ADF test which says that there is unit root is rejected while the alternate hypothesis which says that there is no unit root at level and at first difference is retained. The rejection of the null hypothesis is based on MacKinnon (1996) critical values. The lag length are selected based on SIC criteria,

TABLE 1: Summary of Augmented Dickey Fuller Test

<table>
<thead>
<tr>
<th>Variables</th>
<th>ADF</th>
<th>CRITICAL VALUE</th>
<th>LAG</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>LGDPPC</td>
<td>-2.9999</td>
<td>-2.9980</td>
<td>3</td>
<td>I(1)</td>
</tr>
<tr>
<td>VAT</td>
<td>-3.5880</td>
<td>-2.9980</td>
<td>3</td>
<td>I(0)</td>
</tr>
<tr>
<td>INF</td>
<td>-6.8459</td>
<td>-2.9980</td>
<td>3</td>
<td>I(0)</td>
</tr>
</tbody>
</table>

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Information criteria which selected lag 2 for the estimation. The result of the ARDL is presented in table 2. It was found that, the coefficient of determination between value added tax and economic growth was 0.5759 which explains that, the variation in economic growth as proxied by GDPPC was 57.59% while the

METHODOLOGY

Model Specification

This model is specifically based on the following functional relationship which can be implicitly stated as follows:

Model:

G.D.P = F (VAT, INF)

The equation is explicitly transformed into the following:

\[ \text{LGDPPC} = \beta_0 + \beta_1 \text{VAT} + \beta_2 \text{INF} + \epsilon_t \]

Where

\[ \text{LGDPPC} = \log \text{of Gross Domestic Product per Capital} \]

\[ \text{VAT} = \text{Value Added Tax} \]

\[ \text{INF} = \text{Inflation Rate} \]

\[ \beta_0 = \text{Constant} \]

\[ \beta_1 \text{ and } \beta_2 = \text{Parameter to be estimated} \]

\[ \epsilon_t = \text{The error term.} \]

Auto regressive Distributed Lag

As a consequence of the results of the augmented dickey fuller, the study employed auto regressive distributed lag as the estimation technique. The reason for this is provided by Perasan, Shin and Smith (2001). The study also selected lag length based on Aikaike

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remaining 42.41% was accounted for by variables not included in the model. The adjusted $R^2$ of approximately 37.80% shows that $R^2$ indicates the true behaviour of the dependent variable that is, LGDPPC according to change in independent variables meaning that the model is okay and the variables are good. In addition, the individual coefficients and significant level revealed that, VAT of -0.1259 and INF of -0.0012 have negative impact on economic growth. However, checking their respective significant level, it was found that VAT has significant impact on economic growth while INF has insignificant impact on economic growth. The implication of this is that, 1% increase in value added tax and inflation would rather deteriorate economic growth rather than improving it. Testing for the significant of the whole model, F-statistic was used and it was revealed that F-calculated of 2.9105 with its corresponding P-value which are 0.0390 is significant at 5% level of significant which further confirmed the goodness of fit of the variables. Durbin Watson of 2.57 revealed that the variables in the series are having negative first order correlation. Hence, the study tested for null hypothesis that there is no significant negative autocorrelation. The formula to do this is $d= 4 - 2.57\sqrt{v}$, where $d= $ calculated Durbin Watson, that is, 4-2.57= 1.43. Using Durbin Watson table, lower limit is 1.206 and upper limit is 1. 550. Since the calculated Durbin Watson that is 1.47 lied between the upper and lower limit, the study concluded that there is inconclusive information about auto-correlation. Therefore, the study make a general inferences that, value added tax has negative and significant impact on economic growth in Nigeria.

### Table 2: Summary of Auto Regressive Distributed Lag Estimation

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.*</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLGDPPC(-1)</td>
<td>0.528761</td>
<td>0.175095</td>
<td>3.019843</td>
<td>0.0086</td>
</tr>
<tr>
<td>LVAT</td>
<td>0.009321</td>
<td>0.06338</td>
<td>0.147071</td>
<td>0.885</td>
</tr>
<tr>
<td>LVAT(-1)</td>
<td>0.118973</td>
<td>0.074975</td>
<td>1.586838</td>
<td>0.1334</td>
</tr>
<tr>
<td>LVAT(-2)</td>
<td>-0.125995</td>
<td>0.047844</td>
<td>-2.633473</td>
<td>0.0188</td>
</tr>
<tr>
<td>INF</td>
<td>-0.00069</td>
<td>0.001276</td>
<td>-0.540914</td>
<td>0.5965</td>
</tr>
<tr>
<td>INF(-1)</td>
<td>0.000228</td>
<td>0.001196</td>
<td>1.906878</td>
<td>0.0759</td>
</tr>
<tr>
<td>INF(-2)</td>
<td>-0.001251</td>
<td>0.000681</td>
<td>-1.836338</td>
<td>0.0862</td>
</tr>
<tr>
<td>C</td>
<td>-0.027506</td>
<td>0.047802</td>
<td>-0.575402</td>
<td>0.5736</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.575956</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.378069</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>0.025924</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sum squared resid</td>
<td>0.010081</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log likelihood</td>
<td>56.28984</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-statistic</td>
<td>2.91053</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.039072</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Table 3 presented the summary of short and long run coefficients of the variables employed. The short run dynamic model describes the speed of adjustment to equilibrium. However, the lagged value of the variable, which shows a linear combination of the dependent and independent is denoted by the CointEq (-1), which is also known as Error Correction Mechanism (ECM) term. From the results, the ECM value of -0.471 and its corresponding P-value is rightly signed and significant at 5% level. This means the speed of adjustment to equilibrium is 47.1%. Meaning, annually, 47.1% inconsistency in the short run are corrected and incorporating into the long run. In addition, the direction of the short run effect of the variables employed revealed that, VAT of 0.1259 has significant positive impact on economic growth while and INF of 0.0012 has insignificant positive effect on economic growth. In the long run, it was found that, both VAT and INF has insignificant positive effect on economic growth.

### Table 3: Summary Dynamic Form/Long and Short Run Relation

<table>
<thead>
<tr>
<th>Cointegrating Form</th>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.*</th>
</tr>
</thead>
<tbody>
<tr>
<td>DL(VAT)</td>
<td>0.009321</td>
<td>0.06338</td>
<td>0.147071</td>
<td>0.885</td>
<td></td>
</tr>
<tr>
<td>D(LVAT(-1))</td>
<td>0.125995</td>
<td>0.047844</td>
<td>2.633473</td>
<td>0.0188</td>
<td></td>
</tr>
<tr>
<td>D(INF)</td>
<td>-0.00069</td>
<td>0.001276</td>
<td>-0.540914</td>
<td>0.5965</td>
<td></td>
</tr>
<tr>
<td>D(INF)</td>
<td>0.001251</td>
<td>0.000681</td>
<td>1.836338</td>
<td>0.0862</td>
<td></td>
</tr>
<tr>
<td>ComEq(-1)</td>
<td>-0.471239</td>
<td>0.175095</td>
<td>-2.69133</td>
<td>0.0167</td>
<td></td>
</tr>
<tr>
<td>Cointeq = DLGDPPC - (0.0049<em>LVAT + 0.0007</em>INF - 0.0584)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cointegrating Form</th>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Run Coefficients</td>
<td>LVAT</td>
<td>0.004879</td>
<td>0.01596</td>
<td>0.305694</td>
<td>0.764</td>
</tr>
<tr>
<td>INF</td>
<td>0.000722</td>
<td>0.002956</td>
<td>0.244326</td>
<td>0.8103</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>-0.058368</td>
<td>0.106359</td>
<td>-0.548786</td>
<td>0.5912</td>
<td></td>
</tr>
</tbody>
</table>

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Test of Hypothesis

The hypothesis of this study tried to know if valued added tax has significant impact on economic growth. The tested using individual coefficient and overall significant of the model, the individual coefficient revealed that, VAT has negative impact on economic growth and it was also significant. The overall significant level using F-statistics also confirmed the significant aspect of the variable. There, the study rejected the null hypothesis and accepted the alternate hypothesis that, valued added tax has significant impact on economic growth.

CONCLUSION

This study is an attempt to empirically analyse the impact of value added tax (VAT) on economic growth from 1994 to 2018 the Unit root test using Augmented Dickey Fuller was employed in examining the variables. The empirical result shows that the value of VAT has a positive significant impact on economic growth (GDP) in Nigeria. The findings also revealed that value added tax has a positive and significant impact on total revenue in Nigeria; and by extension on the economic growth and development of the country. Total revenue growth over the period also had a significant impact on economic growth as proxied by Gross Domestic Product. Hence it’s concluded therefore that value added tax (VAT) as a subset of the entire tax system in Nigeria has significant impact on the economic growth of Nigeria since its inception in 1994. It has greatly contributed to the total revenue of this nation by reducing tax evasion by many people.

Recommendations

Following the empirical findings of this study, the following recommendations are made for the purpose of effective policy formulations in the area of economic management, accounting and financial management. Government should put in place adequate measure to ensure that revenue generated from VAT is effectively utilized to develop and grow the economy through proper infrastructural development. The positive impact of VAT on the economy can be sustained and enhanced if efforts are made by the government and its relevant agencies to exempt infant industries from VAT payment over reasonable period. The management, administration and implementation of VAT in Nigeria should be done in such a way that it will not have adverse effect on the economy by distorting the free forces of demand and supply. The proceeds of VAT should be attractive enough to prevent reintroduction of sales tax which may constitute double taxation. The Government must put stein punitive measure in place to sanction corrupt officials as a well as establishments that refuse to remit collected VAT funds. In order to encourage speedy economic growth, government should embark on periodic review of tax incentives to investors (especially foreign investors) so that they can increase their investment in the economy. For the purpose of balanced economic growth VAT should be structured to take more resources from the rich than from the poor by exempting more items consumed by the poor from VAT.

REFERENCES


