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EFFECT OF VALUE ADDED TAX, COMPANY INCOME TAX AND CUSTOM AND EXCISE DUTIES ON NIGERIAN ECONOMY

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Abstract

The study investigates how economy of our nation can be improved through tax revenue by considering the contribution of value added tax (VAT), company income tax (CIT) and Custom and excise duties (CED) to Nigerian economy in order to assist government to meet its recent challenges of revenue shortages. Secondary data relating to relevant tax revenue were obtained on yearly basis for a period of twenty two years covering 1994 to 2015. We employed OLS regression to determine the impact of VAT, CIT and CED on economy (GDP). The study established a significant impact of VAT on GDP. Meanwhile, CIT and CED have no significant impact on GDP. The study thus recommends that the government should improve on collection of tax revenue through CIT and CED by reducing leakages and ensure maximum transparency in tax administration.

Keywords: *Value added Tax, Custom and Excise Duties, Economy and Company Income Tax*

1. INTRODUCTION

Dwindling of revenue has been a major challenge to Nigerian government for past few years as a result of fluctuation and decline of oil price in the international market which has great impact on the total revenue available to the government, inadequate funds for developmental projects and deficit budget. These are good reason for government to increase its revenue through Value added Tax and other others sources available to the government in order to improve economic growth in Nigeria. Value Added Tax is a tax imposes on consumption of goods and services at every stage of consumption until it reaches the final consumer of a particular goods and services.VAT was introduced in Nigeria in order to increase revenue generation and more importantly to improve nation’s economy as a whole. There are other types of taxes through which government generates revenue apart from VAT, which include Custom excise duties (CED) and Company Income Tax (CIT). All these sources of revenue will consider in this work to examine their impact on the Nigeria economy. It was not only adopted in Nigeria but other countries of the world both in Europe and Africa adopted VAT, among countries that adopted VAT in Africa are Benin Republic, Cote d’Ivore, Guinea, Kenya, Madagascar, Mauritius,

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Senegal, Togo, Nigeria. Evidence suggests that in these countries VAT has become an important contributor to government revenue (Ajakaiye, 2000; Shalizi & Square, 1988; Ayuba, 2014). In 1994 VAT was introduced by Nigerian government to rejuvenate the economy and to reduce level of poverty and to enable government to meet up with its increase expenditure yearly. VAT is very important as a result of decline in other sources taxes to Federal government such as Custom duties, Company Income Tax and failure of Nigerians to pay tax generally.

The three tiers of government have resulted to borrowing in order to finance government expenditure (Basila, 2010). It was argued that VAT is relevant and it is beneficial to three tiers of government. Furthermore, Akintoye and Tashie (2013), in an effort at justifying their proposal for tax policy reforms put forward the following four arguments:

a. There is a need to diversify sources of revenue to Nigerian government to prevent fluctuation and uncertainty of oil prices in international market and to enhance fiscal sustainability and viability of lower tiers of government.
b. Indirect taxes such as VAT are neglected by Nigeria government because the tax system in Nigeria focuses on petroleum and trade taxes.
c. To ensure strong macroeconomics stability and economic growth and to reduce long fiscal deficit.

As a result of these scenarios, this paper is of the opinion that, it is high time that the Nigerian government to begin to search for alternative source of revenue for economic development. The source of such revenue must be viable and sustainable. The significance of this study lies in the fact that it is hoped to provide policy decision makers in government with recommendations that would help in policy decision making relating to Value Added Tax (VAT), specifically, and taxation generally, in Nigeria as they strive towards diversifying the sources of revenue accruing to Government; Also, the Regulatory bodies such as the Federal Inland Revenue Service (FIRS) and it will assist joint tax board in formulation of relevant policies that will be useful for the generation adequate tax to augment other source of income to Nigerian government.

This study is, therefore, intended to examine the impact of VAT, CIT and CED on economic growth and its contribution to the Nigerian economy, whether it is a good alternative source of revenue to the government. In line with the study objectives, the following questions are advanced to guide the study: ICAN (2006) said they are logically derived from the problem statement and the objectives. Does VAT contribute to Gross Domestic Product during the period 1994 to 2015?, What is the relationship of VAT, CED and CIT with Gross Domestic Product? What is the impact of CED and CIT on the Gross Domestic Product?

This study shall cover the contributions of VAT to economic growth of Nigeria in terms of the Gross Domestic Product (GDP) for the years 1994 to 2015 only. Growth in the GDP of a country is an index of economic growth over time, which justifies its selection in this study. The years 1994 to 2015 are relevant to the study because they cover the years of the VAT experience in the country from its inception to date. This is hoped will give a picture of the manner in which VAT has contributed to national growth in Nigeria.

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2. LITERATURE REVIEW

It is very important for every government in the world to provide essential services to their citizens and these are possible and it is done through payment of taxes to government by every taxable person in the country. The provision of services by government is not necessary to be equated with the taxes paid by citizens or verification of how the money was generated by government. Tax is defined as compulsory levy impose on individual or every taxable person, goods and services and companies, to government to ensure redistribution of income and provision of infrastructural facilities. (Anyanwu, 1997). Value Added Tax (VAT) is defined by Kamruddin-parvez (2012), as a form of consumption tax imposed on a product whenever value is added at a stage of production and at final sale. It is a tax imposed on supply of goods and services with the exception of goods and services exempted from VAT. According to Rostani, Nourbakhsh and Abarian (2012), in most countries of the world Value Added Tax is the main source of revenue to the government because it is an important variable in fiscal policies because its contribution to total revenue is very significant when compare to the VAT generated by Nigerian government. The definition of VAT clearly shows that it is a tax charged on consumption of goods and services whether manufactured within the country or imported in to the country. Soyode and Kajola (2006) defined VAT as consumption tax that is charged at 5% on all VATable goods and services. On May 23, 2007 VAT was increased to 10% but it was rejected by Nigerians through Nigerian Labour Congress which eventually made Federal Government reversed it to 5% old rate (Onaolapo, Aworemi &Ajala, 2013).

From different contributions, VAT is simply defined as an indirect tax imposed or charged and collected on the value added at a particular stage of the production and distribution process of goods and services which is finally borne by the final consumer via the price paid for product purchased. Economic growth is the increase in nation’s production capacity and this is measured by comparing Gross National Product of a year with the previous year. Customs and Excise Duties have been in existence for a very long time in Nigeria, it is also known as import duties which are determine either by a fixed amount or as a percentage depending on the value of imported goods. Also, Petroleum Profit Tax is the taxes collected from oil companies which also contribute greatly to the economy.

In order to expand the revenue generation of Federal Government, it was imperative for Federal Government to review the tax system in the country and this was exactly what led to VAT in Nigeria in 1991. It was argued that VAT is very important to increase revenue base of federal Government because sales tax revenue base is more and could not give a better and wider tax administration(FIRS, 1999; Abdul-Rahman, Joshua & Ayorinde, 2013). Sales tax was not effectively managed because of its marginal contribution to revenue base and it is under the control of States government. Abdul-Rahman *et al.* (2013) argued in favor of adoption of VAT due to the following reasons: Reduction in tax evasion, and Simplification of indirect tax system, to promote investments and enlarge tax base and to enhancement of tax neutrality in international trade.

The theory of public goods highlights the variation of commodities in terms of excludability and rivalry of use. Excludability implies to what extent an individual in the society can be denied

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usage of certain good. Contrarily, rivalry of use has to do with the competition in consumption of public goods in the market. It means to what extent the consumption of the good by one individual can reduce the availability of the good for consumption of others. Public goods according to Holcombe (1997) are goods produced once by the government for public consumption without additional cost when used by additional consumer. Users of public goods cannot be prevented from using them once they are produced, because they are produced by government, for the benefit of the public in general through revenue such as tax. Studies on VAT generation to boost government revenue and to determine its impact on economy are theoretically linked to the study; hence this research work is adopting the theory of public goods. Therefore, it is very expedient to examine the impact of VAT on Nigerian economy in relation to Petroleum profit tax, Custom and Excise duties and Company income tax.
Introduction of VAT started in France in 1954 through Wilhelm Von Siemens, it was proposed as an alternative to German turnover tax and since then VAT has been in existence in France and it has been contributing a huge amount to government revenue and French economy, because it is easier to collect this led to absolute emulation VAT by other countries in the world (Smith., Islam & Moniruzzaman, 2011). According to Whenkroff (2003), since VAT has been adopted by several counties including Nigeria through a committee set up by Federal government in Nigeria to examine the tax system in Nigeria for improvement and to increase revenue generation to government.

Adesola (2000) defined value added tax as a consumer tax impose on goods and services before selling to the final consumer and has become a good source of income to the government of many nation in the world. It is a multi stage tax imposed on distribution of goods and services before it finally reach final consumer. Jones (2003), in his definition, observed that before goods and services get to final consumer it must pass through middlemen and at each stages values are added and it is these value that are being charged and borne by consumer.

Inyiama and Ubesie (2016) examine effect of Value Added Tax, Custom and Excise duties on Nigerian Economic growth. Simple regression technique and correlation analysis were employed in their study. The findings from their revealed that all non-oil tax revenue such as Value Added Tax and Custom and Excise Duties have significant impact on Gross Domestic Product which suggests that some of Government project could be finance through non-oil taxes. Okoh, Onyekwelu and Iyidiobi (2016) in their study examine impact of Petroleum Profit Tax on Economic growth of Nigeria. The study covered the period of 2004 -2015 and simple linear regression was used while the findings from the result revealed that Petroleum Profit Tax have significant impact on Nigerian Gross Domestic Product.

Also, Adegboye, Siyanbola, Osayi and Tijani (2015) investigated improving Nigeria's Tax revenue through Gas income, where Total Tax Revenue, Gas Income and Petroleum Profit Tax were considered. Ordinary Least Square regression was utilized in the study and the findings from the results showed that both Gas Income and Petroleum Profit Tax have significant impact on Total Tax Revenue and it was suggested that government revenue can be improved through reduction of Gas flaring in order to increase income generated from Gas.

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Aruwa and Onwuchekwa (2014) also examined the effect of value added tax on the economic growth in Nigeria, Ordinary Least Square technique was used in their analysis and it was discovered that value added tax contributes significantly to the total revenue generated by government, invariably has impact on Nigeria economy. Also, it was suggested VAT can be improved by ensuring the leakages are blocked and through sensitization of companies' managers on immediate remittance of VAT and training of tax officials and VAT charges.

In summary, several studies have been carried out by researchers on VAT in Nigeria to examine its impact on Nigerian economy. It was observed that while some of the studies used primary data, some studies examined the relationship between VAT and Education Tax with their effect on the economy. Also, few studies was on gas flaring and its impact on revenue generation in Nigeria but the study is to consider the effect of VAT on Nigeria economy by introducing custom and excise duties as new variable and its relationship with VAT.

3. METHODOLOGY

This study was conducted to determine the impact if any of Value Added Tax (VAT), Custom Excise Duties and Company Income Tax on Economic Growth of the Federal Republic of Nigeria. Consequently, it adopted regression analysis and correlation research design. This is justified because of its ability to expose the magnitude and direction of relationship among the four variables. The data used in this study are quantitative secondary data collected from the Federal Inland Revenue Service (FIRS), Planning, Reporting and Statistics Department, Central Bank of Nigeria statistical bulletin. They are the Gross Domestic Product - GDP (dependent variable), Value Added Tax (VAT), Custom Excise Duties and Company Income Tax (the explanatory variables). The variables were the yearly value of each of the variables for the period 1994 – 2015.

3.1 Model Specification

This study was conducted to determine the impact of VAT, CIT and CED if any on the economy of the Federal Republic of Nigeria. Consequently, it adopted correlational research design. This is justified because of its ability to expose the magnitude and direction of relationship among the three variables. In relational study, it is essential to specify the model of the relationship among the variables. Therefore, the model of Adegboye Kehinde (2015) was adopted. This will provide a simple analogy of the relationship and ultimately provide the equation of the model. The model is hereby formulated as:

$$GDP = f\,(VAT, CIT, CED)$$

$$GDP = \alpha_0 + \beta_1 VAT_t + \beta_2 CIT_t + \beta_3 CED_t + \epsilon \qquad (1)$$

Where

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GDP = Gross Domestic Product
VAT =Value Added Tax
CIT = Company Income Tax
CED = Customs Excise Duties,
$\mathcal{E}$ = error term

The analysis was carried out in two forms and they are regression analysis and correlation. Regression analysis includes many techniques for modelling and analysing several variables, while correlation focuses on the relationship between a dependent variable and one or more independent variables. Also, each of the variables was measured by natural logarithm of their value because they have higher monetary value.

4. FINDINGS AND DISCUSSION

4.1 Descriptive Statistics

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
GDP	22	1399703	94144960	24639527	28202185
CIT	22	12275	1120442	346702	382441
CED	22	18295	693890	247266	189606
VAT	22	7261	1253670	335884	365643
Valid N (listwise)	22				

Sources: Computed from the field survey data, (2018).

Table 1 displays the descriptive statistics of the research variables. The minimum Gross Domestic Product within the period of the study was 1399703 trillion naira and the maximum was about 94144960 trillion naira and the mean 24639527. However the standard deviation of 28202185 trillion naira indicated high variation in the GDP for the period under review. The Company Income Tax has a minimum value of 12275 trillion naira, with maximum value of 1120442 trillion naira and a mean 346702 trillion naira. However, its standard deviation of 382442 trillion naira showed that it is the only variable that was relatively stable during the period of the study. The minimum Customs and Excise duties in the period of the study was 18295 trillion naira and the maximum was about 693890 trillion naira with a mean 247266.

However, the standard deviation of 189606 depicted a great variation in the values of CED. The minimum Value Added Tax in the period of the study was 7261 trillion naira and the maximum was about 1253670 trillion naira with a mean 335884. However, the standard deviation of 365643 depicted a great variation in the values of VAT. There is a very wide variation in the variables when considering the standard deviation because in the earlier period the total amount

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revenue generates from taxes by government were lower compare to the recent times and this is the main reason for wide variation in the variables.

Table 2: Regression result

VARIABLES	COEFFICIENT	T. STATISTICS	P. VALUE
CONSTANT	2035110	.615	.546
CIT	-37.8	- 1.555	.137
CED	-34.8	-.972	.344
VAT	131.9	3.941	.001
R	.978		
R^2	.957		
ADJUSTED R^2	.950		
F. STATISTICS	133.9		
PROBABILITY F. STATISTICS	0.000		
DURBIN WATSON	1.297		

Sources: Computed from the field survey data, (2018).

The findings from this study as presented in Table 2 indicate a positive significant correlation between GDP (dependent variable) and VAT, CIT and CED with a correlation coefficient of 97.8%, coefficient of determination (R^2) of 95.7% and adjusted R^2 of 95%. With the corresponding p value of 0.000 one is quite assured of the overall fitness of the Regression Model. Impliedly, the three explanatory variables viz VAT, CIT and CED are responsible for only 95.7% of the variations in the Gross Domestic Product in the period 1994 to 2015. This is a pointer to the fact that there are other qualitative and quantitative variables that were not captured in the model with impact on the Gross Domestic Product. In order to test for autocorrelation of the explanatory variables (VAT, CIT and CED), we used the Durbin Watson and DW value of 1.297 indicates absence of autocorrelation since the value falls within the range of 1.5 – 3.5. This is in conformity with the prescription of (Abubakar, 2011 & Adegboye *et al*, 2015).

The regression equation as stated earlier is restated below:

$$GDP = \alpha_0 + \beta_1 VAT_t + \beta_2 CIT_t + \beta_3 CED_t + \epsilon \qquad (2)$$

Substituting the computed coefficient values of the variables in the equation, we have:

$$GDP = 2035110.9 + 131.9\ VAT - 37.8\ CIT - 34.8\ CED \qquad (3)$$

From equation (3) CIT and CED have negative coefficients and can result in a negative change in Gross Domestic Product whenever its value increases. However, the p value of both CIT and CED which are .137 and .344 respectively reminds us that, their impacts are insignificant. This indicates that a ₦1 increment in CIT and CED, the Gross Domestic Product will depreciate by ₦ -37.8 and ₦ -34.8 respectively. Conversely, the VAT has positive and significant effect on the

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Gross Domestic Product. On the other hand VAT has positive coefficient and can result in a positive change in Gross Domestic Product whenever its value increases. This indicates that a ₦1 increment in VAT, the Gross Domestic Product will appreciate by ₦ 131.9 respectively.

These results, however, provide evidence that the regression model is well fitted and that only two explanatory variables (CIT and CED) as released by the FIRS has insignificant impact on the Gross Domestic Product while VAT has significant impact on Gross Domestic Product.
Though, two variables CIT and CED collectively does not have significant impact on the Gross Domestic Product a cursory look at the coefficients and p value of each individually reveals that while the VAT impact positively and significantly on GDP, VAT has positive and significant impact on the GDP. To this end, this finding leads us to reject the first hypothesis of this study and accept the remaining two hypotheses which state that CIT and CED have no significant impact on the GDP.

5. CONCLUSION AND RECOMMENDATIONS

This study was conceived to measure impact of value added tax on Nigeria economy. To achieve the stated objective we collect accounting relevant data (VAT, CIT CED and GDP) from published statistical bulletin of Central Bank of Nigeria and Federal Inland Revenue Service. Regression technique was employed to determine the effect of VAT and other form of taxes mentioned in the study. The results show that VAT has significant effect on the economy while both CIT and CED do not have impact on the economy. The implication of this is that the general-purpose financial tax collection is to improve the total revenue available to the government and to diversify from monolithic source of revenue which relies mostly on oil. Though, the combined effects of both variables CIT and CED were insignificant, on the economy while VAT is found to be significant and relevant on the Nigeria economy in this study.

The findings of this study are interesting because it revealed that much is still needed to be done by government in the area effective collection of taxes from both company income tax and custom and excise duties especially at this time when the price of oil has declined in the international market.

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