

**IMPACT OF VALUE ADDED TAX ON THE NIGERIA
ECONOMY**

**(A CASE STUDY OF FEDERAL INLAND REVENUE SERVICE,
ILORIN)**

By

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CERTIFICATION

This is to certify that this project by ADENIYI OMOTOLANI JOHN with number HND/23/ACC/FT/0360 has been read and approved as meeting part of the requirements for the award of Higher National Diploma (HND) in Accountancy, Institute of Finance and Management Studies (IFMS), Kwara State Polytechnic, Ilorin.

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DEDICATION

This project is dedicated to Almighty God, the most Gracious and most Merciful. Also to my lovely Parents Mr. and Mrs. Adeniyi, whose love, care, prayer and encouragement have been my motivation over the years. May you live long to reap the fruit of your labour (Amen).

ACKNOWLEDGEMENT

All glory, honor and praises to Almighty God for His mercy and guidance upon my life and my family for sparing my life till this moment, all thanks given to the most beneficent and the most merciful for seeing me through my academic course, and I want to thank My parents Mr and Mrs ADENIYI for their support and prayers over my life My appreciation also goes to my supervisor Dr. YUSUF A.S you are not just a supervisor, you are also a role of model who simplicity, exemplary human relation and zeal for this progress have made this research a good success. May Almighty God continue to show his mercy on you sir. Amen.

I will also use this medium to appreciate my HOD in person of Mr. Elelu and all departmental lecturer for their immense support, may God be with you all .Amen I will be ingrate if I fail to appreciate the effort of my siblings in person of Adeniyi Omogbolahan and Fikayo I pray that God will bless you and grant you long life I will like to thank Mrs shoyinka for been a shelter in times of trouble words can not show how grateful I am May Almighty God continue to keep you safe

I want to use this medium to say a very big thank to OLAOYE KEHINDE DEBORAH thank you for everything words alone cannot describe how greatful I am

TABLE OF CONTENTS

Title Page	i
Certification	ii
Dedication	iii
Acknowledgement	iv
Table of Contents	v-vi
CHPATER ONE	
1.0 Introduction	1
1.1 background of the Study	1-3
1.2 Statement of the Problem	3-4
1.3 Research Questions	4
1.4 Objectives of the Study	4-5
1.5 Research Hypothesis	5
1.6 Significance of the study	5-6
1.7 Scope of the Study	6
1.8 Definition of Terms	6-7
CHAPTER TWO	
Literature Review	8-9
2.1 Conceptual Framework	10-20
2.2 Theoretical Review	20-22
2.3 Theory of Outsourcing	23
2.4 Empirical Review	23-25
CHAPTER THREE	
Research Methodology	26
3.1 Design Study	26
3.2 Source of Data Collection	26-27
3.3 Population of the Study	27
3.4 Sample Size and Techniques	27

3.5	Research Instrument	27
3.6	Method of Data Analysis	28
3.7	Model Specification	28-29

CHAPTER FOUR

	Analysis and Discussion	30
4.1	Introduction	30
4.2	Demographic Characteristics of Respondent	30-33
4.3	Statistical Result	33-38
4.4	Test of Hypothesis	38-42
4.5	Summary of Findings	42

CHAPTER FIVE

	Summary, Conclusion and Recommendations	43
5.1	Summary	43
5.2	Conclusion	44
5.3	Recommendations	44-45
	References	

CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Value added tax represent an important source of government revenue in most countries of the world. Over the last half century. VAT has been adopted in many developed and developing countries. It also provides an average of about one quarter of most government revenue (Olu, 2000).

The implementation of value added tax (VAT) in Nigeria started on 1st January, 1994. VAT is a tax on consumption. It is suffered when a person consumes VATABLE goods and services. The enabling act is the value added tax act 102 of the 1993 (VAT 1993).

Before the final introduction of the VAT in January, in 1994, the idea of introducing VAT in Nigeria came from the report of the study group set up by the federal government in 1991 to review the entire tax system. VAT was proposed and a committee was set up to carry out feasibility studies on it implementation. And since introduction, VAT as yielded great revenue to the pursue of the government (Oyebanji, 2004).

Initially, VAT was proposed on January 1993, but the government agrees to introduce it by the middle of the year, and it finally took off on January 1994. (Ishola, 2001).

According to Mihar (2002) the introduction of VAT into the Nigeria economy was to solve one of the major problems of public finance, that is the acquisition and the allocation of fund by government unit.

Moreso, the implementation of VAT as to serve is a replacement of existing sale tax which as been in operation under the federal government legislated ACT no 7 of 1986 but which was operation on the basis of resident.

Nigeria VAT according to Olu (2000) as a number of features that theoretically make it quite straight forward and as possible.

Firstly, it is a single rate tax (5%) which makes it easier to administer. Secondly, it uses an input-output method that makes itself policing. That is, although, it is a multi stage task, it is expected to have a single effect on consumer prices and should not add more than the specified rate to the consumer prices, no matter the number of stages at which the tax is paid. in other word the increase in price of final goods and services should not be more than VAT rate since liability of VAT organisation is the difference between VAT on output and VAT on input.

Thirdly, all goods and services are VAT able with limited and very specific expectation. All input are VAT able whether imported raw material or finished goods VAT on input is calculated in the total value of the total cost insurance, and freight. Export are zero rated, implying that exporter do not collect VAT on export but they can claim credit for VAT paid on their import,

Moreover, VAT does not replace any of the usual indirect or income taxes, it did replaces the sale tax introduced in 1986, which had a narrow base and discriminated against locally produced goods and services as it excluded input.

The VAT revenue is shared by various level of , thus VAT revenue is injected into the economy through increase in government final consumption expenditure (Oyebanji, 2004).

The impact of this system of taxation to the Nigeria economy cannot be under estimated. its implementation had contributed immensely to the public finance. This statement would be justify using appropriate data in the subsequent chapters.

1.2 STATEMENT OF THE PROBLEM

The complaints about adverse effect of VAT in Nigeria suggest that, there is a problem with the way VAT able organisation are treating their liabilities, (Olu, 2000) noted that there may be problems with the way government is managing the expenditure of the VAT revenue.

According to Ajakaiye (2000) noted that the official view is that VAT should have no cumulative effect whatsoever. Yet, no impact assessment has been done to ensure the sustainability of the tax and its effect. Government needs to know its macro economic impact on price output, income and consumption. Concern over the economy effects of VAT is important because of the possibility that the tax may cause consumers to act consumption of certain commodities, hence, affecting labour productivity.

This study therefore, investigated the impact of VAT on the key factor land, macroeconomic elements of Nigeria by carrying out a survey in Federal Inland Revenue Service and other VAT able organizations with simulation of impact of VAT under various scenarios.

1.3 RESERCH QUESTIONS

The research sought to answer the following questions.

- i. What are the factors influencing the payment of VAT in Nigeria.
- ii. Does government if Nigeria generates high revenue through VAT.
- iii. Does VAT have any input on the VAT collection in the Nigeria economy.
- iv. How do you enhance the future of VAT collection in the country.

1.4 OBJECTIVES OF THE STUDY

The general objective of this study is to investigate the impacts of VAT on the Nigerian economy.

The specific objectives are to,

- i. Assess the factors influencing the payment of VAT in Nigeria.
- ii. Examine the extent of influence of VAT on revenue generation in Nigeria.
- iii. Determine the impact of VAT on the Nigeria economy.
- iv. Formulate a frame work for enhancing future of VAT collection in the country.

1.5 RESERCH HYPOTHESIS

Ho₁: There is no factor that can influence the payment of VAT in Nigeria.

Ho₂: The extent of influence of VAT on revenue generation in Nigeria is low.

Ho₃: VAT has no significant impact on the Nigeria economy.

Ho₄: There is no frame work for enhancing future of VAT collection in the country.

1.6 SIGNIFICANCE OF THE STUDY

In the assessment of the Nigeria VAT system over some years, it will be noticed that VAT revenue has been growing higher than the projection of the government (Olu, 2000).

The government may be happy about the high and growing VAT revenues, but there are increasing complaints from the organized privates sectors about the effects of VAT on their operating costs and the prices of products.

It is on this note that the finding of this research work was based on the need to analyze the effects of VAT on the need to analyze the effect of VAT on various business in Nigeria, to educate entrepreneurs, individuals, and the society on the importance of VAT and also to help in providing recommendations on how entrepreneurs can cope with VAT and how to move forward in a distressed economy.

1.7 SCOPE OF THE STUDY

The research works is based on the study of the impact of VAT on the Nigeria economy. Specifically, the research was carried out by examine a selected manufacturing company for VAT able goods and services. The company includes FIRS, Ilorin branch. Samples were administered to get the views on the issues. Moreso, VAT for the eight years were examined to determine the impact of VAT on the Nigeria economy

1.8 DEFINITION OF TERMS

INPUT VAT: This is a tax paid on goods and service purchased. A taxable person shall pay to the supplier the tax on taxable goods and service purchased by on supplied to him.

OUTPUT VAT: This is the tax collected by a taxable person from other parties for goods and services supplied. therefore, every VAT able on is expected to remit to the relevant local VAT office, the net VAT able which s the essence of VAT output over the input VAT.

REGISTERED PERSON: Is any person registered under the section eight of VAT decree 102 of 1993 (in this decree referred to as registered person) shall keep such records and books of all transaction, operations import and other activities relating to taxable goods and services as sufficient to determine to the correct amount of tax due under this decree (Dr. Olatunji, et al, 2002).

SALES TAX: This is a narrow based tax operated under decree number of 1986.It covers only nine categories of goods plus sales and services in registered hotels, motels, and similar establishment (Ishola, 2000).

VAT: This is a tax payable on the supply of specific goods and services. It was introduced in 1994.

TAXATION: This is a compulsory level by the government of any country through an appropriate agency. On all incomes, goods, services and properties of an individual, partnership, executor, trustee and a corporate bodies in other to generate revenue to the government directly or indirectly (Oyebanji, 2004).

VATABLE PERSON: This is someone who trade in VAT able goods and services for a consideration. Every VAT able person as an obligation to register for a VAT payment (Oyebanji, 2004).

CHAPTER TWO

LITERATURE REVIEW

In Nigeria before the introduction of VAT in 1993, the initial sales tax which is also a consumption tax was in existence through the sales decree no 7 of 1986.

However, for the superiority of VAT over the sales tax in terms of benefit to both the government and the general public, sales tax was placed with VAT on the following ground.

- i. **NARROW BASE OF SALES TAX:** The base of the sales tax in Nigeria as operated under act No 7 1986 is narrow covers only nine categories of goods and services in registered hotels, motels and similar establishments. The narrow base of tax negates the fundamental principle of consumption tax which by nature is expected to cut across all consumption goods and services. VAT base is broader and include most professional services, and banking transactions, which are high profit generating sectors.
- ii. **LOCALLY MANUFACTURED GOODS WERE TARGETED:** only locally manufacture good were targeted by the sales tax act of 1986. Although, this might not have been the intention of the law under VAT, a considerable part of the tax to be realized is from imported goods. This means that under the new VAT, locally manufacture goods will not be placed at a disadvantage to export.
- iii. **EXPECTED HIGH YIELD VAT AS AGAINST RETAIL SALES TAX**
- iv. Also, since VAT is based on construction (general) behaviours of the people, the expected high yield from it will boost the fortune of the state government with minimum resistance from tax payers (Oyebanji, 2004). Ishola (2001) also added that :
 - i. VAT has also been able to redress the cascading effect of sales tax through the introduction of credit system, which was absent under the sales regions.
 - ii. VAT is based on general consumption all over the federation and vital areas in which sales tax did not extend are now covered. Also added in the preface note for the World Bank are.
 - iii. Weakness in the collection system under the sales tax with inadequate checks and control leading to revenue leakage.
 - iv. A need to move away from collection based on physical surveillance towards modern method based on documentation reducing their potentials from corruption.
 - v. The VAT also provided an opportunity to introduce modern tax administration techniques to the administration of VAT especially self assessment.

2.1 CONCEPTUAL FRAME WORK

2.1.1 DEFINITION OF VALUE ADDED TAX (VAX)

Just as an other types of tax, personal income tax which is profit arising from trade business, profession and income earned from any source inside or outside Nigeria are changeable to tax in Nigeria, if the tax payer happen to be residence in Nigeria. Capital gain tax which is posed on the fixed or fixed Assets.

Value Added Tax (VAT) is also tax imposed on value added goods and services. (The amount of value by applying its own factors of production) namely, money, land, labour, capital and entrepreneur. Also, Value Added Tax (VAT) is tax that shall be charged and supply of all goods and services listed schedule to the decree.

According to United States, statement of standard accounting practice (SSAP) No. 5, VAT is defined as a “tax on the supply of goods and services which is eventually borne by the final consumers but collected at each stage of production and distribution chain”.

According to Frederick D.S Chol, Value Added Tax is a tax that is visually levied on the value added at each stage of production or distribution. This tax applies to the total sales of purchases from any intermediate sales unit. Also, VAT is defined by Ishola (2001) as a tax levied at each stages of production. It is a multi stage self assessment tax that is paid when returns are being rendered and or sales and distribution.

Furthermore, in the statement of accounting standard (SAS 19), VAT described as a tax payable on the supply of specific goods and services.

However, from the above definition, the following characteristics are derived from VAT:

- i. VAT is a tax which incidence is borne by the final consumer.
- ii. VAT is a multistage tax that is levied at each stage of production and distribution chain.
- iii. VAT is a consumption tax.
- iv. The rate of VAT is specific and its borne finally by the consumer of the VAT able goods.

Value added is control to VAT, its determination is central to the calculation of VAT. In any organisation the value added is defined as the difference between the firm sales of output and it purchase of input from other firms. In other words, value added is the amount of value a firm

contributes to goods or services by applying its own factors of production namely, land, labour, capital and entrepreneur ability (Ishola 2001).

The value added of a firm therefore equals to the sum of the returns to its factor of production for a given period rent plus wages plus interest plus profit. As a taxable company has said earlier, the value added is the base on which the rate of tax is applied to arrive to at the tax payable.

In summary, value can be added to the product in the following ways:

- i. By changing it from raw materials to finished or semi finished products.
- ii. By making the produced goods to the consumers, thus also entails advertising, transportation etc.
- iii. By altering the goods or services based both message sent back from the environment (i.e. consumers) to ensure better efficiency (control techniques).

Conclusively, it can be said that value is added to a product or service from the purchase of raw material to the end of the production cycle of the product and even taking control measures on the product.

2.1.2 FACTORS CONSIDERED BEFORE INTRODUCING VAT

In other to facilitate a successful and effective implementation of VAT, Chapman, 2001 in his promote prepared for the World Bank recommended the following factors as being sensitive to the introduction of VAT in any economy.

- i. **Strong and clean Political Management:** The introduction of VAT may face strong resistance by group lobbying for preference tax treatment. Thus, clear up level, political government is needed to introduce a VAT combine within efficient management of legislative process to ensure that lobbying and political support may be weak and political opponents may influence public opinions against the reform.
- ii. **A well defined and sound Public Education Campaign:** The campaign should among other include sufficient as well as professional and trade bodies offices and high end manufacturers. Moreover, the campaign content should be such that will give full explanation of some of the tax most important details.
- iii. **Timing:** The date for introduction and or implementation shall be carefully chosen to avoid inflationary phenomena. It may not be enough to do timing internally; externally bodies

should be encouraged to help monitor the tax effect on price before, during and after its launch.

- iv. **Introducing Rate:** The rate at which tax will be introduced should be monitored and ensure that it is not more than the rate of the initial tax which VAT is to replace. If this is not taken care of, a higher rate may provoke public unrest and oppositions thereby leading to its failure.
- v. **Tax Administration:** sufficient time must be allocated to prepare the tax administration for registering VAT payers and collecting tax. In addition, experienced tax administrator be transferred from existing tax administration bodies to the VAT service to ease staffing gaps.

2.1.3 TYPES OF VAT

Ishola (2001) stated that there are three types of VAT

- i. Consumption Tax
- ii. Income Tax
- iii. Gross Product Tax

CONSUMPTION TAX

Under the capital purchase are treated the same way as the purchase of other input. This treatment of capital input is equivalent to expending. In other words, no purchase is treated specially as soon as an expenditure is made VATable items either on capital or recurrent items the VAT on it is paid.

INCOME VAT

Under this, the tax paid in purchase of capital input. This treatment of capital input is amortized i.e. credit against the Value Added Tax liability.) Over the expected life of such, capital input. This type has the additional advantage of paying VAT in full at once thereby minimizing the cost incurred on tax of the purchased item.

GROSS PRODUCT VAT

Under this, no deduction of tax on input of capital purchase is allowed against the firms output tax. In other words, the taxable firm is treated as a final consumer of all the capital input.

ZERO RATED GOODS AND SERVICES

The VAT decree 1993 is although silent in zero rated goods and services. The VAT return from 002 contains a column for zero rating supplies and the information circular issued by the Federal Inland Revenue Service (FIRS) mentioned exported goods and services, as zero rated. The term zero rating is a terminology copied from United Kingdom (UK) VAT system which is not accommodated under Nigeria VAT legislation.

However, zero rating is not exemption from VAT; it rather means that product is VATable at zero percent. The differences between zero rating and exemption is that a refund of input VAT on zero rated goods and services can be claimed from the Federal Inland Revenue Service, while under the general principle of VAT exemption, as it is practiced in the UK. A claim for credit on input VAT on exempted supplies is not possible. Every VATable company is therefore refunded to register for VAT within six months of commencement of business (Oyebanji, 2004).

2.1.4 VALUE ADDED TAX IN NIGERIA

The tax which each individuals is bound to pay ought to be certain, and put arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be cleared and plain to the contribution, and to every other person.

Having taking a decision to implement VAT, government was faced with a need to answer the administrative question of which organisation was not suitable to administer the tax. Nigeria was at mis crossroad by December 1993 when the new tax was about to start.

There are many possibilities in taking the crucial decision of where to lace the administrations of VAT.

The main possibilities include:

- a) The organisation that administers customs and exercise duties.
- b) The organisation that administered internal indirect taxes if separated from income tax.
- c) The income tax administrations.
- d) In rare cases, a separate output.

While it is difficult to prescribe general guidelines as to which of these organisation is best equipped to administers VAT, the experience of different countries all over the world today is a good pointer to prescribe same guidelines in the area.

To some extent, the administration of VAT has some relevance to custom duties because VAT will be applied on import and paid on import in manner similar to custom duties. It is on this

premises that countries like Britain choose to pitch the VAT administration in the Board of customs and exercise but the expertise and training of customs officials are tailored towards establishing the value of goods across the boarders.

The idea of introducing Value Added Tax in Nigeria was mounted in 1991 in the context of a review of the country entire tax system.

A committee was setup to conduct a feasibility study and the implementation of such a tax, but the committee mandate did not extend to assessing the possible impact of the tax, implementation of tax begin January, there have been a problem over the years with the way VATable organizations are treating their liabilities especially the VAT they pay on their input. Moreso, there is a problem with the way government is managing the expenditure of VAT revenue (D. Olu Ajeakaiye 2000).

The VAT authorities were able to prefer some solutions to the problems which makes it to be straight forward and as painless as possible.

Secondly, it uses an input-output method which makes it self-policing and accepted over the years.

2.1.5 EFFECTS OF SWITCHING TO VALUE ADDED TAX ON ECONOMIC DEVELOPMENT:

The most repeated argument in favour of switching to a flat rate consumption tax (VAT is that, it will make the economy more efficient and will increase savings. In evaluating this argument however, comparison should be made between the VAT and the sales tax and over income tax on the following grounds:

- i. **EFFICIENCY ISSUES:** the economy efficiency or inefficient of a tax system may be judge by its effect on behavior, to the degree that the tax system distort economic behaviour (from what it would be in the absence of the tax). Its economically inefficient if the distortion prevents the efficient allocation of resources.
- ii. An income Tax distorts the choice present and future consumption i.e. this return to saving is subject to tax.

This reduced the resources in individual will have available for consumption in the future and hence, raise the price of future consumption relatives to the price of present consumption. On the other hand, a tax on consumption (e.g. VAT) is neutral with respect to the choice between

future and present consumption in terms of present consumptions is the same as if there were no taxes.

- iii. Increase in savings is also predicated in switching from income to consumption taxes and this effort is often viewed to be a positive result of a consumption tax. An increase in saving rate however can be determine to be necessary for future consumption.
- iv. Also, the consumption taxes unlike the income tax allow an up-front deduction for savings but require the payment of tax in both principal and return when consumption occurs in the future. These individuals need to save today to pay taxes in both principal and return when consumption occurs in the future. Their large tax cuts therefore, while a young (current, work force) consume part of their cuts, who do not save because they are consuming from their accumulated capital reduce their consumption by which more and the overall effects is to increase aggregate savings in the economy.
- v. **EFFECTS ON TRADES:** It is mostly believed that if a country could produce goods at costs comparable to or lower than those abroad its export would increase and its importation decrease. This in terms would improve trade performance and reduces trade deal at.

Although, a particular country may not have the ability of capturing larger shares of the world market by producing output at lower cost than foreign firms that is, a nation engaging in trade cannot be a market winner in all products: however, it can be achieved in some of the product it produces most.
- vi. If a country can switch from an income tax to a consumption tax (VAT), then the country is trade difficult will diminish. This is justified by the world trade organisation (WTO) rules that consumption tax such VAT may be rebated on exports and exposed on imports. Income taxes however cannot be adjusted at the boarder. The existence of these boards taxes have led most to the conclusion that nation with VAT have trade advantages over those with output.
- vii. Consumption of trade changes in tax policing can and do affect the composition of trade. For example, if tax change increase the tax burden of some firms relative to other than those firms with an increase burden might see their market share and their export decline.

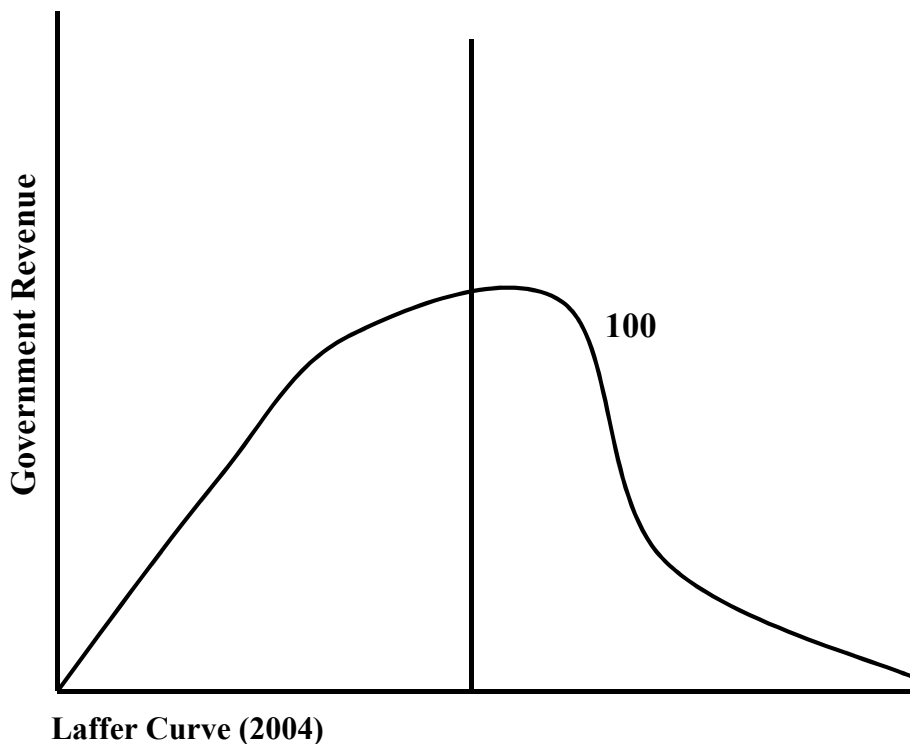
On the other hand, those firms that experienced a relative decline in their burden might see their market share and export increased. Therefore, this relative shift in inter_firm tax burden and the resultant. Shift in market output could affect the consumption of both export and imports.

Conclusively, indeed the purpose of allowing for relatives of VAT on export is to prevent one country pattern of differential consumption taxes from being imposed on another by stripping out the relative trace on export allowing the importing countries to impose their own pattern of taxes

2.2 THEORETICAL REVIEW

2.2.1 LAFFER CURVE THEORY

The first theory that this study looks at is Prof. Arthur Laffer theory on taxation, popularly known as the “LAFFER CURVE”. It is a theoretical representation of the relationship between government revenue raised by taxation and all possible rates of taxation. The theory is demonstrated with a curve (i.e. Laffer curve which is constructed by through experiment).



It considered the amount of tax revenue raised at the extreme tax rates of 0% and 100%. The theory concludes that a 100% tax rate raised no revenue in the same way that a 0% tax rate raises no revenue. This is because at 100% rate, there is no larger incentive for a rational tax payer to earn any income, thus the revenue raised will be 100% of nothing. It therefore, follows that there must exist at least one rate in between where tax revenue would be a maximum. Laffer attributes the concept to Ibn Khalid and Keynes J.M

One potential result of this theory is that increasing tax rate beyond a certain point will become counterproductive for raising further tax revenue because of diminishing returns (Laffer, 2004). The second theory that helps to shape taxation is Ibn Khaldun theory or taxation. This theory was explained in term of two different effects that is the arithmetic effect and the economic effect which the tax rates have no revenue. The two effects have opposite results on revenue in case the rates are increased or decreased.

According to the arithmetic effect, if tax rates are lowered tax revenue will be lowered by the amount of the decrease in the rate. The reverse is true for an increased in tax rates. The economic effect however recognized the positive impact that lower tax rate have no work, output and employment and thereby the tax rate base used in providing incentives to increase these activities whereas raising tax rates where the opposite economic effect is used by penalizing participation in the taxed activities. At a very high tax rate, negative economy effect dominates positive arithmetic effect. Thereby, the tax revenue declines (Islahi, 2006).

2.2.2. OPTIMAL TAXATION THEORY

Ramsey (1927) suggested that optimal theory posited that the tax planner should raise amount of tax revenue through taxation commodities only. He furthered that social planner should be given free hand to determine the appropriate tax scheme to generate revenue through taxation. The problem of optimal taxation theory will be solved. Optionality could be used to derive optimal revenue generation through taxation.

2.3 THEORY OF OUTSOURCING

Core competence theory of outstanding was developed by Piniengton and Woolcok (1995). The theory was first applied to growth of information technology vendor creating a new firm relationship for information system. Willcock and Choi (1995) adapted the theory to fashion out factors around which it sourcing decisions could be based. The theory could be used as a

framework for making outstanding decision (Anold, 2000). Local government revenue committee could outsource its functions to tax consultants to enhance optionality in tax revenue generation. One characteristic of modern society is to have a high level of voluntary compliance on tax regulation (Van Dyke & Verboon, 2010). Efforts to improve voluntary tax compliance have become an interesting topic for research from various field of science such as economics psychology and sociology during the last 50 years (Kirchler et al, 2008; Vandyke & Verboon, 2010).

2.3 EMPIRICAL REVIEW

Several studies have been carried out on the tax revenue generation and impact on economy development in Nigeria. Olajide (2015), studied on revenue generation as a major source of income for the state government. An empirical analysis of two parastals using descriptive research design for the study. Hypotheses were formulated and tested using chi square statistical technique through SPSS method at 50% level of significance. It was found that there is a significant relationship between revenue and performance of the parastals and that poor revenue generation by local government in Nigeria affects the speed of development in the country.

Adesoji and Chike (2013) carried out a study on the effect of internal revenue generation on infrastructural development a study of Kwara State Internal Revenue Service. Non experimental research based on survey was adopted using the workers in the internal revenue service in Kwara as a population. A total of fifty staff was employed. Simple percentage was employed to analyze the data. It was provision of basic infrastructures and this would lead to tax compliance by the people.

Enahoro and Olabisi (2012) studied on tax administration and revenue generation of Lagos state government Nigeria. Survey research was used using simple size of one hundred and twenty five respondents drawn from five local governments in Lagos state. The data were gathered through questionnaires and were analyzed using simple percentage and Kendall measure of concordance at S O. 05 level of significance; it was found that tax administration had significant relationship with the revenue generated in the state.

Ojong, Ogar and Afikpo (2010) carried out a study on the impact of tax revenue on economic growth with evidence from Nigeria. Exploratory and export factor research design was used. The study adopted secondary source of data. Regression analysis was used to show the relationship between non-oil revenue and the national growth.

Oladele, Oduma and Aderemi (2013) studied revenue generation and engagement of tax consultants of tax consultant in Lagos state Nigeria continuous tax evasion and irregularities. Related interactions were reviewed, the study concluded tax evasion and avoidance is imminent use of tax consultants in Lagos State yield positive result but their activities must be monitored; commissions on collective should be paid promptly.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 DESIGN STUDY

Research has been defined as the study undertaken to maintain, further and promote knowledge by delving into the unknown seeking answers to questions and solutions to problems. (Hassan 2002).

According to Nnamdi Asika, (1991), he defined research as any organized enquiry that aims at providing information for solving identified problems.

However, this chapter will focus mainly on the necessary and logical steps to be followed in carrying out the main research, stating has data will be collected and types of data to be used and the proposed methods of analyzing the data

3.2 SOURCE OF DATA COLLECTION

According to Olorunfemi (2004), basically there are two sources of data namely: primary source and secondary source. The two sources are both used in most academic research. Thus, the research will be carried out using the two types of data. The primary data which is the type that is derived originally from field survey and questionnaire. The questionnaires were administered to both staff of federal Inland Revenue services, Ilorin. The secondary data on the other use, were also used. This entails the internet search and annual reports of Federal Inland Revenue Service, Ilorin.

3.3 POPULATION OF THE STUDY

The population of this study consists of tax official in Federal Inland Revenue Services, Ilorin Kwara State which the total estimated population is one hundred and forty five (145).

3.4 SAMPLE SIZE AND TECHNIQUES

According to Nnamdi Asika (1991), sampling could be defined as the procedure for drawing sample from a population. The sampled staff is 30, random sampling techniques under the non probability sample techniques, which is defined by Razak et al as the “sampling technique in which a researcher purposely selects certain groups a sample, because of their relevance to the investigation under consideration.”

3.5 RESEARCH INSTRUMENT

The research used for the collection of data from the respondent were questionnaire, the questionnaire was constructed in a Yes/No answer. The questionnaire was divided into parts

PART A: This consists of personal data such as sex, age, nationality, marital status, educational qualification. Length in service, position held and lodge of research topic.

PART B: This contains the main question which shall be analyzed and tested to verify the hypothesis.

3.6 METHOD OF DATA ANALYSIS

Considering the nature and purpose of this research work, but descriptive and quantitative method employed in the analyses of data that were collected. The data collected from the administered, questionnaires were adjusted with the use of simple percentage method which was calculated from respondents' answers to each of the questions. Also, the hypothesis will be tested on the basis of response to the questions through the use of statistical interference (chi-square) at 0.05 alpha level and degree of freedom is (r-1) (c-1) of chi-square distribution (x2 the descriptive method will be useful because some information that may be obtained from the interview will of help in the analysis of material facts in the research work (Field Survey, 2008).

3.7 MODEL SPECIFICATION

This study will examine three major models to measures possible inputs of VAT on economic development over a period of time. Based on the perceived functional relationship between VAT and GDP, A link is forged between the two variables. Thus, with the functional relationship and resultant model using the ordinary least scares (OLS) regression method we have,

MODEL 1

FUNCTIONAL RELATIONSHIP

$$\text{GDP} = f(\text{VAT}) \text{ ----- (1)}$$

Converting this to a linear or storchastic model we have.

$$\text{GDP} = b_0 + b_1 \text{ VAT} + e \text{ ----- (2)}$$

Where

b_0 and b_1 are constant

GDP = Gross Domestic Product,

VAT = Value Added Tax

e = Error Term

MODEL 2

Similarly we can also establish the relationship between VAT and TREV. The functional relationship and the resultant model using the Ols regression method we have;

Functional Relationship

$$\text{TREV} = f(\text{VAT}) \text{ ----- (3)}$$

Covering this to a linear or stochastic model we have,

$$\text{TREV} = b_0 + b_1 \text{ VAT} + e \text{ ----- (4)}$$

Where

TREV = Total Revenue

CHAPTER FOUR

ANALYSIS AND DISCUSSION

4.1 INTRODUCTION

This chapter is focused on the analysis of data collected from the field of study according to the respondents given by the respondents through the use of questionnaire. In all, fifty (50) questionnaires were distributed among members of staff of Federal Inland Revenue Service, Ilorin professionals such as: Accountants, Tax Practitioners and Legal Practitioners out of which only thirty (30) copies of questionnaires were completed and returned to the researcher. The questionnaire is structured into two sections A and B, where section A contains personal data of respondents and section B problem to be solved by the study. The stated hypothesis shall be tested with the use of chi-square method in this chapter as well.

4.2 DEMOGRAPHIC CHARACTERISTICS OF RESPONDENT

Table 1: Departments

Departments	Frequency	Percentage (%)
Accounts and Finance	16	53%
Internal Audit	7	23%
Direct Assessment	1	3%
Corporate Directorate	4	13%
Payee	2	8%
Total	30	100%

Source: Field Survey, 2025

From the table above, 16 out of 30 respondents with 53% are from accounting related department to show that the respondents have considerable knowledge about tax and tax administration.

Table 2: Age Group

Age Class	Frequency	Percentage (%)
20-29	17	57%
30-39	10	33%
40-49	2	70%
50 and above	1	3%

Total	30	100%
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Source: Field Survey, 2025

As indicated in the table, the age group with the highest population falls between the age 20-29 percentage of 57%. Indicated that majority of the respondents are between the age (20-29).

Table 3: Gender

Sex	Frequency	Percentage (%)
Female	10	33%
Male	20	67%
Total	30	100%

Source: Field Survey, 2025

From the above table, it is show that male carries a large percentage of 67% which indicate that majority of the respondent are male.

Table 4: Educational Qualification

Qualification	Frequency	Percentage (%)
O'level	-	-
OND/NCE	-	-
HND/B.SC	26	87%
MBA/M.SC	4	13%
PH.D and above	-	-
Total	30	100%

Source: Field Survey, 2025

As shown in the table, majority of the respondent were HND and B.Sc. holders.

Table 5: Professional Qualification

Qualification	Frequency	Percentage (%)
ACCA	-	-
ICAN	18	60%
CITN	12	40%
ANAN	-	-
Total	30	100%

Source: Field Survey, 2025

The above table shows that 60% of the respondents were ICAN professionals which shows that they must have vast knowledge about the research work.

Table 6: Years of Experience

Lengths in Service	Frequency	Percentage (%)
1-5years	21	70%
6-20years	7	23%
21years and above	2	7%
Total	30	100%

Source: Field Survey, 2025

As indicated in the table, 70% of respondents have staged maximum of 5years in service which constitute the large percentage.

4.3 STATISTICAL RESULT

Analysis of each of the questions designed in the questionnaire are tabled and presented for interpretation, below using simple percentage technique.

Table 7: There has been columns increase in the price of goods and services in Nigeria.

Alternative	Frequency	Percentage (%)
Strongly Agree	6	20%
Agree	17	57%
Neutral	6	20%
Strongly Disagree	-	-
Disagree	1	3%
Total	30	100%

Source: Field Survey, 2025

From the table above, it is indicated clearly that 57% of respondents agrees that, there has been columns increase in the press of goods and services in Nigeria.

Table 8: VAT is one of the major sources of such inflation in the price of goods and services in Nigeria.

Alternative	Frequency	Percentage (%)
Strongly Agree	3	10%
Agree	7	23%

Neutral	6	20%
Strongly Disagree	3	10%
Disagree	11	37%
Total	30	100%

Source: Field Survey, 2025

It is indicated from the above table that 37% of respondents does not agree that inflation of the price of goods and services is not as a result of value added tax, while others agreed with the notion above.

Table 9: The collection of VAT is Quaich easy for government than any other types of Tax?

Alternative	Frequency	Percentage (%)
Strongly Agree	1	3%
Agree	8	27%
Neutral	14	47%
Strongly Disagree	1	3%
Disagree	6	20%
Total	30	100%

Source: Field Survey, 2025

The above table shows that 47% of respondents neither agreed or disagreed (undecided) that the collection of VAT is Quaich easy for government than any other types of tax.

Table 10: VAT has impact and Nigerian Economy

Alternative	Frequency	Percentage (%)
Strongly Agree	7	23%
Agree	11	37%
Neutral	6	20%
Strongly Disagree	-	0%
Disagree	6	20%
Total	30	100%

Source: Field Survey, 2025

In table 10 above, it is clearly indicated that 30% of respondents agreed that VAT has impact and Nigerian Economy.

Table 11: The body (FIRS) charged with the administration of VAT in Nigeria is effective.

Alternative	Frequency	Percentage (%)
Strongly Agree	5	17%
Agree	15	50%
Neutral	9	30%
Strongly Disagree	1	3%
Disagree	-	-
Total	30	100%

Source: Field Survey, 2025

From the above table, 50% of the respondents agrees that the body (FIRS) charged with the administration of VAT in Nigeria is effective.

Table 12: The government should contact the administration of VAT to private body.

Alternative	Frequency	Percentage (%)
Strongly Agree	1	3%
Agree	3	10%
Neutral	6	20%
Strongly Disagree	7	23%
Disagree	13	44%
Total	30	100%

Source: Field Survey, 2025

It is indicated in the table above that 44% of the respondents disagree that the government should contact the administration of VAT to private body.

Table 13: The government of Nigeria generates high revenue through VAT.

Alternative	Frequency	Percentage (%)
Strongly Agree	6	20%
Agree	9	30%
Neutral	5	17%
Strongly Disagree	4	13%
Disagree	11	37%
Total	30	100%

Source: Field Survey, 2025

The above table shows that 37% of the respondents disagree that the government of Nigeria generates high revenue through VAT. The implication of this is that the government of Nigeria generates high revenue through VAT.

Table 14: The review so generates gets to the government.

Alternative	Frequency	Percentage (%)
Strongly Agree	4	13%
Agree	7	23%
Neutral	6	20%
Strongly Disagree	5	17%
Disagree	18	27%
Total	30	100%

Source: Field Survey, 2025

From the above table, 27% majority of the respondents disagree that the review so generates gets to the government.

Table 15: VAT has contributed what to aid government spending

Alternative	Frequency	Percentage (%)
Strongly Agree	-	-
Agree	7	23%
Neutral	12	40%
Strongly Disagree	2	7%
Disagree	9	30%
Total	30	100%

Source: Field Survey, 2025

The above table shows that 40% of respondents neither agree nor disagree i.e. undecided that VAT has contributed what to aid government spending.

Table 16: Government should continue with VAT

Alternative	Frequency	Percentage (%)
Strongly Agree	1	3%
Agree	7	23%
Neutral	5	17%

Strongly Disagree	3	10%
Disagree	14	47%
Total	30	100%

Source: Field Survey, 2025

From the above table, 47% of respondents disagree that government should continue with VAT. This means that the use of value added tax has increased internally generated revenue of government in Nigeria.

4.4 TEST OF HYPOTHESIS

The data collected were analyzed. The stated hypothesis were tested with chi-square statistical tool.

Ho₁: There are no factors that influence the payment of VAT in Nigeria.

Alternative	O	E	O – E	O – E ²	O – E ² /E
Strongly Agree	6	20	-14	196	9.8
Agree	17	57	-40	1600	28.07
Neutral	6	20	-14	196	9.8
Strongly Disagree	-	-	-	-	-
Disagree	1	3	-2	4	1.33
Total	30				49

Source: Author's Computation, 2025

$$x^2 = \frac{\sum(O - E)^2}{E}$$

Computed chi-square (x^2) = 49

The Decision Rule

A decision rule is the statistical objective procedure which guides the researcher as to whether a particular hypothesis is accepted or rejected from a set of data. In testing the above hypothesis the decision rule stat that at 0.05% level of significance with 4 degree of freedom of the calculated value of chi-square $x^2 > x^2_O$ rejected Ho and acceptance Hi and concluded that, there are factors that influence the payment of VAT in Nigeria.

Ho₂: The extent of influence of VAT on revenue generation in Nigeria.

Alternative	O	E	O – E	O – E ²	O – E ² /E
Strongly Agree	1	3	-2	4	1.33
Agree	7	23	-10	256	11.13
Neutral	5	17	-12	144	8.47
Strongly Disagree	3	10	-7	49	4.9
Disagree	14	47	-33	1089	23.17
Total	30				49

Source: Author's Computation, 2025

$$x^2 = \frac{\sum(O - E)^2}{E}$$

Computed chi-square (x^2) = 49

The Decision Rule

The decision rule state that at 0.05level of significance with 4 degree of freedom, if the computed chi-square $x^2 > x^2_O$ is the table of 9.488 or 9.49. This reveals, that, the extent of influence of VAT on revenue generation in Nigeria is high.

Ho₃: VAT has no significant impact on the Nigerian economy.

Alternative	O	E	O – E	O – E ²	O – E ² /E
Strongly Agree	6	20	-14	196	9.8
Agree	17	57	-40	1600	28.07
Neutral	6	20	-14	196	9.8
Strongly Disagree	-	-	-	-	-
Disagree	1	2	-2	4	1.33
Total	30				49

Source: Author's Computation, 2025

$$x^2 = \frac{\sum(O - E)^2}{E}$$

Computed chi-square (x^2) = 49

The Decision Rule

A decision rule is the statistical procedure which guides the researcher as to whether a particular hypothesis is accepted or rejected from a set of data. In testing the above hypothesis the decision rule state that at 0.05% level of significance with 4 degree of freedom of the calculated value of chi-square $\chi^2 > \chi^2_{O}$ rejected H_0 and acceptance H_1 and concluded that VAT has significant impact on the Nigerian economy.

H_{04} : There is no possibility for enhancing the future of VAT collection in the country.

Alternative	O	E	O – E	O – E ²	O – E ² /E
Strongly Agree	1	3	-2	4	1.33
Agree	7	23	-10	256	11.13
Neutral	5	17	-12	144	8.47
Strongly Disagree	3	10	-7	49	4.9
Disagree	14	47	-33	1089	23.17
Total	30				49

Source: Author's Computation, 2025

$$\chi^2 = \frac{\sum(O - E)^2}{E}$$

Computed chi-square (χ^2) = 49

The Decision Rule

The decision rule states that at 0.05 level of significance with 4 degree of freedom, if the computed chi-square $\chi^2 > \chi^2_{O}$ rejected null hypothesis (H_{02}) and upheld alternative hypothesis (H_{12}) where χ^2_{O} is the table of 9.488 or 9.49. This shows that, there is possibility for enhancing the future of VAT collection in the country.

4.5 SUMMARY OF FINDINGS

Generally from data collected, the demographic data depict that more females participated in the study, those that fall between the ages of 41 years above participated more in the study. More so, as regard working experience of the respondents that are below 5 years form a greater percentage of the respondents' participation on. In addition, the hypothesis tested shows that gender, age and working experience have no significant on the respondents' assessment in the impact of VAT to the Nigerian economy. It shows that there has been a continuous increase in the revenue generated through VAT thereby enriching the government.

However, note must be taken that inflation rate in the economy as the question of whether VAT causes increase in price of goods and services is rated among the list factors that should be improved upon by the government.

Concussively, the various data gathered and discussed above has helped in making recommendation at the end of the research.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

The intention of the researchers in carrying out this research work is to examine thoroughly the impacts of VAT on the Nigeria economy. Even though the government generates high income from other sources, the impact of VAT in government revenue cannot be overemphasized. Both primary and secondary data were used.

The primary data were in form of questionnaire, and analysis was made.

Hypothesis stated were tested through the use of simple percentages frequency count and chi-square. The secondary data obtained were used for comparison among the various sources of income through non-oil revenue. An analysis was also presented down how increase in VAT revenue has influenced increase in government distribution of funds, to various leads of government.

The study revealed among other findings that the VAT collection by the government is an important tool used by the government in regulating and financing various levels of government, so as to bring about sustainable growth and development in the economy. Also, the controversy about whether or not the Nigerian rate of VAT should be increased was briefly discussed.

5.2 CONCLUSION

The preposition that Value Added Tax increase government revenue which leads to increase in its revenue distribution, appears to have empirical evidence. On the other hand, the same VAT ends to reduce the welfare of the populace through inflation. The negative relationship between the rates of VAT and economy welfare is most pronounced by low income earners, which form the largest percentage of Nigerian population. Although, it is also present among high income earners, it appears to have no much effect on them because of high income they earn.

It is important to interpret this evidence properly. The negative relationship as mentioned earlier reflects the state of VAT experienced in Nigeria but it can be reduced if VAT is well administered and also if government should considered the welfare of the populace setting the rates of VAT.

5.3 RECOMMENDATIONS

Based on the analysis carried out by the researchers, the following are part of the keynotes that will enhance a better administration of VAT in Nigeria.

- i. Government should ensure the effective and optimum collection of all taxes due to her and should ensure that all penalties stated in the law concerning tax evasion and tax defaulter should be applied.
- ii. A lot should be done for the assessment and collection of VAT and also taxes so collected should be adequately accounted for in a manner prescribed by the government.
- iii. Effective VAT administration requires unquestionable integrity, professionally qualified staff in accounting and law, dedicated and experienced personnel who can beat some external auditors and their clients to the advantage of VAT revenue.
- iv. All tax authorities in the economy should be strengthened in infrastructural facilities for them to deliver competently the tax services required of them.
- v. Expert in economics should be employed among the committee to determine to fix the VAT rates.
- vi. Finally and above all, Nigerians & Tax payers and administrators have to undergo spiritual transformation.

No law works if there is no one to implement it.

May be through religion, there may be change of heart. The more spiritual citizens of this country because the better the quality of life, we shall live devoid of the vices of tax evasion, bribery and deceit.

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