EJSIT
European Journal of Science, Innovation and Technology
ISSN: 2786-4936
www.ejsit-journal.com
Volume 3 | Number 6 | 2023

Effect of Value Added Tax Policies on Economic Growth in Nigeria

OMOTAYO Sharon O. & ADEOYE Mary A. (PhD)
Department of Accounting,
Faculty of Management Sciences,
Ladoke Akintola University of Technology,
Oyo State, Nigeria

ABSTRACT

As a result of the uncommon nature of value added tax (VAT) system, majority of the populace in the country are unaware of its existence, consequently, the low credibility of the government makes people scorn the payment and collection of VAT. The purpose of this study is to examine the effectiveness of VAT policies on the economic growth of Nigeria.

Secondary data were used. The data were sourced from the Federal Inland Revenue Service (FIRS) for the period 1994 to 2022. Descriptive statistics used included tables while econometric statistics such as Ordinary Least Square regression analysis (OLS) technique and Granger causality test was adopted to examine the nexus between VAT and economic growth in Nigeria.

The results of the study revealed a negative relationship between VAT and economic growth, but a positive relationship between customs and excise duties (CED) and growth rate of GDP. However, the values of VAT and customs and excise duties (CED) were found not to have a significant effect on the growth rate of GDP. The R square and the adjusted R square (51% and 42% respectively). However, the Durbin-Watson (DW) value is relatively good and approximates to 2.05 suggesting absence of autocorrelation as it implies that the model is adequate.

Based on the findings the researchers recommend that the appropriate policies should be introduced to reduce cases of tax evasion and remittance of tax collections especially custom and excise duties which reported a non-significant effect on GDP.

Keywords: VAT Policies, Economic Growth, OLS technique, Granger Causality Test

INTRODUCTION

Value Added Tax (VAT) is a consumption tax that is paid by the end user of the good or service and is imposed at every point in the consumption chain. VAT administration is straightforward, universal, and challenging to avoid. Every country in the world looks for methods to increase revenue, and this has led to the introduction of value-added taxes on goods and services in many of those countries. For example, the African nations of Benin Republic, Cote d'Ivore, Guinea, Kenya, Madagascar, Mauritius, Senegal, Togo, and Nigeria have all implemented Value Added Tax (VAT). Research indicates that VAT has grown to be a significant source of revenue for the governments of these nations (Adereti, Adesina, & Sanni, 2011).

Nigeria implemented Value Added Tax (VAT) in 1993, although it wasn't fully implemented until January 1, 1994. Scholars and academics have taken notice of this because of its potential to boost Nigeria's economy. According to Chinwuba and Amos (2011), as referenced in Ihendinihu and Onwuchekwa (2012), economic growth is defined as a rise in a nation's overall output of goods and services or national income that is accompanied by increases in the general standard of living of the populace. Related studies on this subject concentrated on how VAT affected GDP-based measures of economic growth. Here, we want

to look into the relationship between the growth pattern of VAT and GDP, the impact of changes in VAT target and actual on the economy, and the relationship between VAT revenue and tax revenue.

In place of Nigeria's sales tax, the value added tax decree 102 of 1993 was created and put into effect in 1994. Value Added Taxes were introduced in Nigeria to replace the previous sales taxes that were levied on both domestically produced items and commodities imported into the nation and sold there. The Value Added Tax (VAT), which is the best type of tax in the Nigerian tax system, has made a major contribution to the economy's capital formation and resource mobilization. It has a favorable and noteworthy impact on Nigeria's income mobilization; it also has a favorable association with consumption. It significantly and favorably affects Nigeria's ability to mobilize revenue (Onwucheka & Aruwa, 2014).

Recent research work on the impact of taxation on the Nigeria economy impact all the various taxes together without isolating VAT. How and in what direction VAT has be affecting the Nigerian economy? Findings answers to this and other similar questions is the main trust of this paper.

Statement of the Problem

Nigerians' attitude toward taxes is concerning because a large percentage of them would prefer not to pay taxes if given the chance. Tax avoidance and evasion are unwholesome practices that cause the economy to lose a significant amount of income. This revenue loss has the potential to transform many economies, especially emerging nations like Nigeria. The expense of tax collection in Nigeria is the reason this issue has persisted for so long without receiving the urgent attention and resolution it needs (Onaolapo et al., 2013). One tool the Nigerian federal government used to raise extra money was the Value Added Tax (VAT). However, the majority of well-known Nigerians had opposed its implementation. It seems like VAT is froth with a few issues. Therefore, the purpose of this study project is to investigate how Nigeria's economic growth is affected by VAT regulations.

The Nigerian value-added tax system resembles the sales tax system more than the real value-added tax system used in other nations. This is mostly due to the fact that all other VAT is not recoverable from output VAT; only input VAT that is directly linked to production is. According to Emehinye and Ucheagwu-Okoye (2021) a manufacturer of lubricating oil may deduct input VAT from the final output VAT when purchasing input materials such as additives, base oil, packaging material, etc. However, the manufacturer is not able to deduct input VAT from electricity bills used up during production, from production waste disposal fees, or from the professional fees of external technicians hired to fix lubricant blending machine faults.

If value-added taxation (VAT) is a tax that ultimately falls on the buyer of the goods and services in question, then the Nigerian VAT system's infraction has effectively divided the tax burden between the producer and the buyer since input VAT that the producer is unable to recover is considered an expense, depriving the producer's shareholders of 70% of those costs which is equivalent to 30% of the effective company income tax rate in Nigeria either as profit or retained earnings. The administrative duty of proving, through proof, that the party that made the deduction had actually remitted to FIRS is on the tax payer who had its client deduct VAT from it at source (Emehinye & Ucheagwu-Okoye, 2021).

A further criticism leveled about the VAT system is the VAT imposed on commercial banking services. VAT on banking transactional costs, such as Commission on Transfer, Interest, and other banking charges, further raises the cost of doing business in Nigeria and reduces the competitiveness of locally manufactured goods abroad in an environment where bank loan rates can reach 26.07%. Recoverability of all input VAT for services directly

linked to the production process is necessary to improve the efficiency and equity of the VAT system. Only the entity's investors should find this just and equitable (Alhussain, 2020).

Hypothesis of the Study

H_0: there is no significant the relationship between value added tax policies and the economic growth in Nigeria.

H_1: there is significant the relationship between value added tax policies and the economic growth in Nigeria.

LITERATURE REVIEW

A value-added tax (VAT) is classified as an indirect tax since it is levied against a party that does not pay the whole tax liability (incidence of taxation). Businesses are permitted to recover VAT on the goods and services they purchase in order to produce additional supplies or services that are either directly or indirectly supplied to end users, but personal end consumers of goods and services are not eligible to do so. This means that the total tax imposed at every point in the supply chain's economic chain is a fixed percentage of the value that a company adds to its goods, and businesses, not the government, bear the majority of the tax collection expenses (Michael & Ben, 2007). The reason VAT was created is that extremely high tariffs and sales taxes promote smuggling and cheating. It has been attacked on the basis that it is a regressive tax, just like other consumption taxes (Soyede & Kujola, 2006). A general economic theory holds that widespread tax evasion (such as purchasing goods through an employer, purchasing products at wholesale, or purchasing products over the Internet) occurs when sales taxes are raised to a certain level. However, because of the innovative collecting technique, total VAT rates can increase above 5% without causing widespread avoidance.

Imported items account for a sizable portion of the tax that must be collected under VAT. This implies that local manufactured items won't be at a disadvantage versus imports under the VAT. Given that VAT is determined by people's overall consumption patterns. With little opposition from tax payers, the anticipated large yield from it will improve the state government's finances (Ola, 2001).

Countries all across the world employ the value-added tax (VAT) instrument. Soon after the First World War, Japan was the first nation to enact a tax akin to the VAT. But this tax didn't last very long. In 1967, VAT was first established in Brazil and then in Denmark. The first nation to adopt VAT was Denmark in the European Community (EC), which is now part of the European Union (EU). Following suit were other EC members including France, Germany, the Netherlands, Luxembourg, Belgium, Ireland, Italy, and the UK. Since the VAT structure varied from nation to nation, VAT could not be applied consistently across the European Community. Consistent VAT regulations were established throughout the European Community in 1977 with the adoption of the sixth VAT directive, which combined the previous EC directives. VAT was also implemented by several EC nations, including Greece, Portugal, and Spain (Kearney, 2003). Various emerging nations also employ VAT. Bolivia serves as an example, having implemented Value Added Tax (VAT) in 1986 as one of the main national taxes. The statutory VAT rate was 10 percent when it was first adopted, but in 1992 it was increased to 13 percent.

About one-third of Nigeria's economy's tax revenue came from VAT in 1993 (McMahon & Schmidt-Hebbel, 2000). The Philippines is another example; in 1988, it replaced all sales taxes with the introduction of Value Added Tax (VAT). When it was first implemented, the statutory VAT rate was 10%. In the Philippines, exports are zero-rated and VAT is paid on final destination, exempting the primary sector. Credit for VAT paid on inputs is therefore permitted under the tax credit approach (Clarete & Diokno, 2000). Japan

reinstated a subtraction-style VAT in 1989. 1991 saw the introduction of VAT in Canada. In Canada, the buyer is subject to VAT, but the vendor is in charge of collecting the tax.

VAT Policies

By simply charging the value added at each stage of manufacturing, value added tax avoids the cascading effect of sales tax. Because of this, value-added taxes, or VAT, are becoming more popular than regular sales taxes all around the world. Generally speaking, all supply of goods and services are subject to VAT (unless those exempted). Every time there is a transaction (sale or purchase), VAT is calculated and collected based on the value of the goods or services that have been rendered (Omesi & Nzor, 2015). VAT is a fee that the seller levies on the buyer and then submits to the government. However, if the buyer is not an end user and the products or services constitute expenses for the company, the tax paid on these purchases can be subtracted from the tax the company collects from its clients. The government just gets the difference, or each link in the sales chain pays tax to it based on the gross margin of each transaction.

The impact of taxes on prices and profits is the subject of tax incidence. The customer bears the cost of VAT. It is not a tax on the company's profit, but rather an appropriation of the customers' revenue. Gaarder (2016) upholds the claim that consumer prices bear the whole brunt of the VAT. Therefore, it is advised in the reform package to eliminate the food zero rating in order to increase the VAT base in the UK. In a study conducted in Norway, Gaarder (2016) looked at the direct effects of the policy change on food item consumer prices as well as any cross-price effects on other goods. She discovered that while the pricing of other goods is not significantly impacted, taxes levied on food items are completely shifted to consumer prices. Carbonnier (2007) as cited in Gaarder (2016) studies two VAT reforms in France which reduced the rates on new car sales and on housing repair services and his estimates suggest a majority of the tax burden is paid by consumers, especially in the competitive market for housing repair services.

VAT was implemented to guarantee production efficiency and to replace, lower, or eliminate the current tax, which was deemed to be bothersome and ineffective at generating income for the government. Transactions involving intermediary or input items are not subject to VAT; rather, the final consumer is. Production efficiency turns out to be a powerful necessity (Obeng, 2018). It is a major justification for using the VAT rather than levies that affect the sale of intermediate items (Obeng, 2018). VAT guarantees an uninterrupted chain of input credit and output tax, prevents any net revenue from the taxation of sales of intermediate items, and establishes final consumption as the ultimate base of the tax (Ochei, 2010).

Theoretical Review

When evaluating the influence of fiscal factors on economic growth, it is imperative to acknowledge that taxation and value added tax (VAT) have an impact on economic growth drivers. (Macek, 2014). These factors that influence growth include advances in technology as well as people and physical resources. It is appropriate to start discussing the theoretical foundation of this study by referring to the neoclassical growth model as proposed by Solow (1956) and Swan (1956). However, given the setting in which it describes one of the aforementioned development factors, this growth model is only considered essential and not sufficient.

One of the channels through which taxation makes its impact on economic growth is technological advancement. Thus, as earlier stated, taxation and indeed value added tax (VAT) will make impact on economic growth through their effect on human capital, physical

capital and technology advancement. These variables are well captured in the neoclassical framework but technology is said to be exogenous in their model formulation (Macek, 2014).

As a result, the theoretical foundation for this research is found in the advancement of growth theories. This is seen in the endogenous technological advancement of Romer (1986), Romer (1990), and Lucas (1988). Within their paradigm, the definition of capital also includes the human and physical forms. Long-term economic growth is determined by the development of human capital, which also slows the convergence of an economy towards steady state growth (Macek, 2014). Thus, the endogenous growth theory forms the foundation of this research.

From the foregoing, tax policies of a nation can influence economic growth through their impact on physical and human capital as well as on technology advancement. It is the direction and extent of advancement of these growth determinants (as embedded in the Nigeria's real GDP) by value added tax (VAT) that this study explores.

Empirical Review

Nwadialor and Ekezie (2016) investigated how tax laws affected Nigeria's economic expansion. An yearly time series of 20 years, from 1994 to 2013, was employed in the study. To determine the link between the independent and dependent variables, OLS regression analysis was used. The results showed that taxes had a big impact on Nigeria's economic expansion. It also showed that over time, the share of indirect taxes in overall taxes has grown. Due to its expansionary and non-distortionary nature, the study consequently suggested, among other things, that the government tax policy should shift more toward indirect taxation.

Yadirichukwu and Ebiringa (2012) conducted an empirical investigation of the impact of different taxation types on Nigeria's economic expansion. OLS regression and the Granger causality technique were the econometric techniques used, and secondary data was used between 1985 and 2011. The findings demonstrated that, of the tax-based determinants of economic growth in the nation, only customs and exercise duties had the ability to affect growth and a statistically significant unfavorable association with GDP. As a result, the study suggested that the corporation income tax system be broadly reorganized in order to generate more revenue that could be used to further contribute to Nigeria's economic progress, as has been shown in other developed nations. The study also found that because of systemic leaks and a lack of accountability and transparency, custom service operations and border revenue generation are not practically reflected in the economy.

Ibadin and Oladipupo (2015) used time series data covering a thirty-four-year period, from 1981 to 2014, to evaluate the effect of indirect taxes on economic growth in Nigeria. The Augmented Dickey-Fuller test was used to assess and check the stationarity of the data that were gathered from secondary sources. Real Gross Domestic Product (RGDP) was stable at level, but the Value Added Tax (VAT), Petroleum Profit Tax (PPT), and Custom and Excise Duties (CED) were stationary at second difference. As a result, the study used the Error Correction Model to assess how VAT, PPT, and CED affected the RGDP. The results showed that there is a strong and positive association between VAT and PPT and the RGDP. Additionally, it was discovered that VAT of two-period lags had a significant but negative association with RGDP, while CED of two period lags had a favorable relationship with RGDP.

Izedonmi and Okunbor (2014) conducted an empirical investigation to determine how VAT influenced the growth of the Nigerian economy. From 1994 to 2010, time series data on the GDP, VAT revenue, total tax revenue, and total revenue from the federal government were used. Multiple regression analysis, which is part of the econometric methodology, was used to analyze the data. According to their research, VAT revenue was responsible for 92%

of the substantial fluctuations in Nigeria's GDP. It showed that there was a small but favorable link between GDP and VAT revenue.

Bakare (2013) looked into how Nigeria's output growth was affected by VAT. The ordinary least square (OLS) regression method was employed in the investigation. It was shown that there is a substantial and positive correlation between Nigeria's output growth and VAT. The study's conclusions also shown that it was possible to forecast how Nigeria's output growth would behave in the future by looking at historical VAT values. The study's primary finding was that value-added taxation may help diversify revenue streams, which would free up cash for economic expansion and development and lessen reliance on oil as a source of income.

Using data from 1994 to 2012, Okoli and Matthew (2015) investigated the role that VAT has played in Nigeria's overall federally collected revenue as well as its standing in relation to other tax components. Utilizing the Error Correction Model (ECM) for the examination, the results showed that the second-longest-term source of all federally collected money was, in fact, VAT.

METHODOLOGY

Study Area

The study covered the period 1994-2022 which enabled the study to empirically reveal the impact of value added tax (VAT) policies on economic growth in Nigeria. The rationale behind this is to cater for the era of introduction of VAT in Nigeria, that is 1993.

Research Design

The methodology employed in the analysis of this research is presented in this section. Generally, the study employed ordinary least square (OLS) technique and Granger causality test to examine the nexus between Value Added Tax (VAT) policies and economic growth in Nigeria.

Variables Measurement

The variables captured in the model specified for this study are both the dependent and the independent variables measured as follows:

Dependent Variable

Growth rate of real gross domestic product (GDP) was used as a proxy for economic growth following the works of Adereti et al. (2011), Yadirichukwu and Ebiringa (2012), Chigbu and Ali (2014), Ibadin and Oladippo (2015).

Independent Variables

- Federally collected Value Added Tax (VAT) revenue was used as the main independent variable as done by Usman et al (2023); Herbert et al (2018); Ebi and Ayodele (2017); Adereti et al. (2011) and Chigbu and Ali (2014).
- Revenue from Customs and Excise Duties (CED) was incorporated into the model as a control variable following the works of Yadirichukwu and Ebiringa (2012).

Method of Data Collection

This research, in view of its nature will make use of secondary data. The data were sourced from the publications of Federal Inland Revenue Service, Central Bank of Nigeria (CBN) Statistical Bulletin and the publications of the National Bureau of Statistics (NBS) for the period 1994-2020 The methodology employed in the analysis of this research is presented in this section. Generally, the study employed ordinary least square (OLS) technique and

Granger causality test to examine the nexus between Value Added Tax (VAT) and economic growth in Nigeria.

Method of Data Analysis

The data collected for this research is time series data. The series that were not in rate forms were first converted into natural logarithm to remove trend, then a pre-test for stationarity of the data will be conducted. As earlier stated, the relationship among the variables is investigated using ordinary least squares (OLS) technique along with Granger causality test following the work of Adereti et al. (2011).

The relevant diagnostic statistics examined from the OLS technique include the coefficients of the explanatory or independent variables (i.e. value added tax (VAT) and customs and excise duties), as well as their corresponding p-values, the F-value and the coefficient of determination (R^2).

While the rate at which each explanatory variable influences the dependent variable (in isolation of others) is explained by the corresponding coefficient, the p-value ascertains the statistical significance of the individual coefficient. The F-value ascertains the adequacy of the model. R-square takes into account the proportion of total changes in the dependent variable that are jointly explained by the explanatory variables, and adjusted R-square takes into account the loss of degree of freedom as more explanatory variables are introduced into the model.

The causality test follows Granger (1969) who developed the Granger-causality test to check whether or not the inclusion of past values of a variable does or does not help in the prediction of present values of another variable. This technique has gained a lot of popularity partly due to its simplicity, and because the procedure further saves degrees of freedom which, in relatively small samples, is an important advantage. The idea behind the causality technique is not to find the relationship between the variables, but to test the direction of causality between them. There are three possible situations; unidirectional causality from say X to Y or from Y to X, bidirectional causality between X and Y, and no causality between X and Y. In this study, we use Granger-causality test to examine whether value added tax help in the prediction of the value of economic growth, or whether economic growth help in the prediction of value added tax.

Model Specification

In this study, in An Evaluation of the effect of Value Added Tax (VAT) as a source of revenue generation on Nigeria economic Growth in Nigeria, The intended Vat variables that will be use are Basic Vat rate, GDP Growth Rate: This is the annual percentage change in the level of real GDP. It will be used as a measure of economic growth. Using GDP growth rate as a proxy for economic growth has been widely adopted by several researchers (Omoke & Ugwuanyi, 2010 for example). The variable will be used as a dependent variable. Value Added Tax (VAT): This is the total annual turnover from value added tax, and will serve as our control independent variable. The justification for including Natural log of Customs and Excise Duties, Revenue from Customs and excise duties (CED) is incorporated into the model as a control variable.

Based on the theoretical framework and the objective of the study, the econometric model is adapted from the works of Adereti et al. (2011) and Yadirichukwu and Ebiringa (2012) and is specified as follows:

$$GDPR_t = \beta_0 + \beta_1 \ln VAT_t + \beta_2 \ln CED_t + U_t$$

Where $GDPR_t$ = Real Gross Domestic Product

β_o = Constant parameter

β_i = Coefficients of the explanatory variables

U_t = Stochastic disturbance term
$lnVAT_t$ = Natural log of Value Added Tax
$lnCED_t$ = Natural log of Customs and Excise Duties
t = Time Subscript

To identify the stationarity or non stationarity of the variables that will be used in this research, we adopted the conventional Augmented Dickey- Fuller (ADF) unit root test based on the model expressed below:

$$\triangle Y_t = \beta_0 + \beta_1 Y_{t-1} + \beta_2 Y_{t-1} + \alpha_i \sum Y_{t-i} + u_t$$

Where:

$\triangle Y_t$ = Differenced value of a given time series variable
β_0 = Constant Parameter
β_1 = Coefficient of the trend factor
β_2 = Coefficient of the first lag value of the series variable
Y_{t-1} = First lag value of a series variable
α_i = Coefficient of the lag values of the differenced time series variable
Y_{t-i} = Lag values of the differenced series variable
u_t = Error term.

RESULTS AND DISCUSSION

Unit Root Test Results

As a precondition for the analysis of time series variables, the study test for the stationarity of the variables used in the analysis. The outcome of the unit root tests using the Augmented Dickey Fuller (ADF) test are presented in Table 1 below.

Table 1. Unit Root Tests Results

ADF Unit Root Test			
Variable	Test Statistic at Level	Critical Values	Status
GDPR	-3.906958***	-3.78803	I(0)
lnVAT	-3.833126***	-3.78803	I(0)
lnCED	-3.072948**	-3.012363	I(0)

Note: Significant at 1% (***), 5% (**), and 10% (*)
Source: Authors' Computation

From the results of unit root tests as presented in Table 1, considering the variables: growth rate of Gross Domestic Product (GDPR) (which is the dependent variable), natural log of value added tax (lnVAT), and natural log of customs and excise duties (lnCED), it was found that each of the null hypothesis of a unit root at level values of the variables is rejected in the ADF test. Hence, all the variables were found to be stationary at level value I(0). This is because in absolute term, the test statistic values of the variables are greater than the critical values at 1%, and 5 % as indicated in the table. This justifies the appropriateness of application of the ordinary least squares technique.

Regression Results

Table 2. OLS Regression Results

Dependent Variable: Growth Rate of GDP		
Independent Variables	Coefficient Estimates	P-Values
Constant	-15.07402	0.3274
LnVAT	-4.367879	0.4206
LnCED	8.423014	0.2953
R-Square	0.518235	
Adjusted R-Square	0.425418	
Durbin-Watson (DW) Statistic	2.05363	
F-Statistic	5.931645*	
F (p-value)	0.068731	
	Significant at 1% (***), 5% (**) & 10% (*)	

Source: Authors' Computation

From the results presented above, While VAT revealed negative effect on economic growth, customs and excise duties (CED) showed positive effect on the growth rate of GDP. However, the values of the value added tax (VAT) and customs and excise duties (CED) were found not to have significant effect on the growth rate of GDP.

The R square and the adjusted R square (51% and 42% respectively).The interpretation of having low R square and adjusted R square is because some variables were not captured. This could be as a result of non-inclusion of other growth determinants in the model. However, the Durbin-Watson (DW) value is relatively good and approximates to 2.05 suggesting absence of autocorrelation as the DW statistic should neither be significantly higher nor lower than 2 to show that there is no autocorrelation. The F-value of 5.931645 is statistically significant at 10% as revealed by the probability value which is 0.068731. It implies that the model is adequate.

Granger Causality Results

Table 3. The Granger Causality Results

Dependent Variable	**Independent Variable**	**P. Value**	**Significance Status**	**Remarks**
lnVAT	GDPR	(0.9313)	Not significant	No causality running from VAT to GDP and from GDP to VAT
GDP	lnVAT	(0.9732)	Not Significant	
lnCED	GDPR	(0.7625)	Not Significant	No causality running from CED to GDP but causality runs from GDP to CED
GDP	lnCED	(0.0464)**	Significant	
lnCED	lnVAT	(0.1786)	Not significant	No causality running from CED to VAT and from VAT to CED
lnVAT	lnCED	(0.2143)	Not significant	

Source: Authors' Computation

Table 3 presents the results of granger causality test. It reveals that there is no causality running from VAT to GDP and from GDP to VAT. The result of no causality from VAT to GDP is not significant while that of causality from GDP to VAT is also not significant. The results also revealed that CED does not granger cause GDP but GDP granger cause CED. The

findings also showed that causality does not exist between CED and VAT, and between VAT and CED as the p-values are not statistically significant.

DISCUSSION OF FINDINGS

The main aim of this study is to empirically investigate the effect of Value added tax (VAT) on economic growth in Nigeria. In trying to do so, this section analyze the extent to which findings of the study conform to, or deviate from those of other researchers of similar concern in the past.

In adhering to the steps stated in the methodology of this study, growth rate of real GDP as a proxy for economic growth has been regressed on VAT and CED using OLS technique. The first step was to convert the data for VAT and CED into natural logarithm form in order to remove possibility of trend in the variables, and then test for the stationarity of the series. The ADF test revealed that they were stationary at level I(0) hence the adoption of the OLS technique.

From the results in Table 2, it could be seen that VAT had negative but not significant relationship with economic growth. This is not in line with the a priori expectations of the study and forms the basis for accepting the null hypothesis that VAT does have significant effect on economic growth in Nigeria. Also, the result though not significant, is in contrast with the works of Adereti et al. (2011), Chigbu and Ali (2014) and Onwuchekwa and Aruwa (2014) in which VAT was found to have positive effect on economic growth. This result of VAT and economic growth nexus could be due to the fact that the tax burden of the country must have been increased relative to its growth level by the imposition of VAT on economic activities. It could also imply that VAT must have reduced the incentive for positive engagement in productive behavior in the economy. The proceeds from VAT might have been diverted to funding unproductive venture by the political class leading to it not having significant positive link with economic growth. The result also implies that VAT revenue over the years could have been invested in creating and maintaining larger government which means transfer of resources from productive sector of the economy to an ineffective public sector which diminishes economic efficiency.

The results on customs and excise duties (CED) show that it has positive but insignificant relationship with economic growth. This conforms partially with the study conducted by Yadirichukwu and Ebiringa (2012) in which CED was found to contribute significantly and positively to economic growth in Nigeria. Also, the result is not in line with the prior expectation of the study as it is not significant. This could mean that customs and excise duties as revenue could have been invested in unproductive economic sector of the economy.

Looking at the result on granger causality, it was found that causality does not exist between value added tax and economic growth, and between CED and economic growth. The finding of no causality between VAT and economic growth however, conforms to the work of Adereti et al. (2011). This gives further credence to the findings of the OLS regression estimate which implies that the use to which VAT revenue is put diminishes economic efficiency. The result of the research which revealed that CED does have causal relationship with economic growth is in contrast to the work of Yadirichukwu and Ebiringa (2012). But the result of this study could mean that CED has not been invested in the critical sector of the economy that could significantly pop up economic growth in Nigeria.

SUMMARY

From the findings of the study, it is revealed that the introduction of value added tax (VAT) does not translate into positive effect on economic growth in Nigeria thus, no causal relationship between VAT and economic growth in Nigeria. This suggests the need to

enhance the investment of VAT into productive sectors of the Nigerian economy. This is because the findings of the study implies that the imposition of VAT has increased the tax burden of the productive sector of the economy relative to their productive base, and this could have also reduce the incentive for positive engagement in productive behavior in the economy which could enhance the aggregate output level.

On the basis of the general findings of this study, the study therefore recommend the following:

There is need to enhance the legal or regulatory environment for business by periodically reviewing and improving on the tax policies and the enforcement of the laws relating to taxation; strengthen the anticorruption agencies, enhancing property right and respect for the rule of law and due process as well as ensuring good governance. This will make the people have more confidence in the public sector and will ensure efficient use of value added tax.

REFERENCES

Adereti, S. A., Sanni, M. R. & Adesina, J. A. (2011). Value Added Tax and economic Growth of Nigeria. *European Journal of Humanities and Social Science*, *10*(1), 456-471.

Alhussain, M. (2020). The impact of value-added tax (VAT) implementation on Saudi banks. *Journal of Accounting and Taxation*, *12*(1), 12-27.

Anyanwu, J. C. & Oaikhenan, H. E. (1995). "Modern Macroeconomics: Theory and Application in Nigeria"; Joanee Educational Publishers Ltd, Onitsha, Nigeria.

Anyanwu, J. C. (1997). *Nigeria's Public Finance*. Onitsha, Joance Education Publishers.

Ariyo, A. (1997). *Productivity of the Nigerian Tax System: 1970-1990.* Department of Economics, University of Ibadan.

Asogwa, F. O. & Nkolika, O. M. (2013). Value Added Tax and Investment Growth in Nigeria: Time Series Analysis. *IOSR Journal of Humanities and Social Science (IOSR-JHSS)*, *18*(1), 28-31.

Bakare, A. S. (2013). *Value Added Tax and Output Growth in Nigeria*. Proceedings of 8th Annual London Business Research Conference Imperial College. London, UK.

Bird, R. M. (2005). *Value-Added Taxes in Developing and Transitional Countries: Lessons and Questions.* Paper Prepared for the First Global International Tax Dialogue Conference on VAT, Rome, March 15-16.

Bogetic, Z. & Hassan, F. (1993). *Determinants of Value Added Tax Revenue: A Cross Sectional Analysis.* Working Paper Series no 1203, World Bank, Washington D.C.

Chigbu, E. C. & Ali, P. I. (2014). Econometric Analysis of the Impact of Value Added Tax on Economic Growth in Nigeria. *European Journal of Business and Management, 6*(18), 31- 36.

Chigbu, E. E. (2014). A Cointegration of Value Added Tax and Economic Growth in Nigeria: 1994-2012. *International Journal of Management Sciences and Business Research, 3*(2), 95-103.

Clarete, R. & Diokno, B. (2000). General Equilibrium Calculation of Tax Collection Costs for Border and Domestic Taxes: The Case of the Philippines. In G. Perry, J. Whalley & G. McMahon (Eds.), *Fiscal Reform and Structural Change in Developing Countries* (Vol. 2). London: Macmillan.

Claus, I., Haugh, D., Scobies, G. & Tornquist, J. (2001). Savings and Growth in an Open Economy. Treasury Working Paper. Retrieved April 23, 2016, from http//11.treasury.gov.pdf.

Denis, B. (2010). Investigating the Relationship between VAT and GDP in Nigerian Economy. *Journal of Management and Corporate Governance*, *2*.

Ebi, B. O. & Ayodele, O. (2017). Tax Reforms and Tax Yield in Nigeria. *International Journal of Economics and Financial*, *7*(3), 768-778.

Enemhinye, E. & Ucheagwu-Okoye, O. (2021). A Critical Appraisal of the Legal Framework of Value Added Tax (VAT) in the Nigerian Economy. *MUNFOLLI Journal*, *1*.

Gaarder, I. (2016). Incidence and distributional effects of value added taxes. *The Economic Journal*, *129*(618), 853-876.

Granger, C.W.J. (1969). Investigating Causal Relations by Econometric and Cross-spectral Method. *Econometrica*, *37*(3), 424-438.

Gujarati, D. N. (2005). *Basic Econometrics* (5th Reprint). Tata MacGraw Hill, New Delhi.

Herbert, W. E., Nwarogu, I. A. & Nwabueze. C. C. (2018). Tax Reforms & Nigeria's Economic Stability. *International Journal of Applied Economics, Finance and Accounting*, *3*(2), 74-87.

Ibadin, P. O., & Oladipupo, A. O. (2015). Indirect taxes and economic growth in Nigeria. *Ekonomska misao i praksa*, *2*, 345-364.

Ihendinihu, J. U. & Onwuchekwa, J. C. (2012). Stock Market Performance and Economic Growth in Nigeria (1984-2011). *Journal of Emerging Trends in Economics and Management Sciences*, *3*, 971-977.

Izedonmi, F.I.O. & Okunbor, J.A. (2014). The roles of value added tax in the economic growth of Nigeria. *British Journal of Economics, Management &Trade*, *4*(12), 1999-2007.

Jiang, Y. F. & Jiang, Y. F. (2014). *The Effect of VAT on Total Factor Productivity in China – Based on the One-Step Estimation Method*. A Paper Presented at the International Conference on Management Science and Management Innovation. Retrieved April 21, 2016, from http://ccsenet.org/journal/index.php/ijef/article/viewFile/37329/20892.

Kearney, M. (2003). *Introducing Value-Added Tax*. University of Pretoria etd.

Le, T. M. (2016). Measuring Efficiency and Productivity of Taxation: A Review of Tax System in Mozambique. *Case Studies in Business and Management*, *3*(2).

Lucas, R. E. (1988). On the Mechanics of Economic Development. *Journal of Monetary Economics*, *22*(1), 3-42.

Macek, R. (2014). The Impact of Taxation on Economic Growth: Case Study of OECD Countries. *Review of Economic Perspectives*, *14*(4), 309-328.

McMahon, G. & Schmidt-Hebbel, K. (2000). Macroeconomic Adjustment and Tax Reform in Developing Countries. In Perry, G., Whalley, J. & McMahon, G. (Eds.), *Fiscal Reform and Structural Change in Developing Countries* (Vol. 2, pp. 150-196). Macmillan Press LtD, London.

Michael, K. & Ben, L (2007). *The Value-Added Tax: Its Causes and Consequences*. IMF, Working Paper 183.

Nwadialor, E. & Ekezie, C. A. (2016). Effect of Tax Policy on Economic Growth in Nigeria (1994-2013). *International Journal of Business Administration*, *7*(1).

Obeng, G. (2018). Incidence of Value Added Tax, Effects and Implications. *International Journal of Economics and Finance*. https://api.semanticscholar.org/CorpusID:54643376

Ochei, O. O. (2010). Nigerian Tax Reform: Challenges & Prospects. Retrieved May 4, 2016, from http://www.org/others/nigeria-tax reforms.

Okoli, M. N. & Matthew, A.S. (2015). Correlation between values added tax and national revenue in Nigeria: An ECM Model. *Research Journal of Finance and Accounting*, *6*(6), 230-238.

Ola, C. S. (2001). *Income Tax Law and Practice in Nigeria* (5th ed.). Ibadan, Dalag Prints and Park.

Omesi, I. & Nzor, N. P. (2015) Tax Reforms in Nigeria: Case for Value Added Tax (VAT). *An International Multidisciplinary Journal, 9*(4), 277-287.

Onaolapo, A. A., Aworemi, R. J. & Ajala, O.A. (2013).Assessment of Value Added Tax and its Effects on Revenue Generation in Nigeria. *Internal Journal of Business and Social Science*, *4*(1), 220-225.

Onwucheka, J. C. & Aruwa, S. A. S. (2014). Value Added Tax and Economic Growth in Nigeria. *European Journal of Accounting, Auditing and Finance Research*, *2*(8), 62-69.

Romer, P. M. (1990). Endogenous Technological Change. *Journal of political Economy, 98*(5), 571-5102.

Solow, R. (1956). A Contribution to the Theory of Economic Growth. *The Quarterly Journal of Economics*, *70*(1), 65-94.

Soyede, L. & Kujola, S. O. (2006). *Taxation Principle and Practice in Nigeria* (1st ed.). Silicon: Ibadan.

Swan, T. (1956). Economic Growth and Capital Accumulation. *The Economic Record*, *32*(2), 334-361.

Usman, O. A., Adeoye, M. A. & Alimi, A. A. (2023). Impact of Tax Reforms on the Liquidity of Nigerian Stock Market (1982-2021). *International Journal of Research and Innovation in Social Science*, *7*(2).

Yadirichukwu, E. & Ebiringa, O. T. (2012). Analysis of Tax Formation and Impact on Economic Growth in Nigeria. *International Journal of Accounting and Financial Reporting*, *2*(2), 367-385.