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# THE EFFECT OF INCREASE IN VALUE ADDED TAX (VAT) RATE ON ECONOMIC GROWTH IN NIGERIA

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## ABSTRACT

*The study intended to investigate the effect of increase in value added tax (VAT) rate on the growth of an economy. The specific objectives of the study were: to find out To find out impact of increase in VAT rate on Gross Domestic Product (GDP), to find out the impact of increase in VAT rate on National Income, to find out the impact of increase of VAT on Net National Income and to find out impact of increase in VAT rate on Foreign Direct Investment. Secondary data was used for collection of data from the Nigerian statistical report available on the indicators used in the objective of the study. The source of data was mainly secondary data from annual statistics publications of Bureau of Statistics of Nigeria. The population of this study was the entire Nigerian economy using VAT, GDP, NI, NNI and FDI. The sample size of this study was still the Nigerian Economy limited to the proxies of economic growth used. The collected data were edited, organized to meaningful way and were analyzed and presented in by using the SPSS software for data analysis via the use of regression analysis and correlation analysis for test of hypothesis. The major findings show that the increase in value added tax has an effect on economic growth of Nigeria. The study recommended that economic policy makers and government should ensure that before there is any change in economic policy such as that, careful study and research should be made as to the real effects that the change in policy might have on the economy therefore government is advised to look for other means of increasing and improving economic growth as the effects of increase in value added tax has diverse effects on the economy and is not fixed* *and should not be fully relied upon. The study concluded that increase in VAT has an impact on the economic growth of Nigeria*

***Keywords:*** *Value Added Tax, Economic Growth, Gross Domestic Product, National Income, Net National Income and Foreign Direct Investment.*

## Introduction

Many countries of the world today have been striving very hard to achieve rapid overall development through optimum tax collection and expanded revenue base. New forms of taxes are selectively being introduced in this era particularly by the less developed countries to boost their revenue earning capacity with the aim of improving the socio-economic conditions of their countries. One of such modern forms of taxation is the Value Added Tax (VAT) recently introduced into the Nigerian tax system as a replacement to the sales tax. The fact that it is a relatively new tax (even in the developed countries) makes it very difficult for anyone in our own sub-region to have made any significant academic contribution on the subject. Also, since there is little or no research work that focuses on the effect of increase in VAT rate directly, there is also a need to also research on the effect of the increase in the VAT rate from 5% to 7.5% as mandated by the Nigerian government. Therefore this study seeks to explore the general effects of VAT on the Nigerian economy and the effects of the recent increase in the tax rate on economic growth. The researcher will review some of the books and journals at their disposal as at the time of this research work.

Countries introduced a Value Added Tax (VAT) because they are dissatisfied with their existing tax structure. This dissatisfaction falls broadly into one, or possibly all, of four categories: (1) the existing sales taxes are unsatisfactory; (2) a customs union requires discriminatory border taxes to be abolished; (3) a reduction in other taxation is sought; or (4) the evolution of the tax system has not kept pace with the development of the economy (Tait, 1988). If VAT had a birth certificate, the place and year of birth would read ‘France’, ‘1954’ respectively. The VAT created in France in 1954 was a Value Added type of consumption tax on goods, levied at the production stage. In 1968 however, this tax was merged with the existing turnover tax on services and a local tax on retail sales into a single, comprehensive levy extending through the retail stage.(Owens, 1996) The Value Added Tax(VAT) was introduced in Nigeria in

1993 by the Federal Military Government. Since then, the Value Added Tax Decree had been amended more than half a dozen times, the latest being the Value Added Tax (Amendment) Act of 2007. Some of the amendments have introduced significant changes which are yet to be reflected in the body of existing literature.

Nigerian economy has been undergoing a lot of changes over the past few years. Some of those years have been a smooth sail while others have been rough and hail storm especially the last five years in Nigeria where the economy went through a meltdown. It is undisputed that over 20 years since its introduction, VAT has contributed significantly to the increase in revenue generation of the country but with the changes in VAT rates at various intervals by the government especially at this crucial time when Nigeria is still trying to get back on its feet, one is left with a question which is "is this what Nigeria really needs now? Does VAT add to the nation's economic growth? What are the effects of an increase in VAT rate? These are the questions ringing in the hearts of Nigerians when the Federal Executive Council (FEC) of Nigeria announced the increase in VAT rate of Nigeria from 5% to 7.5% giving an increase of 2.5%.

**Statement of Problem:**

Several studies have been carried out in the past on the subject; but the review of previous empirical literature revealed a lack of consensus in the research findings of past researchers which indicates the existence of a research gap. The studies of Okafor (2012) and Abiola & Asiweh (2012) argue that value added tax does not significant impact on economic development. These arguments have been countered by researchers in related studies such as Bakare (2013), Okoli & Matthew (2015), Chigbu (2014) and Izedonmi & Okunbor (2015) that value added tax has positive and significantly influence on economic growth. The coverage of these studies seems not have addressed the issue of value added taxes variables (input tax and output tax on goods and services and their significant influence on economic growth which is the crux of the study The study is design to examine the impact of Value Added Tax (VAT) on economic growth (GDP) as an attempt to fill that gap.

There has been a general uncertainty in Nigeria at the increase in VAT rate from 5% to 7.5% which led to a disagreement between the National Assembly of Nigeria and the Executive Arm. This was so because of the uncertainty as to the

effects that an increase in VAT rate would cause on the Economic Growth of the nation especially now that the Nigerian economy does not seem to be doing so well. Also, there is great need to educate not only the honourable members of the National House of Assembly alone but most importantly the general public and the economic decision and policy makers of Nigeria since there is little or no research work carried out on the possible effects that an increase in VAT rate of a nation can cause drawing evidence specifically from Nigeria.
This is so serious and might be a threat to the Nigerian economy because the Nigerian economy has been going through a lot of pressure and instability majorly for the past five years. The economy cannot and should not be subject to any form of pressure more than it is going through at the moment. Therefore there is great need to study the real effects of an increase in VAT rate on economic growth since there is little or no much work on this subject matter.

**Objectives of the Study:**

The objectives of this study include the following:

1. To find out the impact of increase in VAT rate on Gross Domestic Product (GDP).
2. To find out the impact of increase in VAT rate on National Income (NI)
3. To find out the impact of increase in VAT rate on Net National Income (NNI)
4. To find out the impact of increase in VAT rate on Foreign Direct Investment (FDI)

**Scope of the Study:**

**Geographical/Organization Scope:**

This study focused on the effects of increase in value added tax rate and might not go deep into other aspects. Evidences will be drawn from the Nigerian economy at large using predictors and indicators of economic growth such as GDP, inflation rate, revenue generation, importation etc.

**Time Scope:**

The time scope of this study covers the Nigerian economy at large and a period of 5 years from 2016 to 2020. Over this period the Nigerian economy has undergone a change in the VAT rate and this study seeks to cover this period of time.

## Literature Review

### Conceptual Framework:

Among the various sources of finance to the government, Value Added Tax is one of the major tools for sustainable development in Nigeria being a means of providing capital to the government in order to finance various developmental projects. VAT has improved the social and the macro-economic level of the economy. According to Abubakar (2015), A look at the profile of various taxes administered and other means of earning revenue to the government (excluding revenue from petroleum) for the past seven years before the introduction of VAT, one can argue that VAT has contributed a greater percentage to the development of the country.

VAT proceeds according to Abubakar (2015), are usually shared among the three tiers of government namely federal, State and local governments in order to help them to undertake developmental projects such as roads, health care facilities, education, security of the nation etc. instead of resorting to external or domestic borrowing. It also helps in accelerating economic growth by mobilizing privately held resources which automatically boosted public revenue, enhanced consumption patterns and generate savings which helped in a greater deal in sustaining the economic development of the country.

In Nigeria, every person, whether residing in non-residents in the country, that sells goods or renders services in Nigeria under the VAT Act (as amended)is required to register for VAT within six months of its commencement of business in Nigeria. Registration is with the Federal Inland Revenue Service (FIRS). The VAT Act (as amended)provides that a foreign non-resident person or company that carries out economic activities in Nigeria is also obligated to register for VAT, using the address of the person with whom it has economic activity for purposes of correspondence with FIRS and for compliance with the VAT Law. The foreign non-resident person or company is required upon registration for VAT to include in its invoice VAT at 5% with instructions to the receiver of the goods or services to remit the VAT in the currency of the transaction to the Nigerian government on behalf of the foreign non-resident person (Yelwa, Awe and Muhammad, 2020).

The purpose of taxation is to raise money for activities which cannot be pursued without government action. These include the public contribution to economic investment, as well as enabling people to meet their basic needs and enjoy wider opportunities. Without taxation, government cannot create a better society. VAT is a multi-level tax that is obtained in different steps of the production-distribution cycle based on percentage of the value added to the products or services. In fact, this tax is a kind of a multi-level tax on sales that exempts the indirect purchase of goods and services from tax. The countries that performed VAT have a more per capita GDP level and are less dependent on the international trade (Awe, 2020).

According to Owolabi and Okwu as quoted by Yelwa (2020), the purpose of replacing trade taxes with domestic consumption taxes that is value added tax (VAT) was mainly to improve macroeconomic stability, and to introduce the benefits of free trade to developing economies. Export taxes are seen as inefficient, because they put the local producers who export their goods at a disadvantage compared with foreign producers. VAT was viewed as more efficient than import taxes, as it does not discriminate between domestic and imported goods. By eliminating import taxes, local consumers benefit from lower prices in the competition created between domestic and foreign producers, and it forces the local producers to become more efficient and concentrate their efforts on their comparative advantage (Macek, 2014).

According to Nigerian institute of advanced legal studies Lagos, the government of Nigeria, like others in different parts of the world has legislative powers to impose on its citizens any form of tax and at whatever rate it deems appropriate. Such taxes when collected, are used to execute government functions like provision of infrastructure, maintenance of law and order, health and education of the citizens and as well as a fiscal tools for controlling the economy.

VAT revenue is generated for distribution to the state and local government in Nigeria, unlike the oil revenues whose market government has no control over. This helps to reduce overdependence on oil revenue; this assures a sustainable economic growth and development (Abubakar , 2015). Ghafoor (2005) as stated in Sekwati and Malema (2015) brought out that VAT, in addition to being a money machine for government, helps businesses to compete internationally since it does not affect export prices and encourages saving that could lead to capital formation in the long run. They further argue that since VAT has great potential to generate a tremendous amount of revenue with very low rate, it could help in addressing the budget deficit and balance of payment problems. In addition, VAT can be considered as a tool for reducing the amount of unregistered economy in a country. VAT emphasizes employment more than consumption and ensures neutral treatment of imported and domestic goods by taxing imports and domestic goods going into domestic consumption at the same rate (Mohammad 2016).

According to Ahmad (2018), the effect of the change of the VAT rate on aggregate consumption and economic growth is easily understood theoretically, but it is difficult to grasp the significance of this effect in practice. It goes without saying that aggregate consumption and economic growth are not determined only by the change in the VAT rate. There are many papers on the determinants of the change of aggregate consumption and economic growth.

In other word, VAT is regarded as money making machine that could possibly lead to increase in public spending and consequently large public sector (ibid). They further argue that VAT is a hidden tax therefore its rate could be raised more easily than other taxes, which would raise consumer prices immediately and consequently higher inflation. The inflationary impact of VAT could appear in the form of slow economic growth or even a recession and a lower real value of existing savings. A good VAT administration is critical in fully implementing the design attributes of the tax and reducing gaps between the effective taxation and what it is purported to be in the legislation. More broadly, a good tax administration, VAT administration in this case, is important to achieve the policy objectives of a government Boussalham (2018).

**Historical Background of Taxes and Value Added Tax (VAT) in Nigeria**:

The present day taxation system in Nigeria was first introduced in 1904 by the Late Lord Frederick Lugard when "Community Tax" became operative in Northern Nigeria. He later made changes which culminated in the "Nature Revenue Ordinance" in 1917. An amending ordinance passed in 1918 extended the provisions of the 1917 ordinances Southern Nigeria and it was to impose tax on all taxable adults and individuals resident in the "colony Area", which was the administrative jurisdiction of the then Administrator/Commissioner of the colony which comprised Lagos, Badagry, Epe, and Ikorodu townships. Another legislation was enacted in 1972- (The Tax Colony) ordinance of 1927) which imposed tax on all native adults and non-native adults.

In 1939 the Company Income Tax Ordinance No. 14, 1939 was enacted which introduced to the tax legislation for the first time the word "person" including "a body of persons" defined as "a body politic, corporate or collegiate, and company, fraternity, fellowship or society of persons whether corporate or incorporate". In 1940, the earlier Native Revenue Ordinance of 1917, 1918, and 1927 and 1939 were incorporated into the Direct Taxation Ordinance (No. 4 of 1940).

The rapid development of the country in the area of trade and commerce posed some technical challenges to Income Tax Administration. The need to have tax laws effectively coded became obvious. The assistance of experts were needed. Accordingly, the colonial tax office appointed and commissioned. Mr. J.C. Mundy who had acquired vast experience in income tax law and its practice in many colonies practically in Ceylon (now Seri Lanka), East Africa and Southern Rhodesia (now Zimbabwe) to help draft the Revised Tax Legislation based on the model ordinance supplied to him by the colonial tax office in London.

The then Governor of Nigeria, His Excellency Sir Arthur Richards (Later Lord Milverton) appointed a committee of legislative council to consider and deliberate on the Mundy Income Tax Report and submitted a draft income tax bill which was approved and enacted into law by the Legislature as income tax ordinance 1943 (No. 29 of 1943 cap 92).

The system of taxing individual and companies under the same ordinance continued until the Chick Fisal Commission which preceded the constitution of 1954 recommended that the taxes should be the exclusive jurisdiction of the Federal Government. This recommendation was held until Raisman Fiscal Commission of 1957 which recommended that Federal Government and State, except for certain uniform principles should have exclusive jurisdiction over personal income tax and consequently resulted to the enactment of Company Income Tax Act of 1961. This repealed all ordinances before 1961. The system allows the Federal Government to legislate on all income taxes which is an exclusive matter while the administration is in two tiers with the Federal collecting taxes principally from the limited liability companies (e.g. Companies Income Tax and Petroleum Project Tax) and Value Added Tax (VAT) under Decree No 102 of 1993 while the States collect taxes form individuals on the basis of residence.

Federally collected taxes are paid with the distributable pool account (Federation Account) and shared between the Federal State and Local Government. The enactment of Company Income Tax Act (CITA) of 1961 gave birth to Federal Inland Revenue Service vide the Decree No. 28 of CITA 1979 Sec. (i) as Federal Government body empowered to administer Company Income Tax Act in Nigeria.

**The Need for Enforcement of VAT and Proper Utilization by Government**

In the works of Farayola (2016), in his book titled, "Guide to Nigeria Taxes", 'taxation is one of the sources of income for Government and such income is used to finance public utilities and to meet other social obligations'. In other words tax collection should be enforced and government is advised to utilize the proceeds from them in meeting up the above social obligations.

According to Norman in his book, Tax Administrant theory and practice (New York Praeger Publishers), P. 11 "No real progress in the tax administration could be made unless there is a concerted effort by both agencies to assess the taxes due properly and enforce collection at a predictable speed in a scheduled time".

Norman (2016), blamed inefficiency in Tax Administration on lack of incentives and motivations for tax officers. It is in recognition of this and other government laudable objectives that a performance, bonus is being arranged for tax officials. It is the view of the researcher that unless the incentives and motivations are second to none, the present situation will always persist (inefficiency). That is tax officials or tax administrators will be bought over by tax payers due to connivance thereby reducing government revenue.

**Types of Value Added Tax (VAT)**

Basically there are three types of Value Added Tax (VAT) depending on how purchases of new Capital Input (plants, furniture, equipment etc) are treated in the computation of the tax base. The three types are the Consumption type, the Income type and the Gross Product type.

**The consumption VAT:** Under the consumption VAT, capital purchases are treated the same way as the purchases of any other input. This treatment of capital input is equivalent to "expensing". It has three distinct advantages to the taxable firm:

i. The taxable firm can claim credit for the tax paid on capital assets immediately and this will ease its cash flow problems.
ii. The tax burden from capital expenses is shifted to the consumer in full immediately instead of being borne wholly or in part by the company.
iii. The consumption VAT is easier to compute since the firm does not have to separate expenditures on capital form expenditure on other items of purchases in determining the VAT base.

The main disadvantage of consumption VAT is from the point of view of the VAT administrator. It creates refund problems such that for every long time, the revenue office may be having refund to make where very heavy and expensive machinery are involved.

**The Income VAT:** Under the income VAT, the tax paid on purchases of capital inputs is authorized (that is credited against the firms VAT liability) over the expected lives of such capital inputs.

**The Gross Product VAT:** Under the Gross Product VAT, no deduction of tax on input of capital purchases is allowed against the firms output tax. In other words the taxable firm is treated as a final consumer of all its capital input. Under this situation, the tax paid on capital input serves as part of cost of capital input. However, the firm is usually allowed to capitalize the input tax paid for income tax purposes. Thus, capital allowances are claimed over the expected life-span of the asset. The main advantage of this type of VAT is to the revenue who is saved the problem of having to make cash, refunds. But the system does not encourage investment in heavy capital assets. This is the type of VAT that Nigeria has adopted.

**The Consumption VAT:** Under the consumption, VAT capital purchases are treated the same way as the purchases of any other input. This tax treatment of capital purchases is equivalent to 'expensing' one advantage of this that the tax burden from capital expenses is shifted to the consumer in full and immediately instead of being borne wholly or in part by the company. Another attraction of the consumption VAT it is easier to compute. The furism does not have separate expenditures on capital from others in determining VAT payable.

**The Concept of Economic Growth:**

According to Anyanwu and Oaikhenan as quoted by Yelwa, Awe and Muhammad (2020), economic growth is the increase over time of an economy's capacity to produce those goods and services needed to improve the wellbeing of the citizen in their increasing number and diversity. It is also conceived as a sustained increase in the per capital income over a period of time (Claus *et al*., 2001). Kuznets defined growth (as cited by Todaro, 1995) as a long-term rise in the capacity of an economy to supply increasingly diverse economic goods and service to its population.

It should be noted that economic growth is sometimes used interchangeably with economic development. But economics development is more encompassing in such that it includes growth plus improvement in wellbeing, eradication of poverty and illiteracy, disease and early death, changes in the composition of input and output, that generally include shift in the underlying structures of an economy away from agriculture or production of raw materials towards industrial sector and institutional transformation of an economy (Yelwa et al, 2020).Therefore, no matter the distinction, what is important is that there is no development without growth.

**Increase in VAT and Nigerian Economic Growth:**

Since the introduction of the VAT in Nigeria, it has been observed that the revenue generated as VAT has risen greatly compared to the Sales Tax which was limited to just 9 products. The introduction of VAT covers more products and services than the sales tax. Therefore since government is charged with the functions like provision of infrastructure, maintenance of law and order, health and education of the citizens and as well as a fiscal tools for controlling the economy; these involve large amount of funds and VAT is one of the major sources over the past few years since its introduction. Therefore, these developments play vital roles in economic growth. Yelwa et al (2020).

According to Wikipedia (2021), the increase in VAT rate by implication will mean more income and revenue to the government for infrastructural development but this in itself does not guarantee that such funds so collected will be utilized for economic development activities.

**The Concept of Foreign Direct Exchange**

A foreign direct investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country. Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets in a foreign company. However, FDIs are distinguished from portfolio investments in which an investor merely purchases equities of foreign-based companies (Chen, 2021).

**The Concept of National Income**

National income means the value of goods and services produced by a country during a financial year. Thus, it is the net result of all economic activities of any country during a period of one year and is valued in terms of money. This is seen as the national finance accrued as a result of carrying out economic activities. This can be seen also as the entire profits made from business activities in an economy (Chen, 2021).

**The Concept of Net National Income**

In national income accounting, net national income (NNI) is net national product (NNP) minus indirect taxes. Net national income encompasses the income of households, businesses, and the government. Net national income is defined as gross domestic product plus net receipts of wages, salaries and property income from abroad, minus the depreciation of fixed capital assets (dwellings, buildings, machinery, transport equipment and physical infrastructure) through wear and tear and obsolescence (Chen, 2021).

**Theoretical Framework:**

**Tax Theories**

Taxation forms the most important source of revenue to the government. The Value Added Tax is one of such revenue sources today since its inception in 1994. The theory of VAT was first credited by a French Economist Maurice Laure in 1954 and was first introduced in France on the April 10$^{th}$, 1954.

Maurice Laures theory of VAT was envisioned on sale tax on goods that did not affect the cost of manufacture or distribution but was collected on the final price charged to the consumer Ofishe (2015). Since VAT is a subset of the entire tax system in Nigeria, it becomes imperative to look at the basic theories surrounding taxation. These theories include among the following;

**Convenience theory**: this theory was propounded by Adam Smith, the capitalist patriarch. The theory states that tax is a compulsory levy which must be borne by all eligible to bear the burden. The theory however prescribes here that the payer nonetheless should be helped to carry his cross without mush sweat grouse.

**Expediency theory**: this theory was posited that every tax proposal must past the test of practicability. It must be the sole consideration weighing the authorities a tax proposal.

**Benefit received theory**: this theory is based on the assumption that there is basically an exchange relationship between tax payers and the state. 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 as stated by Ofishe (2015).

**Faculty theory**: According to Ofishe (2015), this theory states that one should be taxed according to the ability to pay more so that a citizen should pay taxes just because he can, and his relative share in the tax burden is to be determined by his relative paying capacity. The bottom line of this theory is to maximize the distributive effects of taxes within the country.

**Cost of service theory**: This theory asserts that semi-commercial relationship exist between the state and the tax payer. According to the theorist, the state give up basic protective and welfare functions to cover the cost of the services. This theory is homogenous with benefit received theory according to Ugochukwu and Azubike, (2016).

## Economic Growth theories

**The Harrod-Domar model theory:** According to Jhingan (2008), the Harrod-Domar model of economic growth is based on the experiences of advanced economies. They are primarily addressed to advanced capitalist economy and attempt to analyze the requirements of steady growth in such economy. Both of them are interested in discovering the rate of income growth necessary for a smooth and uninterrupted working of the economy. Though their models differ in details, yet they both agree. Harrod and Domar assign a key role to investment in economic growth. But they lay emphasis on the dual character of investment. Firstly, it creates income and secondly, its augments the productive capacity of the economy by increasing its capital stock.

**The Salow-Swan theory:** The Salow-Swan theory of economic growth postulates a continuous product function linking output to the inputs of capital and labour which lead to the steady state of equilibrium of the economy according to Jhingan (2010).

**The Endogenous Growth theory**; the endogenous growth model emphasis technical progress resulting from the rate of investment, the size of the capital stock, and the stock of human capital.

**Empirical Framework:**

There are a lot of research work on Value added Tax. This is as a result of its advantage over other forms of taxes in recent times. Below are some of the reviews of works done under the topic; Izedonmi and Okunbor (2014), investigated The Roles of Value Added Tax in the Economic Growth of Nigeria. The paper empirically examined the contribution of VAT to the development of the Nigerian economy. Time series data on the Gross Domestic Product (GDP), VAT Revenue, Total Tax Revenue and Total (Federal government) revenue from 1994 to 2010 sourced from Central Bank of Nigeria (CBN) was analyzed, using both simple regression analysis and descriptive statistical method. Findings showed that VAT Revenue accounts and total revenue account for as much as 92% significant variations in GDP in Nigeria. A positive and insignificant correlation exists between VAT Revenue and GDP. The methodology is appropriate however the period of study may not be relevant to the current economic reality.

Ugochukwu and Azubike, (2016), carried out a study on investigating the relationship between VAT and GDP in Nigeria. The period of study was from 1994-2008 using a secondary data from CBN statistical bulletin analyse with pearsons' product movement correlation of coefficient. The study reviewed that VAT is not effective as revenue earner and the study recommends maintenance of the status quo. Base on the period of the study above, it would have been more appropriate for the investigation to cover a period of 1994-2015.

Adereti, Adesina and Sanni, (2011), carried out an investigation on Value Added Tax and Economic Growth of Nigeria. The aim was to increase the revenue base of government and make funds available for developmental purposes that will accelerate economic growth. Time series date on GDP, VAT revenue, Total tax revenue and total federal government revenue from 1994-2008 sources from CBN. The data was analyzed using simple regression and descriptive statistic method. Findings show that there is a positive and significant correlation between VAT revenue and GDP. The study recommended that, all identified administrative loopholes should be plugged for VAT revenue to continue to contribute more significantly to economic growth. The authors used appropriate study design, variables for the study but there is a need to extend from 1994-2016 to be able to have a better understanding on the impact of VAT on the Nigerian economic growth.

Ugochukwu et al (2016), carried out a study on the empirical evaluation of the contributions of Value Added Tax to Revenue generation and Gross Domestic Product in Nigeria. The purpose of the study was to examine the impact of VAT on revenue generation and GDP. The study covered a period of 18 years from 1994-2008 using ordinary least square regression for data and the result showed that VAT has a significant impact on GDP.

Okoyezu (2013), investigated Value Added Tax remittance; Observation from developing country. The challenge of the study was to evaluate the performance of VAT as revenue earner in Nigeria and assess revenue generated from VAT since its inception to know if it has been on the increase or decrease. The study covered a period of 7 years from 2005-2011 using a survey research design and the data analysis source from federal Inland Revenue service. The study finds out that VAT revenue has been on the decrease within the period of study and recommends that the Nigerian government should make adequate provision for retrieving the proceeds of VAT from companies and other agents of collection. Even though the right study design however, the study used primary data which is usually subjective and a matter of fact cannot be relied upon completely.

Okoli and Afolayan (2015), investigated correlation between Value Added Tax and National revenue in Nigeria. Data spanning from 1994-2012 sourced from CBN statistical bulletin were used, using Error correction model to analyze. The result reveals that VAT is the second long - term source of the federally collected revenue and recommends that all identified loopholes be plugged for

VAT revenue to contribute more to total federally collected revenue. This model used by the study is not widely used by most researchers on the topic and might not be accepted as such.

Finally, virtually all the works listed above deals with the effect of VAT on Economic growth but only spoke about the effects of an increase in the VAT rate therefore the next set of work is those which talked about the effect of increase in tax rate on the nation's economic topic:

According to an article published by MASA finance, (2021), Economic growth and development of any country depends largely on its revenue generation, usually taxation is the major source of this revenue. VAT is a consumption tax that is relatively easy to administer and difficult to evade. While the performance of Value Added Tax (VAT) as a source of revenue in Nigeria is encouraging, it remains difficult to systematically assess the impact of VAT on the economy.

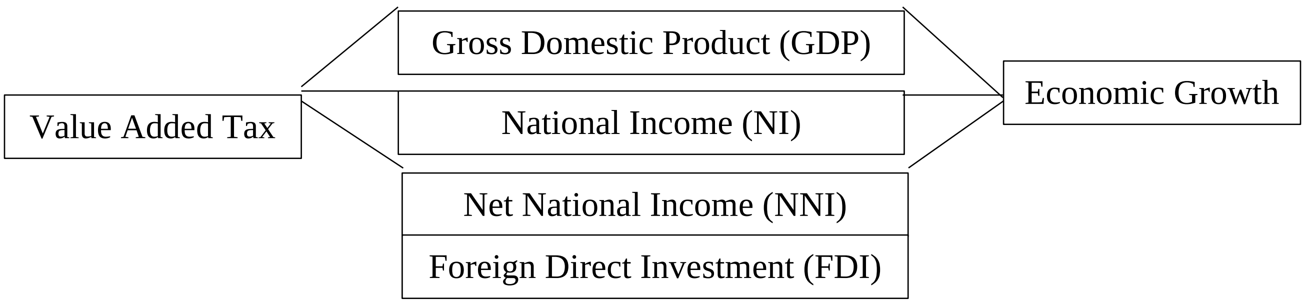
It was hoped that Value Added Tax introduction will not only help boost revenue to the government, but also help boost economic growth. However, many years after the introduction of Value Added Tax in Nigeria, economic growth is still below expectation, this in turn has raised questions about the effectiveness of VAT in promoting economic growth in Nigeria.

The paper reflected on the recent increase of the VAT rate from 5% to 7.5% and stated that the motive behind this does seem questionable considering the evidence of its lack of effectiveness in achieving its goal of facilitating economic growth The paper raised some observations as regards to the effects of the increase in VAT rate which is that the 2.5% increase will lead to an increase in the cost of production and provision of goods and services, especially for those involved in ventures that require multiple stages of production. This is due to the fact that they will encounter costs in which VAT will be charged, at multiple stages of their production process.

It was further suggested that consumers will typically wind up paying higher prices with the 2.5% increase in VAT. While the VAT theoretically spreads the burden of tax on the added value of a good as it moves through the supply chain, from raw material to final product, the reality is that these increased costs are typically passed along to the consumer. In Lagos state alone, restaurants are required by law to charge VAT and LSCT (Lagos State Consumption Tax), therefore consumers will now be charged12.5% for a meal. Even at that, the impact will still be felt less by the wealthy and shouldered more heavily by the low income households, who spend a larger percentage of their income on necessities. In fact, low income earners/consumers would pay a much higher proportion of their earnings in taxes with this VAT increase.

The articles also went further to state that while VAT is simple to maintain, it is costly to implement. In Nigeria currently, the government is losing millions in evasion already. Statistics show that currently out of every 10 SMEs, only 2 comply with tax laws. Therefore, an increase will most likely have an even more adverse effect on this statistic. Even with the notable adverse effects of the increment, unfortunately, the tax system is a "necessary evil that has come to stay".

## Conceptual Framework:




## Research Methodology

This study made use of descriptive analysis in analyzing the relationship that exists between increase in VAT rate on Economic Growth. It focuses mainly secondary data collected/sourced from published financial reports of the Nigerian government from 2016 to 2020. This research work draws evidence from the entire Nigerian economy from the year 2016 to 2020 from its annual economic reports and publications. This report will used such information as data for this work.

## Method of Data Collection:

### Secondary Data:

The method of data collection for this research work involves mainly secondary data. Primary data was not used due to the complexity of the aggregates to be measured and also to reduce the rate of errors in collecting such data. The basic instrument used in gathering data is the yearly published financial reports/statements of the Nigerian Government for the period of 2016 to 2020.

## Variables and Measurement:

$VAT = bo + b1\ GDP + b2\ NI + b3\ NNI + b_4\ FDI + unit$

Where GDP = Gross Domestic Product

NI = National Income

NNI = Net National Income

FDI = Foreign Direct Investment

b1-b3 = coefficients

unit =Random error term

**Method of Data Analysis:**

The method of data analysis that will be used for this study will be the regression analysis. These methods of data analysis were used because they are most suitable for this research work and will give a clear analysis on the research topic in questions.

**Data Presentation, Analysis and Interpretation**

**Descriptive Statistics:**

**Table 4.1: Descriptive Statistics**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| **GDP** | 5 | 375 | 448 | 404.99 | 26.671 |
| **NI** | 5 | 1960 | 2430 | 2102.00 | 189.394 |
| **NNI** | 5 | 159 | 342185 | 130229.17 | 177524.351 |
| **FDI** | 5 | 1 | 3 | 2.27 | .955 |
| **VAT** | 5 | 5.00 | 7.50 | 5.5000 | 1.11803 |
| **Valid N (listwise)** | 5 | | | | |

**SPSS Output**

From the descriptive statistics table above showing the relationship between GDP, NI, NNI and FDI, it shows clearly that the minimum and maximum values of GDP is 375 and 448 respectively. The mean value is 404.99 with a standard deviation of 26.671 which indicates little dispersion between the GDP of Nigeria from 2016 to 2020. The table shows clearly that the minimum and maximum values of NI is 1960 and 2430 respectively. The mean value is 2102 with a standard deviation of 189.394 which indicates little dispersion between the NI of Nigeria from 2016 to 2020. The table shows clearly that the minimum and maximum values of NNI is 159 and 342185 respectively. The mean value is 130229.17 with a standard deviation of 177524.351 which indicates high dispersion between the NI of Nigeria from 2016 to 2020. The table shows clearly that the minimum and maximum values of FDI is 1 and 3 respectively. The mean value is 2.27 with a standard deviation of 0.955 which indicates high dispersion between the NI of Nigeria from 2016 to 2020. The table shows clearly that the minimum and maximum values of VAT is 5.00 and 7.50 respectively. The mean value is 5.50 with a standard deviation of 1.11803 which indicates high dispersion between the NI of Nigeria from 2016 to 2020.

**Table 4.2: Correlations**

| | | GDP | NI | NNI | FDI | VAT |
|---|---|---|---|---|---|---|
| **GDP** | Pearson Correlation | 1 | -.061 | -.492 | .079 | -.105 |
| | Sig. (2-tailed) | | .922 | .400 | .899 | .867 |
| | N | 5 | 5 | 5 | 5 | 5 |
| **NI** | Pearson Correlation | -.061 | 1 | .805 | .803 | -.301 |
| | Sig. (2-tailed) | .922 | | .100 | .102 | .623 |
| | N | 5 | 5 | 5 | 5 | 5 |
| **NNI** | Pearson Correlation | -.492 | .805 | 1 | .657 | -.404 |
| | Sig. (2-tailed) | .400 | .100 | | .228 | .499 |
| | N | 5 | 5 | 5 | 5 | 5 |
| **FDI** | Pearson Correlation | .079 | .803 | .657 | 1 | .076 |
| | Sig. (2-tailed) | .899 | .102 | .228 | | .903 |
| | N | 5 | 5 | 5 | 5 | 5 |
| **VAT** | Pearson Correlation | -.105 | -.301 | -.404 | .076 | 1 |
| | Sig. (2-tailed) | .867 | .623 | .499 | .903 | |
| | N | 5 | 5 | 5 | 5 | 5 |

***SPSS Output***

From the above correlation table, it clearly shows that VAT has a positive relationship with GDP showing a positive value of .867. The table shows that VAT and NI have a positive relationship with a value of .623 showing a strong negative relationship. The table also measured VAT and NNI and showed a positive value of .499 which indicates a positive and strong relationship exists between VAT and NI. Finally, the table shows that VAT and FDI have a positive relationship with a value of .903.

**Table 4.3. Showing GDP being the dependent variable to VAT**

**Variables Entered/Removed[a]**

| Model | Variables Entered | Variables Removed | Method |
|---|---|---|---|
| **1** | VAT[b] | . | Enter |

a. Dependent Variable: GDP
b. All requested variables entered.

From the table above, it clearly shows that GDP is the dependent variable to VAT.

**Table 4.4. Showing Regression Model Summary for effect of VAT on GDP**
**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| **1** | .219[a] | .048 | -.269 | 30.050 |

a. Predictors: (Constant), VAT

***SPSS Output***

From the above table, the adjusted R Square shows a value of -.269 which is negative value indicating that VAT has no effect on Gross Domestic Product which affirms the first null hypothesis which states that increase in VAT rate does not have any impact on GDP. The alternative hypothesis which states that increase in VAT rate has an impact on GDP is therefore rejected.

**Table 4.5. Showing Anova analysis indicating whether GDP is a good predictor of economic growth**
**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| **1** | Regression | 136.405 | 1 | 136.405 | .151 | .723[b] |
| | Residual | 2709.047 | 3 | 903.016 | | |
| | Total | 2845.453 | 4 | | | |

a. Dependent Variable: GDP
***b.*** Predictors: (Constant), VAT

***SPSS Output***

The Anova above shows that GDP is a good predictor of Economic Growth with a positive value of .723[b] indicating a strong effect.

**Table 4.6. Showing interest rate being the dependent variable to VAT**
**Variables Entered/Removed[a]**

| Model | Variables Entered | Variables Removed | Method |
|---|---|---|---|

| | | | |
|---|---|---|---|
| **1** | VAT[b] | . | Enter |

a. Dependent Variable: NI
**b.** All requested variables entered.

**SPSS Output**

From the table above, it clearly shows that NI is the dependent variable to VAT.

**Table 4.7. Showing Regression Model Summary for effect of VAT on NI**
**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| **1** | .588[a] | .346 | .128 | 176.887 |

a. Predictors: (Constant), VAT

**SPSS Output**

From the above table, the adjusted R Square shows a value of .128 which is a positive value and indicates that VAT has an impact on NI which affirms the second alternative hypothesis which states that increase in VAT rate has an impact on National Income. The null hypothesis which states that increase in VAT rate has no impact on NI is therefore rejected.

**Table 4.8. Showing Anova analysis indicating whether NI is a good predictor of economic growth**
**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| **1** | Regression | 49613.333 | 1 | 49613.333 | 1.586 | .297[b] |
| | Residual | 93866.667 | 3 | 31288.889 | | |
| | Total | 143480.000 | 4 | | | |

a. Dependent Variable: NI
***b.*** Predictors: (Constant), VAT

***SPSS Output***

The ANOVA table above shows a mean square of .297[b] which is a positive value indicating that NI is a good predictor of Economic Growth and was appropriate as an indicator for economic growth in this study.

**Table 4.9. Showing IR being the dependent variable to VAT**
**Variables Entered/Removeda**

| Model | Variables Entered | Variables Removed | Method |
|---|---|---|---|
| **1** | VAT[b] | . | Enter |

a. Dependent Variable: NNI

***b.*** All requested variables entered.

***SPSS Output***

From the table above, it clearly shows that NI is the dependent variable to VAT.

**Table 4.10. Model Summary showing NNI as a dependent variable of VAT**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| **1** | .663[a] | .440 | .253 | 153457.581 |

a. Predictors: (Constant), VAT

**SPSS Output**

From the above table, the adjusted R Square shows a value of .253 which is a positive value and indicates that VAT has an impact on Net National Income which affirms the third alternative hypothesis which states that increase in VAT rate has an impact on Net National Income is hereby accepted. The null hypothesis which states that increase in VAT rate has no impact on Net National Income is therefore rejected.

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| **1** | Regression | 55411893844.873 | 1 | 55411893844.873 | 2.353 | .223[b] |
| | Residual | 70647687452.343 | 3 | 23549229150.781 | | |
| | Total | 126059581297.216 | 4 | | | |

a. Dependent Variable: NNI

**b.** Predictors: (Constant), VAT

**SPSS Output**

The ANOVA table above shows a significant value of .223[b] which is a positive value indicating that NNI is a good predictor of Economic Growth and was appropriate as an indicator for economic growth in this study.

**Table 4.12**

**Variables Entered/Removed[a]**

| Model | Variables Entered | Variables Removed | Method |
|---|---|---|---|
| **1** | VAT[b] | . | Enter |

a. Dependent Variable: FDI
**b.** All requested variables entered.

**SPSS Output**

From the table above, it shows that FDI is a dependent variable to VAT.

**Table 4.13: Measuring VAT on FDI**
**8Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| **1** | .650[a] | .422 | .230 | .839 |

a. Predictors: (Constant), VAT

**SPSS Output**

From the above table, the adjusted R Square shows a value of .230 which is a positive value and indicates that VAT has an impact on Foreign Direct Investment which affirms the third alternative hypothesis which states that increase in VAT rate has an impact on FDI is hereby accepted. The null hypothesis which states that increase in VAT rate has no impact on FDI is therefore rejected.

**Table 4.14**
**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| **1** | Regression | 1.541 | 1 | 1.541 | 2.192 | .235[b] |
| | Residual | 2.109 | 3 | .703 | | |
| | Total | 3.651 | 4 | | | |

a. Dependent Variable: FDI
**b.** Predictors: (Constant), VAT

**SPSS Output**

The ANOVA table above shows a significant value of .235[b] which is a positive value indicating that FDI is a good predictor of Economic Growth and was appropriate as an indicator for economic growth in this study.

**Discussion of Results:**

From the correlations analysis carried out, it showed that GDP has a positive relationship with VAT with a positive value of which indicates that VAT has no effect on GDP of a country which partially disagrees with the work of Izedonmi and Okunbor (2014), investigated the Roles of Value Added Tax on the Economic Growth of Nigeria. The paper empirically examined the contribution of VAT to the development of the Nigerian economy. Time series data on the Gross Domestic Product (GDP), VAT Revenue, Total Tax Revenue and Total (Federal government) revenue from 1994 to 2010 sourced from Central Bank of Nigeria (CBN) was analyzed, using both simple regression analysis and descriptive statistical method. Findings showed that VAT Revenue accounts and total revenue account for as much as 92% significant variations in GDP in Nigeria. A positive and insignificant correlation exists between VAT Revenue and GDP. The findings of this research work also contravenes the findings of Ugochukwu and Azubike, (2016), who carried out a study on investigating the relationship between VAT and GDP in Nigeria. The period of study was from 1994-2008 using a secondary data from CBN statistical bulletin analyse with pearsons' product movement correlation of coefficient. The study reviewed that VAT is not effective as revenue earner and the study recommends maintenance of the status quo.

It was also shown that NI and VAT also have a good relationship with a positive value while NNI and VAT were shown to have a relationship with a positive value. The regression analysis that was done on table 4.4. showed that VAT has an effect on NNI with a positive value. The regression analysis also showed that VAT has an impact on FDI with a positive value. The ANOVA table 4.5. showed that GDP is a good predictor of economic growth and therefore appropriate for this study. Table 4.7 The ANOVA table 4.8 shows that NI is good predictor of economic growth with a positive mean value. ANOVA table also shows that NNI is a good predictor of economic growth and therefore properly used in this study with a positive value. Finally, the ANOVA table also showed that FDI is a good predictor of Economic Growth. It therefore confirms that increase in VAT has effect on economic growth of Nigeria which corresponds with the works of Nasiru, Haruna, and Abdullahi (2016) and Pavtar (2015), investigated the Impact of VAT on Nigeria Economic Growth using time series data which were sourced from CBN statistical bulletin for a period of 5 years from 2009-2014. Their studies focused on Evaluating the impact of Value Added Tax on the economic growth of Nigeria from 1994-2014. Both studies used secondary data. Both studies found evidence of a significant positive impact of VAT on economic growth. The study therefore recommended that VAT should be sustained hence; all identified administrative loopholes should be covered for VAT to continue to contribute more significantly to the economic growth of the country. The study is considered reasonable for the time period covered however, the instrument adopted may not be generally acceptable in the current time.

Finally, the findings of this research work also agrees with the findings of research conducted by Adereti, Adesina and Sanni, (2011), carried out an investigation on Value Added Tax and Economic Growth of Nigeria. The aim was to increase the revenue base of government and make funds available for developmental purposes that will accelerate economic growth. Time series date on GDP, VAT revenue, Total tax revenue and total federal government revenue from 1994-2008 sources from CBN. The data was analyzed using simple regression and descriptive statistic method. Findings show that there is a positive and significant correlation between VAT revenue and GDP.

## Summary, Conclusion and Recommendation

### Summary and Finding:

From the study conducted which was to find out the effects of increase in value added tax on the economic growth of Nigeria using gross domestic product, National Income, Net National Income and Foreign Direct Investment as proxies of economic growth. It was discovered that increase in VAT has no effect on the gross domestic product of a country though it was also discovered that gross domestic product is a good predictor of economic growth. Furthermore, the findings showed that increase in value added tax has an impact on National Income of a country. The study also showed that National Income is a good predictor of economic growth based on the ANOVA analysis conducted. Findings also showed that VAT has a positive impact on Net

National Income. The ANOVA table also showed that FDI is a good predictor of Economic Growth.

## Conclusion:

The study therefore shows that VAT has great effect on the growth of a nation's economy therefore an increase or a reduction in the VAT rate will definitely have vast effect on the performance of the country it is therefore very necessary and important that the government of a country put into consideration the various effects an increase or a decrease in VAT rate may cause before making any decision to do any of the two. The links between VAT and economy growth has assessed. VAT has a positive impact on growth after a considerable evaluation. All the variables are statistically significant. Estimated results suggest that VAT impacts strongly upon gross domestic product, import rate and interest rate.

## Recommendation:

After carrying out this research work and coming to a conclusion, it becomes necessary for the researchers to make some recommendations regarding the subject matter of this research work which are:

i. Government should always consider the full effects of either an increase or a decrease in VAT rate before establishing a policy to that regards as both increase and decrease in VAT rate have effects on the economic growth of the country.
ii. There should be more public awareness on the real impact of value added tax on the economy especially to the lay men as they know little or nothing about VAT.
iii. Increase in VAT rate might not be the solution the government need to improve its economic growth as it has proven to have diverse effects on the economy which are both positive and negative.

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