

**THE IMPACT OF VALUE ADDED TAX ON THE GROWTH OF
NIGERIA ECONOMY
(A CASE STUDY OF FEDERAL INLAND REVENUE SERVICE ILORIN)**

BY

**ABDULAZEEZ BALIKIS ABIDEMI
HND/23/ACC/FT/0521**

**BEING A RESEARCH PROJECT SUBMITTED
TO THE DEPARTMENT OF ACCOUNTANCY
INSTITUTE OF FINANCE AND MANAGEMENT STUDIES
(IFMS), KWARA STATE POLYTECHNIC, ILORIN**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENT
FOR THE AWARD OF HIGHER NATIONAL DIPLOMA (HND)
IN ACCOUNTANCY**

MAY 2025

CERTIFICATION

This is to certify that this study was carried out by **ABDULAZEEZ BALIKIS ABIDEMI** with Matriculation Number **HND/23/ACC/FT/0521** 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.

.....
MR. BELLO R. A.
(Project Supervisor)

.....
DATE

.....
MRS. ADEGBOYE B. B.
(Project Coordinator)

.....
DATE

.....
MR. ELELU M. O.
(Head of Department)

.....
DATE

.....
IKHU OMOREGBE SUNDAY (FCA)

.....
DATE

DEDICATION

This project work is dedicated to Almighty God, the creator of heaven and earth the one who created all human kind, who gave me knowledge to achieve this project work.

ACKNOWLEDGEMENT

Every good accomplishment starts by making the choice in the right direction it thus becomes exceedingly necessary in showing gratitude to the personalities who have in one way or the other contributed to the success of this project

Firstly, I would like to thank my supervisor Mr. Bello R. A. and other lecturers in the Department for their concerted effort geared towards putting the pieces of this project together and most important for the correction made in the chapters.

I would like to express my profound gratitude to my parents; Mr. and Mrs. Abdulazeez for their support financially, morally and physically. I pray Almighty grant long life in good health and wealth.

I would like to appreciate my siblings for their continuous support throughout my days in Kwara State Polytechnic.

Lastly, I would also like to thank my friends; Atoke and Ashabi for their prayer. Thank you all and God bless you all.

TABLE OF CONTENTS

Title page

Certification

Dedication

Acknowledgement

Table of contents

CHAPTER ONE

1.0 Introduction

1.1 Background to the study

1.2 Statement of the problem

1.3 Research questions

1.4 Objectives of the study

1.5 Research hypothesis

1.6 Significance of the study

1.7 Scope of the study

1.8 Limitation of the study

1.9 Definition of terms

CHAPTER TWO

2.0 Literature review

2.1 conceptual Framework

2.2 Theoretical framework

2.3 Empirical Review

CHAPTER THREE

3.0 Research methodology

3.1 Introduction

3.2 Research design

- 3.3 Population of the study
- 3.4 Sample size and techniques
- 3.5 Source of data
- 3.6 Method of data analysis
- 3.7 Definition and measurement of variables
- 3.8 Model specification

CHAPTER FOUR

- 4.0 data presentation
- 4.1 Introduction
 - 4.1.1 Age of the respondents
 - 4.1.2 Religion of the respondents
- 4.2 Tests for hypothesis
- 4.3 Discussions of findings

CHAPTER FIVE

- 5.0 Summary, conclusion and recommendations
 - 5.1 Summary
 - 5.2 Conclusion
 - 5.3 Recommendations
- References

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Value Added Tax (VAT) represents 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 1993 (VATA 1993).

Before the final introduction of the VAT in January, 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 its implementation. And since introduction, VAT has yielded great revenue to the purse of the government. (Oyebanji, 2004).

Initially, VAT was proposed on January 1993, but the government agreed 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 Nigerian economy was to solve one of the major problems of public finance, that is, acquisition and the allocation of fund by government units.

More so, the implementation of VAT as to serve is a replacement for the existing sales tax which has been in operation under the Federal Government Legislated Act No. 7 of 1986 but which was operated on the basis of residence.

Nigeria VAT according to Olu (2000) has a number of features that theoretically make it quite straight forward and as painless 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 tax, it is expected to have a single effect on consumer prices and should not add more than the specified rate to the consumer price, no matter the number of stages at which the tax is paid. In other words, the increase in price of final goods and services should not be more than VAT rate since liability of VAT organization is the difference between VAT on output and vat on input.

Thirdly, all goods and services are VAT able with limited' and very specific exceptions. All inputs are VAT able whether imported raw materials or finished goods. VAT on input is calculated in the total value of the total costs, insurance, and freight. Exports are zero-rated, implying that, exporters do not collected VAT on export but they can claim credit for VAT paid on their inputs.

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

The VAT revenue is shared by various levels of government. Thus VAT revenue is injected into the economy through increased in government final consumption expenditure (Oyebanj I, 2004).

The impact of this system of taxation to the Nigerian economy cannot be underestimated. Its implementation had contributed immensely to the public finance. This statement would be justified using appropriate data in the subsequent chapters.

1.2 STATEMENT OF THE PROBLEM

The central problem of tax policy in developing countries centre around how to obtain necessary revenue to finance growth while at the same time providing some correction for a of inequality in the distribution of income, but without interfering unduly with private savings and investment.

At the structural level, it has argued that the tax provisions do not adequately reflect the peculiar socio- economic character, goals and problems of the nation. On the other hand, at the administrative level, it is argued that the machinery and procedures followed in implementing the tax system are inadequate, and hence account for the consistent low yield of some taxes and inner group inequities. Any change in tax law is usually designed in adhoc manner and is based on expediency rather than on long-term studies. Since small taxpayers are numerous in developing countries and administrative facilities so limited, the treatment of small taxpayers required special attention.

The difficulty of imposition of taxes has led most developing countries to omit all but a few services from taxes. Administrative constraints are the main reasons why VAT that prevails in developing countries is usually very different from the broad-based and neutral tax.

The informal structure of the economy in many developing countries and the financial limitation, creates difficulty in generating reliable statistics. The lack of data prevents policy makers from assessing the potential impact of the tax system.

1.3 RESEARCH QUESTIONS

From the discussions above, this study seeks to provide answers to the following questions.

- i. Is there any relationship between values Added Tax and Gross Domestic Product.
- ii. Is there any relationship between Value Added Tax and Federally Collected Revenue.
- iii. Is there any relationship between a Value Added Tax, Federally Collected Revenue and Inflation in Nigeria.

1.4 OBJECTIVES OF THE STUDY

The major objective of this study is to

- i. Examine the relationship between Value Added Tax and Gross Domestic Product.
- ii. Know if is any relationship between Valued Added Tax and Federally collected Revenue.
- iii. Examine the relationship between a Value Added Tax, Federally Collected Revenue and Inflation in Nigeria.

1.5 RESEARCH HYPOTHESES

The following hypotheses shall form the major focus of this study.

HO1, There is no relationship between Value Added Tax, Federally collected Revenue, Inflation and Gross Domestic Product

HO2 There is no relationship between Value Added Tax and Economic Growth of Nigeria.

HO3 There is no relationship between Value Added Tax and Federally Collected Revenue.

1.6 SIGNIFICANCE OF THE STUDY

The gains of VAT to the economy need not be overemphasized. It is certain that one of the objectives of VAT is to reduce consumption so as to increase savings and investment, which leads to economic growth. The study sought to examine the effects of VAT on economic growth in Nigeria and to provide a basis for suggesting ways of minimizing the adverse effects, while consolidating on the beneficial aspect. It is hoped that the insights to be gained from this research will consequently serve as aid to future policy formulations in order to arrive at a well-articulated and optimally beneficial policy to the economy.

This research is intended not only to fill the gap of academic research in this subject, but also to serve as a basis for further research on VAT.

1.7 SCOPE OF THE STUDY

The study was not restricted to any state in Nigeria in particular because of the national perspectives of the study. For effective analysis, this research covers the period 2019-2025. This duration captured the major periods of fiscal reforms in Nigeria and the changes in the fiscal relations in the country.

1.8 LIMITATIONS OF THE STUDY

In carrying out this study, the researcher anticipated a number of difficulties, which actually manifested. They include finance, inadequate information, time and the uncooperative attitude of relevant authorities and institutions these issued placed limit on the coverage of this study but did not hindered or hampered the successful completion of this work. The effective strategies we put in place ensured that these limitations were resolved in a way that we achieved our objectives.

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. (Dr. Olatunji et al, 2002).

OUTPUT VAT. This is the 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: The 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. Olatunju 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, 2000).

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; good, services and properties f an individual, partnership, executor, trustee and a corporate bodies in order D generate revenue to the government directly or indirectly. (Oyebanji, 2004).

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

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

Ofishe (2020) analyzed the impact of value added tax on economic growth in Nigeria from 1994 – 2012. Ordinary Least Square technique was used to estimate three models in line with the formulated hypotheses. Results from the models revealed a strong positive significant impact of VAT on economic growth as proxy by GDP in Nigeria. It also revealed that there is a positive relationship or impact of VAT on total tax revenue over the period studied. Consequently, it was recommended, among other things, that government should put in place measures to effectively utilize generated VAT revenue for infrastructural and economic development.

2.2 CONCEPTUAL FRAMEWORK

2.2.1 CONCEPT OF VALUE ADDED TAX (VAT)

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 chargeable to tax in Nigeria, if the tax payer happen to be residence in Nigeria. Capital gain tax which is posed on capital gains on the fixed of 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 Entrepreneurial.

Also, Value Added Tax (VAT) is tax that shall be charged and supply of all goods and services (in the decree referred to taxable goods and services) other that those goods and services listed schedule to the decree.

According to Unites State, Statement of standard accounting Practice (SSAP) No. 5 VAT is defined as a "Tax on the supply of goods 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 vically levied on the value added at each stage of production or distribution. This tax applies to total sales less purchases from any intermediate sales unit. Also, VAT is defined by Ishola (2001) as a tax levied at each stage of production. It is a multistage self assessment tax that is paid when returns are being rendered and or collected on sales and distribution.

Furthermore, in the Statement of Accounting Standards (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: VAT is a tax which incidence is borne by the final consumer.

VAT is a multistage tax that is levied at each stage of production and distribution chain.

VAT is a consumption tax

The rate of VAT is specific and it is borne finally by the consumer of the VAT able goods.

VAT AND OTHER TYPES OF TAX

Value Added Tax is a consumption tax used by almost all nations in the world to replace either an existing consumption tax or an income tax as the case may be.

However, this research work looked into the comparism between VAT and the various types of tax which it replaced.

VAT AND THE NATIONAL INCOMETAX

As stated in the Congressional Report Services (CRS) report overviewed by Gregg, 2004 in the United State of America (USA), the income tax system is criticized.

Reforms suggestions have proliferated several versions of. VAT, the much discussed flat tax and consumption (the "Hall-Rabushka" tax), the USA proposal for a direct

consumption tax and the revision of the income tax. However, most reforms proposal are based on the notion that switching to a consumption tax base or exempting savings from tax would increase the living rate and improve economic efficiency. It is also argued that the consumption tax would improve the country's balance of trade.

VALUE ADDED TAX

Value added is central to VAT, Its determination is central to the calculation of VAT. In any organization the value added is defined as the difference between the firm's sales of output and its 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 entrepreneurial ability (Ishola, 2001).

The value added of a firm therefore equals to the sum of the returns to its factors 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 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 product (production)
- ii. By making the produced goods to the consumers, this 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 materials to the end of the production cycle of the product and even taking control measures on the product.

2.2.2 FACTORS CONSIDERED BEFORE INTRODUCING VAT

In order 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 clear political management: The introduction of VAT may face strong resistance by groups lobbying for preferential tax treatment. Thus, clear top level, political commitment is needed to introduce a VAT combine with efficient management of legislative process to ensure that lobbying and political oppositions do not undermine the implementation strategy. If this is not taken into consideration, 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's most important details.
- iii. Timing. The date for introduction and or implementation should be carefully chosen to avoid inflationary phenomena. It may not be enough to do timing internally, external bodies should be encouraged to help monitor the tax effect on prices 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 the tax. In addition, experienced tax administrators must be transferred from existing tax administration bodies to the VAT services to ease staffing gaps.

TYPES OF VAT

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

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

CONSUMPTION VAT

Under this capital purchase are treated the same way as the purchase of other inputs. This treatment of capital input is equivalent to expensing. In other words, no purchase is treated specially as soon as an expenditure is made VAT able 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 is amortized i.e. credit against the VAT 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 purchase item.

VAT IN NIGERIA

The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contribution, and to every other person.

PLACEMENT OF VAT

Having taken a decision to implement VAT, government was faced with the need to answer the administrative question of which organization was most suitable to administer the tax.

Nigeria was at a crossroad by December 1993 when the new tax was about to start.

There are many possibilities in taking the crucial decision of where to place the administration of VAT. The main possibilities include;

- (a) The organization that administers customs and excise duties:

- (b) The organization that administers internal Indirect taxes if separated from income tax.
- (c) The income tax administration
- (d) In rare cases, a separate outfit.

While it is difficult to prescribe general guidelines as to which of these organizations is best equipped to administer 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 imports and paid on imports in manner similar to custom duties. It is on this premise that countries like Britain chose to pitch the VAT administration in the Board of customs and Excise. But the expertise and training of customs officials are tailored towards establishing the Value of goods across the borders.

2.2.3 VALUE ADDED TAX IN NIGERIA

This is a tax that was introduced by the Federal Government of Nigeria 1994 by Decree 102 of 1993 to replace the old sales tax. It is a consumption tax imposed on all VATable goods and services at the rate of 5% (Soyode and Kajola, 2006).

As a consumption tax Ochei (2010) Opined that VAT is an indirect tax system where the consumer actually bears the cost of the tax. Bird (2005) on his part confirmed the multi-stage nature of VAT when he asserted that, value added tax (VAT) is a multi-stage tax imposed on the value added to goods and services as they go through various stages of production and distribution as well as services rendered. Obviously from the shades of opinions highlighted above, it is clear that the final incidence or burden of VAT is borne by the final consumer of goods and services in Nigeria the enabling law (Value Added Tax Act, 1993) and listed the following as Goods and Service exempted from VAT in Nigeria.

Tabansi (2001), Okezie (2003), Ojo(2003) and Offiong (2004) were all in agreement when they cited;

1. Medical and Pharmaceutical products;
2. Basic food items;
3. Books and educational materials;
4. Baby products;
5. Commercial vehicles and their spare parts;
6. Agricultural equipment and products and veterinary medicine
7. Fertilizers, farming machinery and farming transportation equipment;
8. All exports of goods and services;
9. Plant and machinery used in export processing zone
10. Plant, machinery and equipment purchased for utilization of gas in the downstream petroleum operations;
11. Tractors, ploughs, agricultural equipment and implements purchased for agricultural purpose.
12. Services of community banks and primary mortgage institutions;
13. Plays and performances conducted by educational institutions as part of learning ;
14. Service related to education and medical services.

From the above items listed it becomes obvious that value added tax covers almost every aspect of our economic and human life. It is a tax that most consumers pay without knowing, yet it helps the government to generate substantial revenue for economic growth. Aruwa (2008) added his voice to the broad nature of VAT in Nigeria when he stated that the Nigeria VAT which is a replacement for the sale tax of 1986 have a very wide based with relative few exemptions and only exports are zero-rated.

2.2.4 TAX LAWS AND ECONOMIC DEVELOPMENT

Musa (2009) opined that economic and social development laws and policies provide the basis for effective state action that lifts society from underdevelopment, improves the standard of living and facilities for the realization of the millennium development goals. Nigeria is in dire need of solution to its development challenges. Good laws that are well implemented would contribute to the resolution of these challenges. The first thing to do in this scenario is an attempt to review the implementation of the identified laws like the company income tax, petroleum income Act and tax reform Act. The second thing is to get the relevant legislative committees and ministers, departments and agencies involved give account of their respective stewardship/roles in implementation of the law.

The Joint Tax Board was created in the tax law by section 27 of Income Tax Management Act of 1961 to harmonize the tax administration of the country. It needs to be appreciated that the tax system offers itself as one of the most effective source of revenue and that it tends to create an environment conducive to the promotion of economic growth. However, the potency of the tax system will depend greatly on the tax measures and policies adopted. Sani (2005) opined at prompting ambition, rewarding success, encouraging private savings and investments needed to create new jobs and kindling in the people that spirit of enterprise. Taxes should further be used selectively to induce and encourage nationally desirable economic activities, and may be offered to promote the development of backward areas of Nigeria. Sani concluded that tax concessions must be given and framed so as to ensure the companies actually carry out the underlying intention of increased economic development if the tax authority is to avoid the criticism that tax concessions only offer tax loopholes through which the agile tax payer can maneuver.

2.2.5 VAT AND NIGERIA

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

A committee was set up to conduct a feasibility study and the implementation of such a tax, but the committee's mandate did not extend to assessing the possible impact of the tax. Implementation of tax began January, There have been a problem over the years with the way VAT able organizations are treating their liabilities especially the VAT they pay on their Input. More so, there is a problem with the way government is managing the expenditure Of VAT revenue, (D. Olu Ajakaiye, 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.

2.3 THEORETICAL FRAMEWORK

2.3.1 PROMULGATION OF DECREE 102 OF 1993 THEORY

The VAT decree was signed into law on the 24th August, 1993 and it was to commence on 1 December, 1993. But for administrative convenience the operational date was shifted to 1 January, 1994.

The decree is logically arranged into six broad parts with three schedules fed contains forty-three sections. The six parts cover imposition of VAT, the administration of the tax; returns, remittance, recovery and refund of the tax; the establishment of a technical committee to advise on the tax from time to time (time offences and penalties and other miscellaneous items).

The decree places the administration and management of the tax on the federal Board of Inland Revenue (FBIR) and empowers the Board to do such things as it may deem necessary and expedient for the assessment, collection and accounting for the tax. It is in

the exercise of; this power that the Board has appointed other statutory bodies like Nigerian Customs Service (NCS), NITEL, public and private companies and a host of other organizations, to act as agent of collection of the tax in their respective areas of operation.

Section 42 of the decree contains a comprehensive list of terms that are clearly defined and interpreted in the content of the Legislation. The lucid, on proffered in this interpretation section helps to throw more light on t of the decree and it helps to narrow down possible areas of conflicts and confusion in its implementation.

2.3.2 MASLOWS THEORY OF VALUE ADDED TAX

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, comparism should be made between the VAT, and the sales tax and or income tax on the following grounds:

- i. Efficiency Issues: The economic efficiency or inefficiency of a tax system may be judged by its effect on behaviour, to the degree that the tax system distorts economic behaviour (form what it would be in the absence of the tax). It's 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, raises the price of future consumption relative 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 saving is also predicted in switching from income to consumption taxes and this effect is often viewed to be a positive result of a consumption tax. An

increase in saving rate however can be determined to be necessary desirable since it trades off current consumption for future consumption.

iv. Also, the consumption tax unlike the income tax allows an up - front deduction for savings but requires the payment of tax in both principal and return when consumption occurs in the future. These individuals need to save today to pay taxes due in future; this can be achieved while still consuming more today because of their large tax cuts. There fore, while a young (current, work force) consume part of their tax cuts, the old (retires) who do not save because they are consuming from their accumulated capital reduce their consumption by much more and the overall effect is to increase aggregate saving in the economy.

v. Effect on trade: 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 imports decrease. This in turns would improve trade performance and reduces trade dell cit.

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.

2.4 EMPIRICAL REVIEW

According to Nnamdi Asika, (2020) he defined research as any organized enquiry that aims at providing information for solving identified problems.

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, 2022).

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

According to information circular No. 9304 of Federal Inland Revenue Service 20th August 1993, the various tax legislation which were brought about by the political and economic development of the nation between 1940 and 1960 gave rise to the formation of the board of inland revenue in 1958 after a report for the establishment of a Federal Tax Structure based on federalism by Sir Ralsman report in 1957 was accepted. The board then took over the functions of the commissioner of income tax.

The board was statutorily established under the Federal Ministry of Finance. The Federal Inland Revenue Service department and the federal board inland revenue has between 1961 up to date taken over various tax responsibilities dedicated by assessing and collection of tax of all limited liability companies in the country. Up to first of March 1968, before the creation of State, it collected tax from all residents of the Federal Capital Territory of Lagos. When PAYE was introduced, the department took over the added responsibility of assessing members of the armed forces. (External Affairs and Pensioners).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter discusses the methodology used for the study. The researchers need to provide a clear description of how data were collected. It explains sections as research design, population, sampling and sampling techniques/methods, data validity, data reliability and data analysis.

3.2 RESEARCH DESIGN

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 how data will be collected, and the types of data to be used and the proposed methods of analyzing the data.

3.3 POPULATION OF THE STUDY

The population of this study is the entire stakeholders, including the payers, collectors and those that impose VAT on various goods and service. It is however obvious from the foregoing statement that it is practically impossible to cover the whole population due to limited amount of time and the cost involved. The organization has approximately 120 staff members.

3.4 SAMPLE SIZE AND SAMPLING TECHNIQUES

To achieve an objective and manageable analysis, a sample size of 45 respondents was selected from the population. The stratified random sampling technique was used to ensure fair representation from each of the relevant departments (finance, operations, and

administration). This technique divides the population into subgroups (strata) and selects respondents randomly from each subgroup, thereby reducing bias and ensuring that each category of employees has a fair chance of participation (Kothari, 2004).

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n = sample size

N = population size

e = margin of error (decimal form)

Given:

Population size N = 120

Margin of error, e = 5% = 0.05

Calculation:

$$n = \frac{120}{1 + 120 \times 0.05^2}$$

$$n = \frac{120}{1 + 120 \times 0.01}$$

$$n = \frac{120}{1 + 2}$$

$$n = \frac{120}{0.025}$$

$$n = 45$$

Sample size, $n = 45$

3.5 SOURCES AND METHOD OF DATA COLLECTION

According to Olorunfemi (2014), basically there are two (2) sources of data namely;

- i. The primary source
- ii. The secondary source

The Primary and Secondary sources are both used in most academic Researches. 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 were sourced using the sampling method.

The questionnaires were administered to both producers and consumers of VAT able goods and services for the purpose of the research work.

The secondary data on the other hand, which is not primarily collected for the purpose of the present use, were also used. Various sources are also available for data collection but for the purpose of this work, the following sources were used:

- i. Revenues of federal government of various years,
- ii. Relevant materials on taxation and economic development,
- iii. Publications of the Central bank of Nigeria.
- iv. Internet publications such as seminars research results and current events on the subject.

3.6 INSTRUMENTS FOR DATA COLLECTION

Samples were administered to 45 respondents; also personal interviews were also conducted with some key officers of the firms producing VAT able goods and services. This interview was centered primarily on VAT and economic development.

More so, the questionnaire contains fifteen questions and they were distributed among three (3) sections of the questionnaire.

Section A, of the questionnaire contains the demographic data of the respondents, which includes age, gender, working experience and qualification.

Section B, sought to get information concerning payment and collection of VAT, and its impact on productive resources as well as products.

Section C, which is the last section will inquire the respondents to express their view on the impact of VAT on the Nigeria economy.

3.7 TECHNIQUES FOR DATA ANALYSIS

Considering the nature and purpose of this research work, both descriptive and quantitative method employed in the analysis of data that were collected. The data collected from the administered questionnaire 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 responses to the questions through the use of statistical inference (Chi-Square) at 0.05 alpha level and degree of freedom is $(r-1)(c-1)$ of chi-square distribution (χ^2),

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).

The Chi-Square formula:

$$\chi^2 = \sum \frac{(o_i - e_i)^2}{e_i}$$

Where

O = Observed Frequencies

E = Expected Frequencies

Σ = Summation

It is to be noted that degree of freedom is calculated for testing the Chi-Square. This is given as:

df = Degree of Freedom

r = Number of rows

k = Number of columns

= Constant

X 2 Chi-square

Hence, the chi-square has a critical value of 0.05.

Conclusively the hypothesis testing will be concluded based on the following decision rule:

- i. When the calculated Chi-square value is greater than tabulated chi-square value at 0.05' alpha level, the null hypothesis will be rejected while the alternative hypothesis will be accepted.
- ii. When the calculated chi-square value is less than the tabulated chi-square value at 0.05 alpha levels, the null hypothesis will be accepted while the alternative hypothesis will be rejected.

3.8 MODEL SPECIFICATION

According to information circular No. 9304 of Federal Inland Revenue Service 20th August 1993, the various tax legislation which were brought about by the political and economic development of the nation between 1940 and 1960 gave rise to the formation of the board of inland revenue in 1958 after a report for the establishment of a Federal Tax Structure based on federalism by Sir Ralsman report in 1957 was accepted. The board then took over the functions of the commissioner of income tax.

The board was statutorily established under the Federal Ministry of Finance. The Federal Inland Revenue Service department and the federal board inland revenue has between

1961 up to date taken over various tax responsibilities dedicated by assessing and collection of tax of all limited liability companies in the country. Up to first of March 1968, before the creation of State, it collected tax from all residents of the Federal Capital Territory of Lagos. When PAYE was introduced, the department took over the added responsibility of assessing members of the armed forces. (External Affairs and Pensioners).

CHAPTER FOUR

ANALYSIS AND DISCUSSION

4.1 INTRODUCTION

Presentation and analysis of data collected gives a lucid view of all is materials information gathered from the selected method of data collection through the distribution of questionnaire to the staffs of the Federal Inland Revenue Services (FIRS) are analyzed below.

4.2 RESPONDENTS CHARACTERISTIC AND CLASSIFICATIONS

In this chapter, an attempt was made in analyzing the entire primary and secondary data obtained during the research study. If the use of frequency data obtained during the research study. It consists of the use of frequency table distribution and statistical of data gathered.

- a. Questionnaires
- b. Organization
- c. Personal interview.

More so all relevant hypotheses earlier formulated were tested to generate logical and reasonably conclusive results.

TABLE 4.2.1 AGE OF RESPONDENT

AGE LIMITS	MALE	FEMALE	TOTAL	PERCENTAGE %
18 – 25	13	14	27	6%
26 – 39	8	6	4	31.1
40 – 49	1	2	3	6.67
50 and Above	1	-	-	22.22
Total	23	22	45	100%

Source: Field Survey, 2025

From the above table on age of respondent out of total number of 45 respondent, 27 respondent (13 males and 14 females) were between age 18 and 25 and they represent 60% of the total population, 14 respondent (8 males and 6 females) were between the age of 26 and 39 and they represent the age 40-49 and they represent 6.67% of the total population while 1 respondent which is male represent 2.22% of the population.

TABLE 4.2.2

SEX OF RESPONDENT

SEX	TOTAL	PERCENTAGE %
MALE	23	57.11%
FEMALE	22	48.89%
TOATL	45	100%

Sources: Authors survey 2025

From the above table on sex of respondent, out of the total number of 45 respondents, 23 respondents were male representing 57.11% of the total population while 22 respondents were female representing 48.89% of the total population.

TABLE4.2.3.

MARITAL STAUS RESPONDENTS

MARITAL STATUS	MALE	FEMALE	TOTAL	PERCENTAGE %
MARRIED	6	4	10	22.22%
SINGLE	14	17	31	68.89%
Divorced	4	1	3	6.67%
Widowed	1	-	1	2.22%
Total	23	22	45	100%

Source: Author's survey 2025

The above represents the marital status of respondent out of the total 45 respondent (14males and 17 females) was single and they represent 68.89% of the total population.

10 respondents (6 males and 4 females) were married and they represent 22.22% of the total population. 5 respondents (4 males and 1 female) were divorced and they represent 6.67% of the total population while a respondent which is a male represent 2.22% of the total population.

TABLE 4.2.4 ACADEMIC QUALIFICATION OF RESPONDENT

QUALIFICATION	MALE	FEMALE	TOTAL	PERCENTAGE %
F.S.L.C	1	1	2	4.44%
SSCE/GCE/O'LEVEL	7	6	13	28.89%
B.SC/HND/OHND	10	13	23	51.11%
MBA/MSC/OND	3	2	25	11.11%
Other professional Qualification	2	—	2	4.44%
TOTAL	23	22	45	100%

Sources: Authors survey 2025

The above table represent the academic qualification of respondent of 45 respondents, 2 respondents (a male and a female) had a first schooling living Certificate, which represent 4.44% of the entire population, 13 respondents (7 males and 6 females) had SSCE/GCE “O” Level Certificate which represent 28.89% of the total population, 25 respondents (10 males and 13 females) had B.Sc/HND/OND certificate which represent 51.11% of total Population 5 respondents (3 males and 2 females) had MBA/M.SC/PhD certificate which represents 11.11% of the Total population while 2 respondents which were males had other professional Qualification which represents 4.44%

TABLE 4.2.5 STATUS OF RESPONDENT

POSITION	MALE	FEMALE	TOTAL	PERCENTAGE %
Local Government personnel	10	6	16	35.56%
Tax collector	_____	4	4	8.89%
Tax payer	13	12	25	55.56%
Total	23	22	45	100%

Sources: Authors survey 2025

The above table represents the status of respondent out of the total of 45 respondents (10 males and 6 females) were Local Government Personnel which represents 35.56% of the entire population 4 respondent that were females were tax population 25 respondents (13 males and 12 females) were tax payers which represents 55.56% of the total population.

TABLE 4.2.6 WORKING EXPERIENCE OF RESPONDENTS

YEAR	15	16	31	68.89%
0 – 5	8	16	14	31.11%
6 – 10	_____	_____	_____	
11 – 15				
16 years and above	_____	_____	_____	
TOTAL	23	22	45	100%

Sources: Authors survey 2025

The above table represents the working experience of respondents out of the total of 45 respondents 31 respondents (15 males and 16 females) had 0 – 5 year of experience which represents 68.81% of the entire population while 14 respondents (8 males and 6

females) had 6 – 10 years of experience which represent 31.11% of the total population. No respondents falls under 11 – 15 and under 16 years and above.

4.3 PRESENTATON AND ANALYSIS OF DATA ACCORDING TO RESEARCH QUESTION OR RESEARCH HYPOTHESIS

VIEW	MALE	FEMALE	TOTAL	PERCENTAGE %
Forging of receipt	10	4	14	31.11%
Bribery and corruption	7	6	13	28.89%
Non-disclosure of assets and property	4	9	13	28.89%
Registration of Business	2	3	5	11.11%
TOTAL	23	22	25	100%

Sources: Authors survey 2025

From the above table representing ways/means of tax evasion by the people in the Local Government, out of the total of 45 respondents 14 respondents (10 males and 4 females) opined that people evade tax through bribery and corruption and they represent 28.9% of the total population non-disclosure of asset and properties and they represent 28.89% of the total population while 5 respondents (2 male and 3 females) opined that people evade through registration of business with house address and they resent 11.11%

TABLE 4.3.2: POSSIBLE WAYS/SOLUTION TO TAX EVASION IN LOCAL GOVERNMENT

VIEWS	MALE	FEMALE	TOTAL	PERCENTAGE %
Education of tax	6	4	10	22.22%

Recruitment of experiences and honesty tax personnel.	5	7	12	26.67%
Enforcing of penalty on defaulted	8	8	17	28.89%
Efficient machinery for tax collection should be put in place	4	2	6	13.33%
TOTAL	23	22	45	100%

Sources: Authors survey 2025

4.4 TEST OF HYPOTHESIS

HYPOTHESIS 1

HO: - The quality of tax administration does not have an effect in the revenue generation in Local Government from the analysis of data in chapter these, the degree of freedom is 5 and the level of sufficient is 5%. Therefore the value of the tabulated (chi-square) equal computed equal 16.316 which represent the alternative hypothesis (hi). The value computed chi – square (i.e. $16.316 > 11.0710$), therefore Ho, (I) was rejected and Hi (I) was accepted.

This implies that quality of tax administration has an affect on the revenue generation in Local Government.

HYPOTHESIS II

H2:- Tax evasion and its effect cannot be reduced if not totally alleviated among the people of the Local Government. From the analysis of data in chapter three, the degree of freedom is 5 and the level of significance is 5%. Therefore, the value of the tabulated Chi-square 11.071 which represent the null hypothesis (Ho) while the value of the Chi – square is native hypothesis (Hi).

The value of computed chi-square is greater than the value of tabulated rejected and H_0 (2) was accepted. This implies that tax evasion and its effect can be deduced from if not totally alleviated among the people of the Local Government.

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 people that have below 5 years form a greater percentage of the respondents participation on.

In addition, the hypothesis tested shows that gender, age and working experience has no significant on the respondents assessment on the impact of VAT to the Nigeria economy. Furthermore, the secondary data clarify the impact VAT has made to the total non-oil revenue of the Federal government for 8 years (2014-2022). It shows that there has been a continuous increase in the revenue generated through VAT thereby enriching the government.

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

The secondary data gathered also helped in showing how increase in Federal government revenue particularly through (VAT) has led to increase in the distribution of wealth among various level of government over the 8 years considered in the study.

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

CHAPTER FIVE

5.0 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 John how increase in VAT revenue has influenced increase in government distribution of funds, to various levels 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 the 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 increases 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 consider the welfare of the populace before 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 experience 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 becomes the better the quality of life, we shall live devoid of the vices of tax evasion, bribery and deceit.

5.4 FRONTIERS FOR FURTHER RESEARCH

However, the following areas are suggested for further study on Value Added Tax.

1. Research should be carried out on how government determines the rate of VAT to reveal various stakeholders involved in the determination of the rate.
2. The computerization in the administration of VAT such that better return will be reported on VAT.
3. Furthermore research needs to be carried out on how to educate member of the public on the issue of VAT regarding the rate in VAT able goods and services.
4. More so, since VAT was introduced to replace the sales tax, further research can also be to find out whether there is a better way of charging tax on VAT able goods services i.e. another types of tax that could also replace VAT.

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