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Value Added Tax and National Development: A Study of Lagos Mainland West Region, Nigeria

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ABSTRACT: The contribution of VAT as a source of revenue in Nigeria is encouraging, but it remains difficult to systematically assess the impact on VAT on the economy at large. The administration of VAT is relatively easy to evade. This paper investigated the impact of value added tax on the national development of Nigeria. This study analyzed empirically the effect of Value Added Tax (VAT) on national development in Nigeria using survey research design. Data were collected from the staff of Federal Inland Revenue Services Lagos mainland west region. A simple regression technique, with the aid of SPSS version 23.0, was employed to test the hypotheses formulated. The result shows that all the VAT proxies used in the study were positively and significantly contributes to the national development of Nigeria. Therefore, this study recommends that revenue collected from VAT needed to be boosted and utilized judiciously. This can be achieved by closing every VAT revenue leakage, sensitizing the managers of companies operating in Nigeria on the need to remit the VAT revenue collection and proper training of the Federal Inland Revenue staff in charge of VAT revenue collection and management.

Key words: Assessment, contribution, value added tax, economy, development

I. INTRODUCTION

The success or otherwise of any economy, being developed, developing orunderdeveloped, depends on theavailability of revenue to match the cost ofgovernance. The growth and development of any nation depends on the amount of revenue generated by the government through its relevant agencies for the provision and management of infrastructural facilities in the nation. Taxation is a paramount mean of generating the resources required for public investment, infrastructure, growth and development. Meanwhile, complying with the tax laws provisions, and ensuring proper tax planning and tax management is somehow stressful activity for all the participants, especially for business managers, owners or entrepreneurs. It is a conventional wisdom thatgovernment can only perform and function well when there isadequate resources and revenue to finance its expenditure.

To promote national development in Nigeria, there are various forms of taxes after the reform and major consideration which includes; Value Added Tax (VAT) which became effective in 1994. It is currently 7.5% of invoice value of goods and services and it is usually borne by the final consumer but collected at each stage of production and distribution chain by the Federal Inland Revenue Service (FIRS), Companies Income tax (currently 30% for large scale companies, 20% for medium sized companies and 0% for small sized companies) is tax payable by companies on profits for the accounting period on a preceding year assessment basis, the Petroleum Profit Tax is levied on the income of companies engaged in upstream petroleum operations, Education tax is used to enhance functionalities of tertiary education in Nigeria. Hence, tertiary education tax (which was previously referred to as education tax) is a tax imposed on the assessable profits (or adjusted profit) of all companies registered in Nigeria. The tertiary education tax also include assessable profits of a company registered in Nigeria. Therefore, these tax revenues are targeted improving national development through the creation of good and reliable environment for citizens, providing infrastructure, improving the quality of life of the people and availability of financial resources to the government to carry out its functions.

However, the question is whether VAT has any significant relationship with the national development in Nigeria. The currently unrecognized and unregistered economic activities that do not contribute to the officially calculated gross national product is one of major issue that could affect the national development.[5]There are lots of market based production of goods and services, (illegal or legal), which escapes form calculation in the official estimates of gross domestic product. Considering this situation, it is necessary to consider if any relationship exist between value added tax and national development in Nigeria. In contrast with objective of improving economic development, long after the commencement of value added tax, there has not been significant noticeable infrastructural and economic development in the country.[13] Hence a question, is there any considerable contribution of value added tax, as part of indirect tax, to national development of Nigeria? Therefore, the aim of this study is to investigate the relationship between the value added tax and national development in Nigeria, and the study hypothesized if value added tax has any significant effect on national development of Nigeria.

Research Questions

To achieve the objective of this study and to create a solution for the research problems, the following research questions are considered;

i. What is the relationship between VAT Revenue and National Development in Nigeria?
ii. What is the influence of VAT Rate on National Development in Nigeria?
iii. What is the impact of VAT Remittance on National Development in Nigeria?

Objective of the Study

The general objective of this study is to determine the relationship between the value added tax and national development in Nigeria. To achieve this general objective, the specific objectives are;

i. to investigate the relationship between value added tax revenue and national development in Nigeria;
ii. to examine the relationship between value added tax rate and national development in Nigeria; and
iii. to determine the relationship between value added tax remittance and national development in Nigeria.

II. REVIEW OF RELATED LITERATURE: CONCEPTUAL REVIEW

Concept of Taxation

According to the Nigerian National Tax Policy, taxation is the process of collecting taxes within a particular location. Tax is a compulsory contribution levied by a sovereign power, on the incomes, profits, goods, services or properties of individuals and corporate persons, trusts and settlements. Such taxes when collected are used for carrying out governmental functions, such as maintenance of law and order, provision of infrastructure, health and education of the citizens, or as a fiscal tool for controlling the economy. The most important thing is that it is a pecuniary burden laid upon individuals. The flip side of the resource allocation dimension of a sound taxation policy is its role in promoting investment as well as ensuring a healthy economy through the creation of new wealth. An indirect assessment of this parameter is the level of investment and taxation, which is often used as a driver for savings and as a tool for securing competitive advantages, to aid economic development in an increasingly interdependent world.

Concept of Value Added Tax (VAT)

Value Added Tax (VAT) is a consumption tax payable on the goods and services consumed by any person, whether government agencies, business organisations, or individuals.VAT is a consumption tax levied at each stage of the consumption chain borne by the final consumer of the product or services. Each person is required to charge and collect VAT at a flat rate of 7.5% on all invoice amounts, on all goods and services not exempted from paying VAT.

Value Added Tax with effect from 1January, 1994, tax is now imposed on a wide range of consumption (purchases) by companies and individuals alike, under the Value added Tax (VAT) Act. This tax is at a standard rate of 55 on most purchase of goods and services with few exemptions such as food, petroleum products, educational books and newspapers, medical services and pharmaceutical products. The Value added though a relatively new concept in Nigeria has become a principal source of revenue to the government. VAT maintain a lead over company income tax (CIT) as a source of revenue from 1996 until 2006 when CIT actually caught up and overtook VAT as a source of revenue. Value Added Tax can be defined as the incremental value which a producer using labour contributes to his raw materials of purchases before selling the processed goods or services. Here, the producer can be a manufacturer, distributor or supplier of goods and services. The VAT collected by Federal Inland Revenue Service is shared as 15 per cent to the Federal Government, 50 per cent to the State Governments and the Federal Capital territory, and 35 per cent to the Local Governments.[5]

The economists in the 1990s had a unanimous recognition that the quality of life often determines whether people are from developing countries or poor countries. Diseases, malnourishment and death happen in the everyday lives of those people from the developing countries than that of developed countries. The situations in the developing countries often contributed to the shifts of development goals set by governments to cover wider objectives like improvements in income distribution, environment, education and health. Modern development economics came after colonial economics, which was partly controlled by chartered companies engaging in plantations and mining activities.[17]The management of the economy was taken over by the colonial powers solely to satisfy the native interest in providing jobs and supplying raw materials to the industries at home. The objectives of colonial economics were to make the colonies cost effective and then to manage economic resources with a view to national independence. It was not directed towards industrialization of the colonies as cultivation of raw materials were encouraged which were then exported to the manufacturing industries in Europe.

A clear distinction has to be made between growth and development. The two are interrelated as income (revenue) determines the level of growth and development. An upward movement (increase) over time in a country`s real output of goods and services (GNP) or real output per capita income is often termed to be economic growth while economic development usually implies an upward movement of the entire social system in terms of income, savings and investment along with progressive changes in socioeconomic structure of country. Indices for measuring economic development are qualitative. (e.g. HDI - Human Development Index; gender- related index; Human poverty index; infant mortality; literacy rate; etc. while that of economic growth is quantitative (e.g. GDP). A country that is perpetually underdeveloped is often caught in a vicious circle, which is referred to as poverty trap.[5]
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Theoretical Review Expediency Theory

This theory believes that every tax proposal must pass the test of feasibility and it should be considered as the major reason while choosing a tax proposal. The feasibility of a tax is important in every tax proposal otherwise it would be of no use to introduce a tax that cannot be effectively collected. This theory aligns with VAT which indirectly allows consumers to make purchase and to pay for the tax without necessarily knowing. The theory of expediency postulated that every tax proposal must pass through the practicality test. This implies that the expediency goal of taxes must only be the consideration weighing with the authorities in the choice a tax proposal. In this sense, opined that social and economic objectives of the nation as the effects of a tax system should irrelevantly be treated. The state provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received.

Social Political Theory

Socio-political theory is one of the taxation theories. The theory opined that those social and political goals should be considered as factors while selecting and imposing taxes on the citizens. Thus, the theory advocated for tax system designed not to serve individuals, but designed to solve the problems of the entire society.

Benefits Received Theory

The benefit received theory focused on the assumption that there is existence of relationship between an exchange of tax payers and the nation. According to the theory, the nation provides certain goods and services to the citizens of the country and they in turn, contribute to the costs of the supplies which is proportionate to the received benefits. This theory is of the opinion that tax payment should initiate an exchange relationship between tax payers and the government. In the sense that while the government provide certain goods and services to members of the society, the members of the society bears the cost of these supplies to the extent of benefit received

Empirical Review

In confirming the relationship between value added tax on economic growth, [8]investigated the effect of value added tax on economic growth of Nigeria using time series data from 1994 to 2012. The study also found that value added tax has negative and significant relationship with gross domestic product both on the long and short run equilibrium conditions. Consequently, the study stated that government should embark on providing infrastructures that would promote investment opportunities for the private sector businesses so as to influence economic growth. There is need to increase the value added tax rate for the imported goods specifically alcohols and luxury goods and ensure that all accruable revenue from value added tax are remitted as at when due.

Also, studied the relationship between Value Added Tax and Investment Growth in Nigeria. The study revealed that value added tax has a long run relationship with investment growth shown by the

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co-integration result. Similarly, investigated the effects of value added tax (VAT) on economic growth of Nigeria focusing on time series data from 1994-2010. The study found that value (VAT) added tax has significant effect on total revenue of Nigeria and recommended that government should sensitize the people to increase the VAT rate so as to enlarge its annual revenue for economic growth and development. Also investigated the contribution of value added on the development of the economy of Nigeria engaging secondary data. They claimed that there is existence of positive insignificant correlation between value added tax revenue and the gross domestic product and recommends that all identified administrative loopholes should be plugged for value added tax revenue to contribute more significantly to the economic growth of Nigeria.

III. CONCEPTUAL FRAMEWORK AND MODEL SPECIFICATION: CONCEPTUAL FRAMEWORK

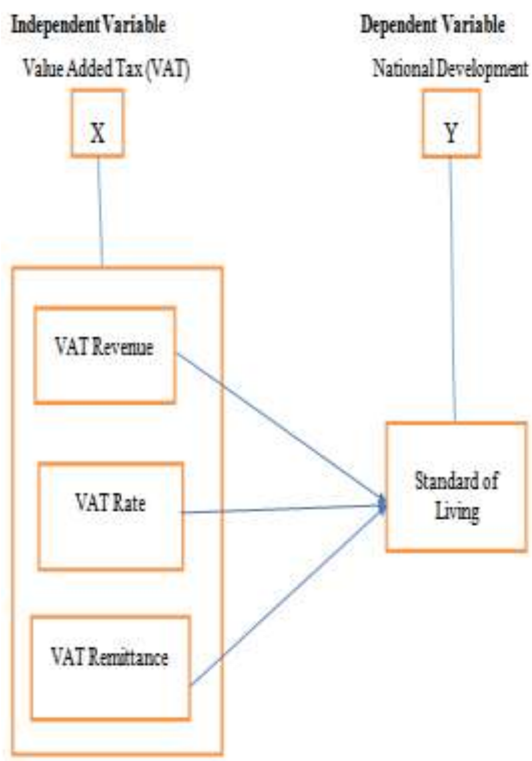

Figure 1: Operational Framework for VAT and National Development in Nigeria.

Model Specification

The following functional equations will be therefore formulated in line with the relevant literature as follows:

$SDL_t = \int(VATRVt, VATRT, VATRMt)$ - - - - (i)

$SDL_t = \beta_0 + \beta_1 VATRV_t + \beta_2 VATRT_t + \beta_3 VATRM_t + \varepsilon_t$ - - - (ii)

Where:

SDL_t = Standard of living for the period of time

β_0 = The intercept coefficient which measures the average effect of the dependent variables when the independent variable is data set equal to zero.

$VATRV_t$ = VAT revenue for the period of time

$VATRT_t$ = VAT rate for the period of time

$VATRM_t$ = VAT remittance for the period of time

$\beta 1$- $\beta 3$ = The Slopes or Partial coefficients. It indicates the unit change in the dependent variable as a result of a proportionate change in the independent variable.

εt= The error or disturbance term for the model.

Methodology

Research design for this study was be survey design. Survey research design gave the respondents the chance to express their opinions on the variables under investigation.

Population of the Study: The data for the study is from the Federal Inland Revenue Service (FIRS) Lagos mainland west region as a case study. This study will cover all the Federal Inland Revenue Service (FIRS) Lagos mainland west region. Questionnaires will be administered on 100 respondents who are staff of Revenue were selected.

Sample and Sampling Techniques

Sample of four (4) Medium and Small Scale Tax Offices in Lagos mainland west region was selected for the study using simple random sampling technique.

Validation of the Research Instrument

To ensure the validity of the research instrument (the questionnaire), there were extensive literature review relating to the topic which satisfiedthe theoretical validity. The instrument was also reviewed by the researcher’s supervisor.

Reliability of the Instrument

This study adopted a test-retest method, which involved giving an instrument the second time to the same group of respondents. The output was calculated using Cronbach’s Alpha with Statistical Package of Social Sciences (SPSS).

Method of Data Analysis

For the purpose of carrying out data analysis for this study, the study adopted descriptive and inferential analysis. The inferential analysis was done using the regression analysis to examine the relationship between value added tax and national development in Nigeria.The data for the study was analyzed using Statistical Package for Social Sciences (SPSS) software (version 23)

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IV. RESULTS AND DISCUSSION OF FINDINGS

Data Presentation

Analysis of Response Rate

Questionnaire	Respondents	Percentage (%)
Returned	99	99
Not Returned	1	1
Total Distributed	100	100

Source: Field Survey 2020

The research questionnaire was administered to one-hundred (100) staff of the selected Federal Inland Revenue Services (FIRS) which is the sample size representing the study population. Ninety-nine (99) questionnaires representing 98% were returned, while one (1) questionnaire representing 1% was not returned.

Correlation Analysis

Correlation analysis was used to examine the relationship between the value added tax and national development in Nigeria. Pearson Correlation analysis was used to present the overall relationship between the VAT and national development.

Correlations Results

		Standard of Living	VAT Revenue	VAT Rate	VAT Remittance
Standard of Living	Pearson Correlation	1			
	Sig. (2-tailed)				
VAT Revenue	Pearson Correlation	.735***	1		
	Sig. (2-tailed)	.000			
VAT Rate	Pearson Correlation	.418***	.135	1	.355***
	Sig. (2-tailed)	.000	.182		.000
VAT Remittance	Pearson Correlation	.717***	.255**	.355***	1
	Sig. (2-tailed)	.000	.011	.000	
	N	99	99	99	99

***, ** and *** indicate significant at 1%, 5% and 10% level respectively**

SOURCE; Author's computation with the aid of SPSS (2020)

Correlation results between VAT and national development in Nigeria above. The results indicate that VAT revenue was 73.5% positively and significantly correlated with national development. The significant level is revealed by the probability value of 0.000 which is at 1% significance level. The results also show that VAT rate was 41.8% positively and significantly correlated with the national development in Nigeria. The significant level is revealed by the probability value of 0.000 which is at 1% significance level. In addition,the analysis showed that VAT remittance has71.7% positively and significantly correlated with the national development. The significant level is revealed by the probability value of 0.000 which is at 1% significance level.

Regression Analysis

Regression analysis was conducted to examine the effect of value added tax on national development in Nigeria.

Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	0.428	0.109		3.923	0.000
VAT Revenue	0.391	0.027	0.583	14.728	0.000
VAT Rate	0.141	0.037	0.157	3.841	0.000
VAT Remittance	0.290	0.024	0.512	12.206	0.000

a. Dependent Variable: Standard of Living

SOURCE; Author's computation with the aid of SPSS (2020)

The effect of VAT on national development has been presented in the table above. The regression result above indicates that VAT revenue has positive and significant relationship with the national development in Nigeria.The relationship between VAT revenue and national development is supported with the t-statistic of 14.728 and sig value of 0.000 which is significant at 1% level. Also, it was revealed that VAT rate has positive and significant relationship with the national development in Nigeria.The relationship between VAT rate and national development is supported with the t-statistic of 3.841 and sig value of 0.000 which is significant at 1% level. In addition, the analysis results show that VAT remittance has positive and significant relationship with the national development in Nigeria.The relationship between VAT remittance and national development is supported with the t-statistic of 12.206and sig value of 0.000 which is significant at 1% level.

Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
	0.928	0.861	0.857	0.1358946	1.143

a. Predictors: (Constant), VAT Remittance, VAT Revenue, VAT Rate

b. Dependent Variable: Standard of Living

SOURCE; Author's computation with the aid of SPSS

The summary results show that the cumulative R-square ($\mathbf{R^2}$)is 0.861. The R-square which represents the multiple coefficient of determination gives the proportion of the total variation in the dependent variable explained by the independent variable. Therefore, the result suggests that 86.1% of the total variation in the national development could be explained value added tax. The Durbin Watson (D.W) statistics for the studied variables is found to be 1.143. This indicates that there is no presence of first-order serial or auto correlation in the model.

V. CONCLUSION AND RECOMMENDATIONS

Conclusion

This study empirically assessed the effect of Value Added Tax on the national development in Nigeria. This was analyzed with regression analysis, and it is discovered that valued added tax revenue is the bedrock of wealth creation in Nigeria as well as economic development as it contributes significantly to the nation's Gross Domestic Product, national growth and development. Therefore, government must give adequate attention to taxation (and its policies) in general and value added tax in particular under a stable and conducive sociopolitical and economic atmosphere. The effect of value added tax on the national development in Nigeria is very significant, as the former contributes a very high portion in the latter as revealed by the study's analysis. If the management and administration of value added tax is strengthened and the compliance rate is high, government will generate more revenue through the VAT and the dividend of democracy can be effectively delivered in the light of good governance. Finally, effective value added tax would off-set other challenges of the nation such as inadequate and dilapidated infrastructure, complicated and antiquated tax laws, bureaucratic complexities and week administration of the other forms of tax.

Recommendations

Based on the above study findings and conclusions, the following recommendations are made:

i. Government should intensify effort in organizing seminars and workshops to educate viable organizations and individuals on the need for prompt payment of value added tax.

ii. There should be provision for enforcing penalties and additional assessment on erring viable taxpayers.

iii. It is recommended that government should intensify efforts to check inflation in the country so that the positive impact of VAT on the economic growth of Nigeria can be realized.

iv. It is recommended that Federal Inland Revenue Service should pay attention to the informal sector of the economy by creating more Value Added Tax offices at the Local communities so as to generate more revenue and to fully achieve the objectives of national development through value added tax.

v. More attention should be given to value added tax as it is an instrument for stimulating greater revenue generation and economic growth in Nigeria.

END NOTES

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