The Effects of Value Added Tax on Government's Revenue Generation Profile in Nigeria: A Conceptual Approach

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Abstract
The paper sought to conceptually examine the effects of Value Added Tax (VAT) on government revenue generation profile in Nigeria being one of the sources of government revenues and also an important variable in fiscal policies.
This is a library study where existing literature on the subject matter were reviewed so as to ascertain the effects of value added tax on government's revenue generation and how it can be enhanced so as to boost the government revenue generation profile in Nigeria in an effective and efficient manner.
The paper concluded that value added tax has positive effect on government revenue generation profile in Nigeria thereby contributing to its economic growth and development. The paper recommended that government should improve the living condition of citizens by the judicious utilization of value added tax proceeds in an effective and efficient manner. The paper also recommended that the value added tax bases be widened to bring the informal sector into the value added tax net so as to stem possible evasion even by the so faithfully complying.

Keywords: *Effectiveness, Fiscal policy, Value added tax, Revenue*

Introduction

Tax revenue, all over the world plays a vital role in the development of an economy, this facilitated many nations to introduce value added tax on goods and services. Tax imposition and its collection, mostly depends upon a country's economic structure, its developmental phase, growth of its service sector, extent to which the country has been industrialized, and its employment level (Qamruz, Okasha, & Muhammad, 2012)

Value added tax is a consumption tax, levied at each stage of the consumption chain and borne by the final consumer of the product or service. Value added tax has become a veritable source of revenue in many developing countries in Sub-Saharan Africa; it has been introduced in several countries. Nigeria can be traced to the report of the committee set up by the Federal government in 1991 to review the entire tax system with a view to expanding the financial base for revenue generation so as to enhance the economic growth of Nigeria. The introduction of VAT in Nigeria through decree 102 of 1993 marks the phasing out for the sales tax Decree No. 7 of 1986. The Decree took effect from 1st December 1993, but by administrative arrangement, invoicing for the purpose did not commence until 1st January 1994 (Gendron, 2005).

The tax is charged on the supply of goods and services, the vendor has the responsibility to collect VAT from the purchasers of goods and services (individuals or companies), on behalf of the Federal Inland Revenue Service (FIRS). The tax is charged and payable on the supply of all goods and services, other than those exempted. The honourable minister of finance may by order of the federal government to publish in Gazette amend the rate of tax chargeable and also modify the list of exempted goods and services.

From the perspective of the seller it is a tax on the value added to a product or services while from that of the buyer it is a tax on purchase price. The producer or the service provider remits to the government the difference between the VAT output and VAT input and retains the rest to offset the taxes they have previously paid on the inputs. VAT has become a major source of revenue in Nigeria; its adoption with the enactment of Value Added Tax Decree in December, 1993 with an effective date of 1st January 1994 was an important landmark in tax reforms in Nigeria (Ajakaiye, 2000).

The Nigerian economy has been plagued with several challenges over the years such as the dwindling crude oil price, corruption and over dependence on crude oil revenue. In spite of many, and frequently changing, monetary, fiscal and other macro-economic policies, Nigeria is yet to harness her economic potentials for rapid economic development (Ogbole, Amadi & Essi, 2011). The objective of this paper is therefore to examine the effects of value added tax on government revenue generation and how it can be improved upon so as to meet the requirements of equity, effectiveness and efficiency on value added tax administration.

Conceptual Literature

Revenue generation for the government to settle its expenditures as well as providing social amenities and welfare for the populace is the primary purpose of taxation (Ihenyen & Mieseigha, 2014). Taxation is seen as a burden which every citizen must bear to sustain his or her government because the government has certain functions to perform for the benefits of those it governs (Afuberoh & Okoye, 2014). According to Ogbonna and Appah (2012), the imposition of taxes for financing state activities and for the provision of a basis for apportioning the tax burden between members of the society was justified so as to enable government generates revenue to finance its expenditure. Omesi, and Nzor (2015) stated that taxation is the life wire of every country and its level of development at times depends on the income generated from tax. Taxation is one of the means in which revenue is generated by the government to meet the desire of both government and citizens.

Oloidi and Oluwalana (2014) stated that value added tax has been attracting so much attention of financial experts, professional tax consultants and those in the academics, to mention a few of the stakeholders. VAT is a consumption tax, charged at 5 percent on all vatable goods and services which depends on the general consumers' behaviour, thereby having a very large base (Soyode & Kajola, 2006). From the various definitions, it can be seen that taxation is an important weapon in the hands of government.

Taxation is divided into major types, they are direct and indirect taxes, for the purpose of this paper, only indirect taxes would be discussed briefly in which value added tax (VAT) will be examined in details. Value added tax is an indirect tax payable on all vatable goods and services consumed by individuals and corporate entities (Omesi, & Nzor, 2015). VAT is a consumption tax levied at each stage of the consumption chain and borne by the final consumer of the product or service (Qamruz et al, 2012). Each person is required to charge and collect VAT at a flat rate of 5% on all invoiced amounts, on all goods and services not exempted from paying VAT, under the Value Added Tax Act 1993 as amended (Adereti, Sanni, & Adesina, , 2011).

Fiscal policy is the government deliberate actions in levying taxes and spending money with the purpose of influencing macro-economic variables in the required direction. The required direction includes among others low inflation, sustainable economic growth and high rate of employment opportunity (Microsoft Corporation, 2004). Taxation is a tool the government uses to access, measure and control the informal sector of the economy that dominates the economy of the developing nations of the world (Wambai & Hanga, 2013)

Government policy and revenue needed

All governments undertake activities which are economic in nature and are either transfers or exhaustive, which may lead to the output of goods and services. Whichever way government requires financial resources on a regular and steady basis to achieve their objectives (Okwori & Ochinyabo, 2014). Revenue can be generated from different means such as taxation i.e. direct taxes, for example personal income tax, company income tax and petroleum profit tax and indirect taxes for example value added tax, custom duty and excise duty which constitutes the main sources of revenue for Nigerian Treasury.

The payment of tax is a civic duty and an imposed contribution by government on her subjects and companies to enable her finance public utilities and perform other social responsibilities. Taxes, thus, constitutes the main source of government revenue (Adebisi & Gbegi, 2013). Taxes generate revenue to government so as to enable her meet its traditional responsibilities of maintaining law and other, general administration and other obligations of providing social and infrastructural facilities to enhance economic welfare and development of a country. Value added tax is a consumption tax and it had been embraced by many countries world-wide (Alan, 2003).

The key priority sectors and areas where funds are mainly expended are critical infrastructure, human capital development, food security, physical security and maintenance of law and order, the Niger Delta area, north east insurgent, power sector provision of credit facilities to farmers, provision of fiscal incentive to enhance productivity in the real sector and provide alternative transportation of goods and services through investment in upgrading the existing railway network (Central Bank of Nigeria (CBN), 2010).

Administration of Value Added Tax

The study group on indirect taxation led by Dr. Ugoh Sylvester that was set up in November, 1991 proposed the concept of value added tax in Nigeria. This was followed by another committee headed by Ijewere Emmanuel to investigate the issue extensively and make the necessary recommendations. The Study Group in 1991 high-lighted the need to increase tax revenue base by recommending the establishment of value added tax. Value added tax finally came into being in Nigeria in 1993 by the value added act No. 102 of 1993 to replace the sales tax that had been operating under federal government decree No.7 of 1986 but administered by the Federal capital territory and the states (Ugwa & Embuka, 2012).

Value tax system in Nigeria is administered by the Federal Inland Revenue Service (FIRS) in close co-operation with Nigeria Customs Service (NCS) and the State Internal Revenue Service (SIRS). According to section 10(1and 2) of VAT Act 1993, a taxable person shall pay to the supplier the tax on taxable goods and services purchased by or supplied by him at the time of making payment to a contractor, remit the tax charged on the contract to the nearest local VAT office.

The effectiveness of VAT administration and efficiency in utilizing resources will determine the amount of VAT collected all over the states of Nigeria. FIRS appoints an inspector to enter the premises of vatable person without any warrant from time to time in order to ensure compliance with the VAT legislation and regulations in all its ramifications; ensure that full amount of VAT deducted are promptly accounted for; examine method of recording transactions and offer suggestion where necessary; afford the VAT payer the opportunity to ask any question and seek clarification as may be necessary; and educate VAT payers on new developments in the system (Adegbie, Jayeoba, & Kwabai, 2016).

Empirical Studies

Several studies have examined the effect of value added tax on government revenue generation in different countries with diverse techniques. The outcome of the investigations however, shows degree of relatedness in the results (Adereti et al, 2011; Babalola & Aminu, 2011; Okoye & Gbegi, 2013; Olaoye, 2009; Rostami, Nourbakhsh & Akbarian, 2012; Wambai & Hanga, 2013).

Adereti et al, (2011) explored value added tax and economic growth in Nigeria, their result found a positive and significant correlation between values added tax and gross domestic product. Babalola and Aminu (2011) examined the relationship between fiscal policy and economic growth taking Nigeria into consideration adopting the Engle-Granger approach to Co-integration test, stated that productive expenditure was found to be statistically significant.

Okoye and Gbegi (2013) opined that most economy relies on income from taxation for its development, and that in addition to its use as a means of raising government revenue, it is also often used as an instrument of regulating the economy; redistribute wealth and inducing preferred modes of behaviour, particularly consumption patterns and investment choices. Their empirical study revealed that revenue generated through VAT has a significant influence on wealth creation in Nigeria and on total revenue generated in Nigeria. In their recommendation, they pointed out that Federal Inland Revenue Service should pay attention to the informal sector of the economy by creating VAT offices at the Local communities so as to generate more revenue and to fully achieve the objectives of wealth creation through VAT.

Olaoye (2009) studied the administration of VAT in Nigeria with the objective of seeking ways of improving government revenue generation base in order to improve the economy. The study recommended that the government should increase people's awareness on the existence VAT. Rostami et al, (2012) examined the impact of fiscal policy on economic growth in Iran with emphasis on the role of value added tax. They found that value added taxes have significant effect on real output for Iran which means value added taxes as a fiscal policy tool have useful performance in Iran. Wambai and Hanga (2013) on taxation and social development in Nigeria: tackling Kano's hidden economy, they found that taxpayers' attitude towards governance affects their tax compliance behaviour; they recommended a tax system that concentrate on establishing simplicity, predictability, and good governance.

Problems of Value Added Tax in Nigeria

Poor VAT administration as identified by Olaoye (2009) was one of the problems confronting VAT in Nigeria. Tax authorities perform only the technical functions without performing the needed management functions, taken the complexity of tax administration into consideration, there are bound to be ineffectiveness of tax administration. Basically, the performance of only technical functions leads to false declaration, refusal to complete tax return forms, fraud, inflation of deductible expenses, smuggling, default, illegal bunkering, etc. The dishonest practices by some tax officials also pose a serious threat to the effective tax administration in Nigeria especially when such practices are capable of having demoralizing effects on honest tax payers.

According to Soyode and Kajola (2006) problems of tax administration in Nigeria are as follows:

Tax Evasion: This is an illegal practice where taxpayers intentionally avoid paying their tax liability and consequently decreased the tax revenue (Jaffar, Abubakar & Tahir, 2011). It is a contravention of tax laws whereby a taxable person neglects to accurately pay the tax liability due through fraudulent means. Tax evasion usually entails tax payers deliberately falsifying or disguising the correct state of their monetary affairs to the tax authorities so as to cut down their tax liability. It also includes, in particular, dishonest tax reporting such as declaring less income, profits or gains than actually earned; or overstating deductions; wilful default in the payment of tax liability through the employment of criminal or fraudulent means (Modugu & Omoye, 2013).

Tax Avoidance: This is the right of all citizens to reduce the amount of taxes they pay as long as it is by legal means. That is, a person pays less tax than he ought to pay by taking advantage of loopholes in a tax law (Jaffar et al, 2011). Tax can be avoided in various ways by incorporating the tax payer's sole proprietor or partnership into a limited liability company; claiming reliefs and allowances that are available in tax laws so as to reduce the amount of income or profit to be charged to tax.

Lack of Transparency: VAT staff and offices do not exhibit transparency in collection and remittance of VAT returns to the government which would have enable it discharge it responsibilities hence causing a reduction in the revenue generation.

Low Rate: VAT rate in Nigeria still remained at 5% since the introduction despite every attempt to increase it. Obadan (2015) notes that some countries have VAT rates as follows: Argentina 21%, Angola 10%, Belgium 21%, Brazil 19%, Bulgaria 20%, Chad 18%, Chile 19%, Denmark 25%, Egypt 10%, Ethiopia 15%, France 20%, Finland 24%, Ghana 17%, People's Republic of China 17%, South Africa 14% and United Kingdom 20%.

Prospects of Value Added Tax in Nigeria

Value added tax as a consumption tax has a wider coverage since the cause of adverse variance can be adequately controlled under proper administration (Onaolapo, Aworemi, & Ajala, 2013). The revenue generated from consumption taxes can help to boost the financial base of any economy. This however involves exploiting the potential and adopting the type of consumption tax that will recognize the tax payers as utility minimizing individuals and safeguarding their evading behaviour.

With the introduction of Value added tax, there is increase in revenue base of federal government of Nigeria, because the problem of tax avoidance and tax evasion are reduced. (Okoli, & Afolayan, 2015). Also VAT has shifted the burden of tax toward consumption rather than savings hence encourages investment. With the increment in investment, this leads to increase in the level of national income. VAT in addition to the above contributes to increase in the standard of living of the citizens. This is because the proceeds from VAT are used to provide public goods like roads, bridges, schools and hospitals, which will be of equal benefit to both the rich and the poor. It has also generated employment for many Nigerians.

With increase in the level of investment, employment level would be increased (Okoli, & Afolayan, 2015).

Igweonyia (2011) observed that the Value Added Tax was introduced in Nigeria with several reasons, among which are the following.

- To broaden the nations revenue base thereby making it less dependent on oil export.
- To broaden the tax base with an equal burden on imported and domestically produced goods and services. The old sales tax places locally manufactured good at disadvantage relative to imported ones.
- It would diminish the incidence of taxation towards expenditure rather than income.
- It makes it easier for the collection of tax collected on behalf of the federal government by businesses or organization, which have registered with the Federal Inland Revenue Services (FIRS, VAT Directorate) for VAT purposes.
- The introduction of VAT has bought fairness to all tax payers, because a number of goods and services which were not previously covered by the sales taxes were brought together under the VAT regime.
- To help the common people, traders industrialists and also the government. It is indeed a move towards efficiency; healthy competition and farmers in the tax system.

Trend of Value Added Tax Revenue Generation in Nigeria

Value added tax has contributed significantly to revenue generation in Nigeria. From a modest beginning of ₦7261 million in 1994, it has risen to ₦635,352 million in 2015. Details of further proceeds are presented in the table below.

VAT income generated and GDP

Year	VAT ₦‘m	GDP ₦‘m
1994	7,261	1,399,703.22
1995	20,761	2,907,358.18
1996	31,000	4,032,300.34
1997	34,000	4,189,249.77
1998	36,000	3,989,450.28
1999	47,100	4,679,212.05
2000	57,500	6,713,574.84
2001	91,800	6,895,198.33
2002	108,600	7,795,758.35
2003	136,400	9,913,518.19
2004	159,500	11,411,066.91
2005	178,100	14,610,881.45
2006	221,600	18,564,594.73
2007	289,600	20,657,317.67
2008	401,700	24,296,329.29
2009	481,400	24,794,238.66
2010	564,890	54,612,264.20
2011	659,153.7	62,980,397.21
2012	710,555.1	71,713,935.05
2013	802,683.5	80,092,563.38
2014	802,964.6	89,043,615.26
2015	635,352.0	81,022,130.00

Source: (Adegbie et al, 2016).

Conclusion and Recommendations

The paper examined the effects of value added tax on government revenue generation profile in Nigeria. The paper concluded that value added tax has positive effect on government revenue generation profile in Nigeria thereby contributing to its economic growth and development. The paper also concluded that if more goods and services are taxed, the revenue base of the county will increase, and cause an upward surge on the growth of Nigeria economy.

The paper recommended that the government should improve the living condition of citizens by the judicious utilization of value added tax proceeds in an effective and efficient manner. The paper also recommended that the value added tax bases be widened to bring the informal sector into the value added tax net so as to stem possible evasion even by the so faithfully complying. More attention should be given to value added tax as it is an instrument for stimulating greater revenue generation and economic growth in Nigeria.

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