

**IMPACT OF VALUE FOR MONEY AUDIT ON ADMINISTRATION AND
ECONOMIC STRUCTURE OF NIGERIA**

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

By

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**BEING A RESEARCH PROJECT SUBMITTED TO THE
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ACCOUNTANCY**

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CERTIFICATION

This is to certify that this project work has been written by **FASHIKU CHARITY IYANUOLUWA** with Matric Number **HND/23/ACC/FT/0152** and has been read and approved as meeting parts of the requirements for the Award of Higher National Diploma (HND) in the Department of Accountancy, Institute of Finance and Management Studies, Kwara State Polytechnic, Ilorin, Kwara State.

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DEDICATION

This project work is dedicated to ALMIGHTY GOD the author and finisher of our faith. The Alpha and omega, the beginning and the end, the one that know the end from the beginning , the unchangeable GOD, the give and taker of life, the sufficient GOD, for his provision, protection and guidance towards my success of this project.

I also dedicate this project to my mother **(WURAMI)MRS ADEBIMPE FASHIKU** and my siblings who have tremendously contribute towards the success of my academic.

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All praise, honor, glory and adoration goes to Almighty GOD, the omnipotent, omniscience , unchangeable, the one that know the end from the beginning, the giver of knowledge and wisdom, for is provision and protecting my life up till this moment, even though the journey was rough but God see me through Glory be to God of all flesh!!!

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God bless you all .Shalom!!!!

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Value added tax represents an important source of government revenue in most of the outside United States over the last half century. Value added tax has been adopted in the vast majority of developed and developing economies and for the economics, provided average of the half of government revenue which value added tax differ in detail final consumption by imposing taxes on activities (value added) along the production chain.

The concept of taxation in recent times has undergone several modifications when the changes occurred. There is used to be a time when the numbers of windows formed the basics of taxation in Britain and this led to people having very small window for obvious reasons, tax is now comparative very sophisticated in the most of the world.

In Nigeria, some of the types of taxes we have include personal income tax (PAYE) company income tax, capital gain tax, capital transfer tax, and recently introduced value added tax (VAT).

Precisely defined, value added tax on supply of goods and services which is eventually borne by the final consumer, but collected at each stage of the production and distribution chain VAT is potential solution to the country's post war economic problem.

It is from that point, which has led other nations in development of VAT and U.K, introduce it has development of VAT In the country. It was adopted through the historical resolution in FRANCE 1954 to replace turn over tax.

Since 1967 EWC members nation decide to adopt vat and u.k, introduced it into her economic system 1973, countries that has also followed suit are Italy, Australians, federal republic of Germany, Belgium, Holland, Demark, Sweden minimum resistance from the payer of the

Through some analyst have been trying to place VAT as a positive persistence and viewed it, it is a viable fiscals tools that can upturn the economics misfortune of high penalized in Nigeria economic, there are corner arrangements from other quarters that the socio economics based on this country may militate against its work ability.

The concept however bring a recent fiscal policy method needs to be properly examined in relation to it operationalization in Nigeria economics system before reasonable conclusion can be made. Given the administrative and economic structure, in Nigeria, VAT design and structure, it can become difficult to ascertain or known the precision whether VAT works dwell on findings that will allow it to evaluate, analysis, and conclude on work ability and viability of the VAT in Nigeria economic system.

However, for the purpose of this research, emphasis will be laid on impact of value added tax, on the administration and economic structure of Nigeria.

1.2 STATEMENT OF THE PROBLEM

A survey of various Nigeria organizations Falderal Inland revenue services staff and the public was conducted to gain insight and consumption of consumers and the problem hindering it's efficiency varies problems of facing VAT on administrative and economic structure of Nigeria and

- (a) Use of unqualified federal Inland Revenue service staff and low VAT education.
- (b) In appropriate knowledge of VAT operation by VAT able organization.
- (c) Under utilization of revenue generation from VAT the government at three tiers in Nigeria.

1.3 RESEARCH QUESTIONS

- i. To what extent does value added tax has impact on economic development in Nigeria?
- ii. How does value added tax affect employment rate in Nigeria?
- iii. What is the effect of monitoring system on value added tax in Nigeria?

1.4 OBJECTIVES OF THE STUDY

The main objective of the study is to the impact of value added tax on economics development of Nigeria. Other specific objectives are:

- (i) Assess whether value added tax has effect on employment rate in Nigeria.
- (ii) Examine if value added tax as impact on economic development in Nigeria.
- (iii) Investigate the effect of monitoring system on value added tax in Nigeria.

1.5 RESEARCH HYPOTHESIS

H01: Risk assessment does not have significant effect on value added tax in Nigeria.

H02: Value Added Tax has no significant impact on economic development in Nigeria.

H03: Monitoring system has no significant influence on value added tax in Nigeria.

1.6 SIGNIFICANCE OF THE STUDY

The growth of every nations is measured through it's GDP as well as being of its citizen. The nation GDP is the amount of domestic earning of such country, though there are various means of generating earning or revenue by a nation but taxation is focus. Specifically, value added tax was concentrated upon.

The immense contribution of VAT was examined in this research work. Attention was much on it's implication on economic development where it was viewed as a venue of economic growth.

1.7 SCOPE OF THE STUDY

The growth of every nation is measured through its GDP as well as being of its citizen. The nation GDP is the amount of domestic earning in such country, though there are various means of generating, earning or revenue by a nation but taxation in focus, specifically, value added tax was concentrated upon.

The immense contribution of VAT was examined in this research work. Attention was much on its implication on economic development where it was viewed as a venue of economic growth.

1.8 LIMITATION OF THE STUDY

The limitations are as follow:

1. Time factors: The available period for this research is short.
2. Availability of book on since specialized properties are scarce.
3. Financial constrains was also another problem that was encountered, due to economic situation of the country there is not much money to finance the research work.
4. Secrecy about some facts about the hotel which the manager did not want to provide enough information for the research because he think the exercise was meant for tax purpose.

1.9 DEFINITION OF TERMS

INPUT VAT: This is a tax paid on goods and services purchased. A taxable person shall pay to the supplier the tax on taxable goods and services purchased by or supplied to him (Olatunji et al, 2002).

OUTPUT VAT: This is a tax collected by a VAT able 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 is the excess of VAT output over the input VAT.

REGISTERED PERSON: There is any person registered under the section 8 of VAT Decree 102 of 1993 in this decree referred to as registered person shall keep such records and books of all transactions, operations, imports and other activities relating to taxable goods and services as are sufficient to determine 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 (9) categories, of goods plus sales and services in registered hotels, motels and similar establishment (Ishola, 2002)

VAT: This is a tax payable on the supply of specific goods and services. It was introduced in 1994 (Ishola, 2001)

TAXATION: This is a compulsory levy 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 order to generate revenue to the government directly or indirectly. (Oyebanji 2004)

(vii) **VATABLE PERSON:** This is someone who trades in VATABLE goods and services for a consideration. Every VATABLE person has an obligation to register VAT payment (Oyebanji 2004)

CHAPTER TWO

LITERATURE REVIEW

2.1 PREAMBLE

This chapter deals with the conceptual framework, theoretical framework and the empirical review. The need for measuring the implications of VAT in its basic functions occupies the central position in providing information needed by the case study.

2.2 CONCEPTUAL FRAMEWORK

Tax is a compulsory payment by all concerned to the government of a country from which essential services are rendered without necessary offering an explanation on how the money generated was spent or equating the services with the money collected Source (ANYAWU 1997) defined tax as a compulsory levy by the government or individuals, companies, goods and services to raise revenue for its operations and to promote social equity through the redistribution of income direct of taxation. Value added tax is an indirect tax which a sum of money is levied at a particular stage in the sale of a product or services (Source OLATUNJI, 2009) explain that the work towards VAT system in Nigeria started with acceptance of the recommendation of a study group on indirect taxes in November 1991. The decision to accept the recommendation was made/public in 1992 budget speech of the head of state. This resulted in setting up the modified value added tax (MVAT) committee on 1st June, 1992 as recommended by the study group. The recommendation of committee that vat should be administered by an independent commission was rejected by the services, which was directly

charged with the responsibility of administering most other taxes in Nigeria. The introduction of VAT in Nigeria through Decree 102.

CLASSIFICATION OF TAXES

A tax is a compulsory contribution imposed by government on the citizens in order to provide goods and services and ensure their social and economic welfare. Taxes can be classified by the following ways depending on the bases are:

i. TAX BASE: Taxes have to be levied on one basis other and a convenient way of classifying a tax is to do so according to what is being taxed. Three main tax bases are used in the present Nigeria tax system, namely:

- ❖ Income
- ❖ Capital
- ❖ Consumption

These bases may be further classified for income-into income tax, company tax and for capital, capital-gains tax and finally, in the case consumption, into value added tax and excise duties.

ii. TAX INCIDENCE: As direct and indirect tax. A direct tax is one levied directly on the person who is intended to pay the tax, where as indirect tax is borne by a person other than the one from whom the tax is collected. This classification can prove to be misleading at times, as the incidence of some direct taxes, for example, company tax can easily be shifted.

Examples of direct taxes are:

- a.** Income tax

- b. Capital gain tax
- c. Company tax

Where as examples of indirect taxes are :

- a. Value added tax
- b. Custom and excise duties

iii. TAXRATE: As a unit/advalorem. A unit or specific tax is levied on the volume of what is being taxed; many excise duties are specific taxes, for example, Tobacco tax is charged by weight of tobacco.

An ad valorem tax valorem. A unit or specific tax is levied on the value of the tax based, for example income tax is charged at 10 percent to 30 percent depending on the level and type of income.

DISTRIBUTION OF THE TAX BURDEN

The way in which the burden of tax is distributed among the taxpaying community is another way in which taxes may be classified. The rates of tax can be set in such a way so that they are:

- a. **Progressive:** Progressive taxes take an increasing portion as the value of the tax base rises and depends on the marginal rate of tax being greater than the average rate of tax.
- b. **Proportion:** Proportional taxes takes a constant portion of the value of tax base and depends on the marginal and average rates of taxes being equal.
- c. **Regressive:** Regressive taxes takes a declining proportion as the value of tax base rises and depend on the average rate of tax being greater than the marginal rate of tax.

❖ The marginal rate of Tax =
$$\frac{\text{Change in tax paid}}{\text{Change in tax base}}$$

$$\text{❖ The Average Rate of Tax} = \frac{\text{Change in Income} \times \text{Total Tax Paid}}{\text{Total Income}}$$

VALUE ADDED TAX

The value added tax (VAT) came into existence in Nigeria through its enabling authority: Value added Tax Decree 102 of 1993. However, it actually became effective on 1st January 1994. Value added tax is a consumption tax and is charged at 5% on all VAT able goods and services.

THREE IMPORTANT ATTRIBUTES OF VAT ARE:

- i.** VAT is a consumption tax;
- ii.** VAT is a multi-stage tax; and
- iii.** The incidence of VAT is on the final consumer.

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 AS A REPLACEMENT OF SALES TAX

It is pertinent to note that VAT is a replacement of the sales tax, which was promulgated into existence through Decree No. 7 of 1986.

The reasons behind replacing sales tax with the VAT is informed by a number of factors notably;

- 1.** The base of the sales tax in Nigeria is narrow. It covers only nine categories of goods pin sales and services in registered hotels, motels and similar establishments. The narrow base of the tax was seen to be negating the fundamental principle of consumption tax. I which by nature is expected to

cut across all consumable goods and services. VAT base is however broader and includes most professional services and banking transactions.

2. The sales tax Decree of 1986 targeted only locally manufactured goods, although this might not have been the intention of the law.

3. VAT is a consumption tax and is based on the general consumption behaviour of the people, the expected high yield from it will boost the features of the government with minimum resistance from the payers of the tax.

TYPES OF VAT

Basically, there are three types of VAT, these are:

- i. Consumption VAT
- ii. Income VAT and
- iii. Gross product VAT

1. **CONSUMPTION VAT:** Under the consumption VAT, capital purchases are treated the same way as input. It has some advantages one of which is that is easier to compute, as the firm does not have to separate expenditure on their items of purchases in determine the VAT base.

The main disadvantage of this type of VAT is that it create refund problems where every heavy and expensive machinery are involved.

2. **THE INCOME VAT:** With this type of VAT, the tax paid on purchases of capital inputs is amortised (i.e. credited against the firms VAT liability) over the expected uses of such capital inputs.

VAT REVENUE SHARING FORMULAR

The revenue being generated by VAT is shared by the three tier of government in Nigeria. The sharing formular has undergone so many changes as detailed in the table below.

	2017	2018	2019	2020	2021	2022
Federal Government	20%	50%	35%	35%	25%	15%
State Government	80%	25%	40%	40%	45%	50%
Local Government	-	25%	25%	25%	30%	35%

Of 2013 marks the phasing out of the sales tax Decree No.7 of 1986. Value added tax and economic growth.

2.3 THOERETICAL FRAMEWORK

This sub-chapter looks at relevant theories about indirect taxes, the economist have been forward many theories of taxation can at different times to guide the state as to how justice or equality in taxation can be achieved.

2.3.1 THE BENEFIT THEORY

This theory holds that the individuals should be taxed in proportion to the benefits they receive from the government in public services and that taxes should be paid by those people who receive direct benefit of the government programs and project out the taxes paid. It was developed in the seventeenth century by English philosophers Thomas Hobbes (1588-1629) and John Locke (1632-1704), and Dutch Jurist Hugo Grotus (1583-1645). This theory has been subjected to serve criticism on the following grounds theory. If the state maintains a certain connection between the benefits conferred and the benefit derived, it will be made to the public provision of general benefit.

There is no direct substitution in the case of a tax. Secondly, most of the expenditure incurred by the state is for the general benefit of its citizen, it is not possible to estimate the benefit employed by a particular individual every year, thirdly, if we apply this theory in practice, then the poor will have to pay the heaviest taxes, because they benefit more from the services of the state. This is against the principle of justice (Saleemi, 2005).

Pay higher rate of taxes. It was suggested by J.S. Mill and some other classical economists order to satisfy the role of justice in taxation (Musgrave, 1989). These economists were of the opinion that if taxes are levied in proportion to the homes of the individual, it will extract equal sacrifice.

Thus, equal sacrifice can be measured as (i) each tax payers surrenders the same absolute degree of utility that she obtained from his/her income, or (ii) each sacrifice the same proportion of utility for the last unit of incomes respectively. The modern economists, however, differ with this view. They assert that when income increases, the marginal utility of income decreases. The equality of sacrifice can only be achieved if the persons with high income are taxed at higher rates and those with low income at lower rates they favour progressive system of taxation in all modern tax system.

2.3.2 THE COST OF SERVICE THEORY

Some economists were of the opinion that if the state charges cost of the service rendered from the people, it will satisfy the idea of equality or justice in taxation. The cost of services theory can no doubt be applied to some extent in those cases where the services are rendered out of prices and are a bit easy to determine e.g. Postal, Railway services, Supply of Electricity etc.

but most of the expenditure incurred by the state cannot be fixed for each individual because it cannot be exactly determined individuals. Dalton has also rejected this theory on the ground that there is no quid pro qua in a tax (Kaplow, 2010).

2.4 EMPIRICAL REVIEW

Basila (2010), in investigating the relationship between VAT and GDP in Nigeria used in data based on VAT revenue in figure and GDP figure from 1994 to 2008 obtained from central bank of Nigeria statistical bulletin, GDP and VAT figure for the period of study were tested for correlation, the test revealed a strong persons product moment correlation (PPMC) at about 96 percent strength future, a test of significance confirmed that VAT revenue is significantly different at 99 percent confidence level in relation to GDP, the concluded that there is strong positive correlation between VAT revenue and GDP, again as a regards as the test of significant student “t” test confirmed that VAT is significantly different in relation to GDP in Nigeria.

Adereti, Sanni and Adesina (2011), uses time series data on the Gross Domestic Product (GDP), VAT renewal total tax revenue and total (Federal Government). Revenue from 1994 to 2008, sourced from Central Bank of Nigeria (CBN) were analyzed, using both simple regression analysis and descriptive statistical method findings showed that the ratio of VAT Revenue to GDP average 1.3% compared to 45% in Indonesia, through VAT revenue accounts for as much as 70% significant variations in GDP in Nigeria. However, they argued that there is a positive and significant correlation that exist between VAT revenue and GDP.

Okoye and Gbegi (2013), used a secondary data that were generated from federal inland revenue services and federal Bureau of statistic with the aid of a table and simple percentage while the hypothesis formulated were tested using student in test. The finding revealed that revenue generated through VAT has a significant influence on wealth creation in Nigeria. Therefore from their findings they discovered that valued added tax (VAT) is the bedrock of wealth creation in Nigeria as well as economic development as it contributes significantly to the nation's Gross Domestic Product (GDP). Therefore, the government must give adequate attention to taxation in general and VAT in particular, under a stable and conducive socio-political and economic atmosphere.

Omolapo, Aworemi and Ajala (2013), perform a data analysis with the use of stepwise regression analysis. Findings show that Valued Added Tax has statistical significant effect on revenue generation in Nigeria. The results from their analysis revealed that Value Added Tax (VAT) is beneficial to the Nigeria. The result from their analysis revealed that Value Added Tax (VAT) is beneficial to the Nigeria economy from the findings, it also shows that Nigeria to attain its economic growth and development, she must be able to generate enough revenue in order to meet up with the challenges of expenditure in term of provision of social amenities and the running cost of the government. The result from the analysis indicates that if more goods and services are taxed the revenue base of the country will increase.

Unegbu and Irefin (2010) collected data from both primary and secondary sources. Regression, discriminate analysis and ANOVA were used

in testing the hypothesis and they found out that VAT allocations alone accounts for 91.2% of the variations in expenditure pattern from their findings they concluded that, although VAT allocations to Adamawa state from 2011 to 2019 have a very significant implication on expenditure pattern of the state during the same period, however, the perceptions by the state suggest that VAT has minimum implication level on the economic and human developments of Adamawa state from 2011 to 2019.

Eneje (2011), obtained data from the C.B.N statistical Bulletin within the period of 2011 to 2019, the findings reveal that VAT has a significant implication of Nigeria's economic growth. It also shows a positive implication of GDP.

CHAPTER THREE

METHODOLOGY

3.1 PREAMBLE

This chapter also aims at investigating the method that will be used to determine the appropriate measurement of the cashless policy in the economy and its implication towards the real per capital growth at that economy, it invariably serves as a prelude to chapter four where the data is presented and were analyzed.

3.2 DESIGN STUDY

The method to be used for this research work is the ordinary least square (OLS) method this is because OLS has the best linear unbiased estimation (BLUE). An estimated b is Blue; it is linear unbiased and has the smallest variance as compared with all other linear unbiased estimators of the true b (KOUTSOVIAN'S 2003). Another reason for the use of OLS is fairly simple as compared with other economic techniques and the data requirement are not excessive again, it is also an essential component of most other economic techniques.

3.3 SOURCES OF DATA

The data used in this analysis are secondary data obtained from both the National Bureau of Statistics (NBS) bulletin and Federal Inland Revenue Services (FIRS) statistical bulletin.

3.4 POPULATION OF THE STUDY

The target population of this study was Federal Inland Revenue Services of Kwara State. A population of 70 respondents was selected from the case study including the staff and some tax payers. Probability sampling frame has a change (greater than zero) of being selected. This probability can be accurately determined through self weighing by the researcher. Simple random sampling was used, it gives equal chance to all subsets in the population and estimates are easy to calculate.

3.5 SAMPLE AND SAMPLING TECHNIQUES

For this research work, random sampling was used as a means of administering questionnaire. A sample will be chosen in such a way that at each stage all the information and data needed to be covered will be covered.

3.6 RESEARCH INSTRUMENT

Numerous research tools are used by the researcher to gather the data used in this project work, some of the tools are discussed below;

i. INTERVIEW: This is the process by which the information that could not be collected accurately through questionnaire are been collected through interview, interview was conducted with most of the staff under the finance department. During the interview, information collected includes the general structure of Federal Inland Revenue Service, Ilorin and that of the Finance Department as well.

ii. QUESTIONNAIRE: The questionnaire were distributed personally to the staff of finance department and monitored accordingly which from the single size of this project. The administrators of the questionnaire were limited to the Federal Inland Revenue Service, Ilorin and particular attention was placed to the finance department of the organization due to the nature of the research. Positive result was received from the staff of the finance department and information collected made the writing of this project easier.

iii. SECONDARY DATA: Besides the information collected from the administration of questionnaire and personal interview, other publications and records used are accounting textbooks, the federal inland revenue service financial manual, administration manual and relevant materials for the secondary data in the cause of the study.

3.7 METHOD OF DATA ANALYSIS

3.7.1 ECONOMIC CRITERIA

The equation will be analyzed on the basis of economic criteria, this will inform us of the signs of the parameters whether or not they confirm to economic theory specifically B1, and B2, are expected to be positive while B3 and B4 are expected to be negative.

3.7.2 STATISTICAL CRITERIA

Statistical criteria will be used on checking t-value for the statistical significance, the F-test will be used to check the overall regression whether the model has goodness of fit. The R² will be used to determine the power of the variables.

3.7.3 ECONOMIC CRITERIA

This will be used to analyze of the assumption of ordinary least square (OLS) are not violated as follows;

3.7.3.1 AUTO CORRECTION TEST

This test will adopt the conventional Durbin Watson test on checking for presence of serial auto correction.

3.7.3.2 MULTI COLINEARITY TEST

This test will adopt the correlation matrix test in order to check for the degree of multicollinearity among the explanatory variables.

3.7.3.3 HETEROSCEDASTICITY

This test will be preferred to see if the heteroscedasticity among the variables.

3.8 MODEL SPECIFICATIONS

This is the mathematical relationships that exist between the dependant and the independent variables and the model for the parameters of the function.

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

$$GDP = F(VAT, UNE, IFL, GED)$$

VAT = Value Added Tax

UNE = Unemployment

IFL = Inflation Price

GED = Government Expenditure

BO = Constant

B1, B2, B3, B4, = Parameters to be estimated

ET = The Error Team

CHAPTER FOUR

ANALYSIS AND DISCUSSION

4.1 PREAMBLE

This chapter describes the analysis and interpretation of data followed by the discussion of research findings. The findings relate to the research question and hypothesis that guided the topic.

Data were analyzed, described and explored the implication of VAT on administrative and economic structure of Nigeria in Federal Inland Revenue Services. Data were obtained from the frameworks and review in chapter two and was duly tested.

4.2 DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

The result showed that the intercept is 2.043105. This shows that if all the implementary variables are held constant, LGDP will be 2.043105. The co-efficient of value added tax has a positive value of 0.5736123. This result implies that one percent increase in government expenditure will 15171, which implies that a unit increase in the INF will result to a 0.0056171 increase in the LDGP. Lastly, the co-efficient of unemployment is 0.0311471, it means that a 0.0311471 decrease in the LDGP is as a result of a unit increase in UNE.

SOLUTION BASED ON ECONOMIC PRIOR EXPECTATIONS

This evaluation is based on ascertaining if the empirical results obtained from to economic theory. This will be illustrated in the table 4.2 economic a prior expectation.

Variables	Signs expected	Obtained	Signs	Conclusion
LVAT	+	+		conforms
LGOVEXP	+	+		Conforms
IFL	-	+		Does not conforms
UNE	-	-		Conform

From the above table, inflation did not conform to economic theory, while value added tax, government expenditure and unemployment conformed.

REVALUATION BASED ON STATISTICAL CRITERIA

1. CO-EFFICIENT OF DETERMINATION (R-SQUARE)

The R-Square measures the proportion of the total variables in the dependent variables that is explained by the independent variables. From the result, R-Squared 1969.

This shows that the explanatory variables explain the variation in the independent variable to the tune of 98.69%.

2. THE T-TEST

The test is undertaken to ascertain the individual significance of each parameter in the model.

DECISION RULE

If $t\text{-cal} \leq -t_{\text{tab}}$, accept the null hypothesis and conclude that the parameter is significant.

Jean Jacques Rousseau (1712 - 1778), the French political economist Jean-Baptiste say (1769-1832) and the English economist John Smart Miu

(1806-1873). This theory holds that the taxation should be levied according to an individual’s income or ability to pay and is the basis of progressive tax as the rate increases by the increases of taxable amount (Jones et al., 2011). This theory is indeed the most equitable tax system since people with greater income or wealth and can offered to pay more taxes should be taxed at a higher rate than people with less individual income tax and has been widely used in industrialized economics.

However, there is no solid approach for the measurement of equality of sacrifice in this theory, as it can be measured in absolute, proportional or marginal terms. VAT does not tie in with this theory because the amount of VAT on a particular good will be the same for everyone, however, much they earn, VAT is thus regressive since it represents a smaller proportional of a person’s income as their income rises.

At 0.05 significance level and n-k degrees of freedom, the t-tab = ± 1.9983

Table 4.4; The table below summarizes the result

Variable	t-cal	t-tab	Conclusion
LVAT	6.18	$\neq 1.9983$	Significant
LGOVEXP	4.25	$\neq 1.9983$	Significant
INF	4.92	$\neq 1.9983$	Significant
UNE	-7.15	$\neq 1.9983$	Significant
CONS	2.31	$\neq 1.9983$	Significant

Source: Researcher’s Computation 2024.

The table below shows that all variable (i.e. LVAT, LGOVEXP, INF and UNE) are significant

3. THE F-STATISTICS TEST

The F-statistics test is used to test the overall significance of the model. It follows F-distribution with k-1 degrees of freedom in the numerator and n-k degree of freedom in the denominator.

4.3 STATISTICAL RESULT

The result of the model which was specified in the previous chapter is presented as below.

Presentation of Result

Variable	Co-efficient	Std. error	T	P π	(95%
LVAT	0.5736123	0.092772	-----	0.000	0.3882223
LGOVEYP	0.5641445	0.1335048	-----	0.000	0.2973564
IFL	0.0056171	0.0011424	-----	0.000	0033342 0.0079
UNE	0.0311471	0.0043533	-7.15	0.000	0.0398464
COINS	2.043105	0.8860874	2.31	0.024	0.2724004

Source: Researcher's Computation 2024

4.4 TEST OF HYPOTHESIS

The model is insignificant Hi: The model is significant

The decision rule is to reject Ho if $F\text{-cal} \geq F\text{-tab}$.

The $F\text{-cal} = 2.5.76$, since $1184.01 \geq 2.5176$, we reject Ho and conclude that the model is significant.

EVALUATION BASED ON ECONOMETRIC CRITERIA TEST

1. AUTOCORRELATION (THE DURBIN-WATSON CRITERION)

This test is carried out to check if the successive values of the random variables (V_i) are independent

TEST HYPOTHESIS

Table 4.4.: The Decision Rule

Null hypothesis	Decision	If
No positive auto	Reject	$0 \leq d \leq d_l$
No position auto	No	$0 \leq d \leq d_l$
No positive auto	Reject	$4 - d_l \leq d \leq 4$
No positive auto	No	$4 - d_l \leq d \leq 4$
No auto correlation	D	$d_u \leq d \leq 4 - d_u$

Where:

d_l = lower unit

d_u = upper unit

d = Durbin Watson (calculated)

At 0.05 significance level

$d_l = 1.49897$

$d_u = 1.69463$

$d = 1.965844$

Since d falls under $d_u \leq d \leq 4 - d_u$ ($1.69463 \leq 1.965844 \leq 2.305377$), we negative.

2. HETEROSCEDASTICITY TEST

This test was carried out using white heteroscedasticity test. We further test this to find out if follows X^2 cal distribution

The hypothesis is:

$H_0: B_1 = B_2 = B_3 = B_4 = 0$ (Homoscedasticity) / $B_1 \neq B_2 \neq B_3 = B_4 = 0$ (Heteroscedasticity) At 5% level of significance.

DECISION RULE

Accept the hypothesis (H_0) if $X^2 \text{ cal} \leq X^2 \text{ tab}$, otherwise reject H_0 and conclude that the variance of the error term is heteroscedastic.

The error term equation is stated as follows:

From our result analysis;

$$X^2 \text{ cal} = 25.13$$

$$X^2 \text{ tab } 0.05 = 23.685$$

CONCLUSION: since $X^2 \text{ cal} = (25.13) \geq X^2 \text{ tab} = (23.685)$, we reject H_0 and conclude that the variance of the error term is not homoscedastic, that is error term is not constant

3. NORMALITY TEST

The test using Jarque – Bera criterion follows the X^2 distribution with 2 degrees of freedom

H_0 : residuals are normally distributed

H_1 : residuals are not normally distributed.

If $X^2\text{-cal} \geq X^2\text{tab}$, reject the null hypothesis H_0 using 2 degrees of freedom at 5% level of significance, $X^2\text{-tab}=5.991$

$$X^2\text{-c}=0.39$$

Therefore, $0.39 \leq 5.991$, the research concludes that residuals are normally distributed.

4. TEST FOR MULTICOLLINEARITY

This test is carried out using correlation matrix. According to Gujarati (2004), multicollinearity is a problem, if any correlation exceeds 0.8

Table 4.5: CORRELATION MATRIX

	LVAT	LGOVEXP	INF	UNE
LVAT	1.0000			
LGOVEXP	0.9908	1.0000		
INF	0.6277	0.6508	1.0000	
UNE	0.7829	0.8105	0.5909	

From the correlation matrix above, the pair-wise UNE and LGOVEXP are seen to have a value that is in excess of 0.8, therefore we can conclude that multicollinearity exists between the pair wise.

4.5 SUMMARY OF FINDINGS

The research hypothesis was stated in chapter one:

Ho: Value Added Tax has implication on economic growth in Nigeria

From the foregoing analysis and result obtained, value added tax has a positive relationship with and LGDP and also has a significant implication on the LGDP (which is a measure of economic growth). Thus we reject the null hypothesis and conclude that value added tax has positive and significant implication on economic growth in Nigeria.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY OF FINDINGS

This work is an attempt to investigate the implication of value added tax (VAT) on administrative and economic structure of Nigeria over the period of 2022-2023, using the ordinary least square regression (OLS) in examining the variables. The empirical result shows that the value of VAT has a positive significant implication on economic growth (GDP) in Nigeria, the result also shows the following;

That government expenditure has a positive and significant on economic growth in Nigeria

That inflation has a positive significant implication on economic growth (GDP) in Nigeria

The unemployment has a negative insignificant implication on Nigeria's economic growth.

5.2 CONCLUSION

The study analyzed the relationship between value added tax and economic growth (GDP) in Nigeria over the period of 2022-2023. The empirical findings show that value added tax has a positive significant implication on Nigeria's economic growth.

It should be taken into consideration that Nigeria's economic growth is not only consideration by various value added tax but by the other factors which were also put into consideration in this research, such factors are government expenditure, inflation rate and unemployment.

5.3 RECOMMENDATIONS

Following the empirical findings of this research, the following recommendations are made for effective policy formulations.

- ❖ The management and administrators of VAT in Nigeria should be done in a manner that it will not have adverse effect on the economy such as distorting the taxes or demand and supply
- ❖ Though VAT has a positive implication on the economy, effort should be made to exempt infant industries from VAT in order to encourage them to grow.
- ❖ The revenue generated from Vat should be used for infrastructural development of the country in order to increase the economic growth of the country.

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APPENDIX

QUESTIONNAIRE

SECTION A: PERSONAL DATA

Instruction: Please tick (✓) as appropriate

1. **Age** 20 – 40 years () 41 years and above ()
2. **Gender** Male () Female ()
3. **Qualification:** O'Level () NCE/ND () HND/BSc () Master Degree and Advice ()
4. **Working Experience:** Below 5 year () 5 years and above ()

SECTION B

Kindly tick (✓) the appropriate columns to the impact of VAT to Nigeria Economy

Strong Agree (SA), Agree (A), Neutral (N) Disagree (D), Strongly Disagree (SD)

1. There has been columns increase in the press of goods and services in Nigeria since 1994 (a) Strongly Agree () (b) Agree () (c) Neutral () (d) Disagree () (e) Strongly Disagree ()
2. VAT is one of the major sources of such increase (a) Strongly Agree () (b) Agree () (c) Neutral () (d) Disagree () (e) Strongly Disagree ()
3. The collection of VAT is Quiac easy for government them any other types of tax? (a) Strongly Agree () (b) Agree (c) Neutral () (d) Disagree () (e) Strongly Disagree ()
4. VAT has impact and Nigerian Economy? (a) Strongly Agree () (b) Agree () (c) Neutral () (d) Disagree () (e) Strongly Disagree ()

SECTION C

5. The body (FIRS) charged with the administration of VAT in Nigeria is effective (a) Strongly Agree () (b) Agree () (c) Neutral () (d) Disagree () (e) Strongly Disagree ()
6. The government should contract the administration of VAT to private body (a) Strongly Agree () (b) Agree () (c) Neutral () (d) Disagree () (e) Strongly Disagree ()
7. The government of Nigeria generates high revenue through VAT (a) Strongly Agree () (b) Agree () (c) Neutral () (d) Disagree () (e) Strongly Disagree ()
8. The review so generates gets to the government (a) Strongly Agree () (b) Agree () (c) Neutral () (d) Disagree () (e) Strongly Disagree ()
9. VAT has contributed what to aid government spending (a) Strongly Agree () (b) Agree () (c) Neutral () (d) Disagree () (e) Strongly Disagree ()
10. Government should continue with VAT (a) Strongly Agree () (b) Agree () (c) Neutral () (d) Disagree () (e) Strongly Disagree ()