

VALUE ADDED TAX GROWTH AND THE NIGERIAN ECONOMY; IN REVIEW

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**Abstract**

*Value Added Tax is a tax on the supply of goods and services, which is eventually borne by the final consumer but collect at each stage of production and distribution chain. Value Added Tax is one of the major tools for income generation in the Nigerian Economy. Apart from tax, no other form of tax has spread as rapidly worldwide as the value Added Tax (VAT). Presently many countries throughout the world operate VAT and more are willing to adopt it. The objective of the study is to study the growth of value added tax in the Nigeria economy. 18 research questions were raise for the study while one hypothesis was formulated. The research design was adopted for the study; with a sample size of 60. The data collected was subjected to pilot test. The hypothesis was tested using five of the research questions of 8, 12, 15, 17, 18 to determine if truly value added tax has helped in the growth of the Nigerian economy. The analysis of the data was based on statistical frequency tables and chi-square ( $X^2$ ) technique was used to test the level of significance. Some of the findings are that, value added tax has contributed significantly in the development of the Nigerian economy. A conclusion was drawn that value added tax has a big potential that can make a positive contribution to overall government revenue. Recommendations were made such as there should be complete computerization of the data base to be created for VAT and adequate resources to be provided for FIRS to enable it to provide modern equipment's, tools and techniques in the discharge of its functions.*

**Introduction**

Value Added Tax (VAT) has become a major source of revenue in many developing countries such as Benin, Cote d' Ivories, Guinea, Kenya, Madagascar, Senegal, Mauritania, Niger, Togo etc this impressive performance of VAT in virtually all countries where it has been introduced clearly influenced the decision to introduce VAT in Nigeria in January 1994. In Nigeria, the idea of VAT started with the acceptance of the recommendation of the Dr. Sylvester Ugoh who led study group on indirect taxation in November 1991. The decision to accept the recommendation was made public in the 1992 to examine the feasibility of the earlier recommendation. The committee's recommendation, among all other things that VAT should be administered by an independent commission was rejected by the government. The administration of VAT was however given to the Federal Inland Service which was already charged with the responsibility of administering most other taxes in Nigeria, the introduction of VAT in Nigeria through, Decree 102 of 1993 marks the phasing out the sales tax Decree No. 7 of 1986. The decree took effect from 1<sup>st</sup> December 1993 but the administrative arrangement, invoicing for tax purposes did not commence until 1<sup>st</sup> January 1994. Specifically, the Federal Inland Revenue Service (FIRS) pointed out that Value Added Tax is a consumption tax that has been embraced by many countries would wide. Because it is a consumption tax, it is relatively easy to administer and difficult to evade. The yield from VAT is a fairly accurate measurement of the growth of an economy since purchasing power (which determines yield) increases with economic growth.

The growth of the economy: be it capitalist communist, socialist, etc is enhanced by the revenue and taxes paid and the efficiency of their use. VAT is a mean of raising revenue for government but certain lapses are noted in the process of collecting VAT, (which as a result that no system is free of lapses). In effect, they have administration (such as inadequate skilled personnel) and collection problem in Federal Inland Revenue

Service (FIRS) VAT Directorate. In a bid to solving these problems, this study tends find out the problems faced in collection of VAT and point out some factors that influence the collection of VAT in Nigeria.

Value added tax can be described as a tax on spending-pay-as-you-spend (pays). It is therefore, not once and for-all annual tax, like income tax. It is payable every time one spends, in other words, it is a tax on consumption, of certain goods and services including all goods manufactured and assembled in Nigeria and has replaced other taxes such as the sales tax (covered only nine items) and the expenditure tax. The tax is borne by the final consumer of goods paid. Thomas Hobbes theory in the 18<sup>th</sup> century was that the tax paid to the government for the welfare of the government should be based on consumption rather than on their income, which is based on contribution to the national economy. He opined that consumption was a justifiable base because resources were normally scarce and their excessive consumption by a few minorities or a large minority will either direct resources from socially desirable uses or prevent economic growth. Even if resources are not scare, the basis of taxation burden should be in accordance with what individuals derive from government service and many of these benefits relate not to the individual's incomes but to the level of each person's level of consumption.

The statement of standard accounting practice (SSAPS) issued in the United Kingdom of April 1974 described VAT as a tax on the supply of goods and services which is eventually borne by the final consumer but collected at each stage of the production and distribution chain. The tax being a consumption tax should be borne ultimately by the consumer.

Value added tax is a tax imposed on value which the supplier or seller of goods and services add to the goods or services it is a function of the following

- i. The cost of the raw materials (or intermediate inputs, transports rents, time etc) used in production of goods and services.
- ii. The wages paid to employees in respect of the production and sale of goods and services.
- iii. Profit made by the suppliers or sellers of the goods or services to the final consumer. Value added therefore can be described as the cost of output less the cost of input or the cost of input plus the profit Margie. It is the value added that is taxed under the value added tax system.

### **Modified Value Added Tax**

The Value Added tax (VT) in its full operation is supplied to start from the raw materials to the manufacturer, through to the wholesaler to the retailer and to the final consumer. This has been thought to be impracticable at the moment because it is likely to be full of evasion and avoidance due to poor record keeping, a large number of retailers most of who are illiterates, the preponderance of the informal sector in the distribution chain and the likely high cost of collecting VAT from a large number of vatable retailers.

Consequently a modified form of VAT was recommended by the 1991 study group and was accepted by the government. Thus the modified value added tax that became operational. In January 1994, levied and collected VAT at manufacturers/wholesalers and importers levels of goods but unlike under the sales tax, services are subjected to modified value added tax and only a single rate of 5% modified value added tax is presently being levied.

The major objectives of VAT include:

- i. To eliminate or minimize the distortions to private savings and investments resulting from taxation by improving transparency and predictability and shifting its incidence towards expenditure rather than income.
- ii. To achieve greater fiscal flexibility in order to develop expenditure that can be maintained in the tax fluctuation in oil revenue by broadening the statutory base for taxation and its effective coverage.
- iii. To distribute the burden of taxation more evenly across different goods and service through a broader coverage to avoid multiple taxation.

- iv. To consolidate and modernize the tax system in order to provide the base for strong revenue growth and flexible management in the economy.

### **Form of Value Added Tax**

Valued added tax is of two major types and therefore, no VAT is suitable for all countries. There are countries imposing different VAT rates. The first type is the consumption type, while the second is the income type. The first type, which is the consumption type, was adopted in Nigeria at the rate of 5%. It taxes imports and exempts exports. It ensures that the burden lies with the final consumers, employing tax credit method of compilation and leaving two or rates in addition to a zero rate of VAT. Taxes paid on inputs are deducted from taxes paid on outputs and the differences are paid. If taxes paid on inputs are higher than those to be paid on the products or services, a refund is claimable from the tax authorities.

### **Administration and Mechanism of VAT in Nigeria**

The VT system in Nigeria is centrally administered by the Federal Inland Revenue Service (FIRS) in close co-operation with Nigeria Custom Service (NCS) and the State Internal Revenue Service. The VAT directorate with the FIRS is located at the Head Office in Abuja with a network of Zonal and Local VAT offices throughout the federation. VAT carries a single rate of 5% in all vatable goods and services. However medical, educational, agricultural and basic food products are exempted from the tax, 9Schedule 3) VAT Decree 102 of 1993 requires vatable person to register for VAT within six months of commencement of the businesses or within six months of the commencement of the decree, whichever is earlier. All manufacturers, distributors, importers and suppliers of goods and services are expected to register. A parliament VAT registration number is given to each registered tax payer. It must be noted that VAT does not form part of either the cost of goods and services bought by a business or of the revenue earned. Remittance of VAT takes place not later than fourteenth day of every month. At the end of a business financial year VAT payable to/refundable by the VAT directorate of the Federal Inland Revenue Service (FIRS) is shown in the balance sheet as current liabilities or credits falling due within one year or as current assets of debits falling due within one year.

### **The Federal Board of inland Revenue (FIBR)**

According to section 1 and 2 of decree 102 of 1993, Federal Board of Inland Revenue is charge with the administration and management of VAT in Nigeria and has been empowered to do such things as it deem necessary and expedient for the assessment and collection of the tax and shall account for all the amount so collected in accordance with the provision of the decree.

### **The Federal inland Service (FIRS)**

It is an operative arm of Federal Board Inland revenue. It is made up of six directorates and it administers tax in close co-operation with Nigerian Custom Service (NCS) and State inland Revenue Service.

### **The Technical Committee**

Section 3 of the VAT Decree established a VAT Technical Committee whose functions are:

- i. To advice the board on professional and technical matters.
- ii. To advise the board on the proper demonstration of the VAT.
- iii. To attend to any other matter that may be referred to if by the board.

### **Membership of the board is as follows:**

- a. The chairman, federal inland revenue who shall be its chairman.
- b. All directors in the federal Inland Revenue Service.
- c. A director (Deputy controller-General) in the Nigeria custom service.
- d. Three representatives of the state government who shall be members of the Joint Tax Board (JTB)

### **The VAT Directorate**

The day to day management and administration of the tax is undertaken by the VAT Directorate, which is one of the six directorates within the FIRS. The VAT Directorate is headed by a director who is stationed at the headquarters in Abuja.

### **Effectiveness in collection of VAT by Federal inland Revenue Service (FIRS)**

One of the reasons for tax evasion in Nigeria is that the wealthy people hide their income and pay little or no income tax and yet they ride expensive cars, live in expensive houses, spray money at parties, which in the end would result to mental and psychological torture for the honest and hardworking people who discharge their civil duties by paying the right tax. VT is aimed at putting such people into the tax net. 1994 was the first full year of successful implementation of Value Added Tax (VAT) in Nigeria. Since the tax system was introduced, Federal Inland Revenue Service (FIRS) has mobilized its resources in engaging in publicity and tax payer education and information. The performance of VAT has been very impressive since its inception in 1994. Actual receipts in 1994 amounted to N7,260.0 million, an increase of N1,260.8 million or 21% over the budget estimate for that year. Such receipts increased further by 185.9 percent to N20.761 million in 1995 and 49.3 percent to N31.000 million in 1996. As a proportion of total non-oil revenue, the contribution of the tax rose from 17.4 percent in 1994 to 20.0 percent in 1996, thus becoming the second largest contributor or non-oil revenue. The impressive performance of VAT in its first three years of existence was attributable largely to improvements in demonstration as well as the relatively low rate of VAT and enhanced compliance.

### **Registration**

According to section 8 of Decree 102, manufacturer, wholesaler, importers and a supplier of taxable goods and services shall within six months of the commencement of the Decree of business, which is earlier, register with the board for the purpose of the tax. Every registered person must be issued with a VAT registration certificate to display at the principal place of the business.

Record and Account: Section 9 of Decree 102 specifies that a person who is registered under section 8 shall keep such records and books of all transactions, operations, imports and other activities relating to all taxable goods and services as are sufficient to determine the amount due.

### **Return**

Taxable person shall pay to the supplier the tax on taxable goods and services purchased by or supplied to him 5.10(1). This is called input tax, 5.10(2)

- i. A taxable person shall on supplying taxable goods and services to his distributor, agent, client or consumer, as the case may be, collect the tax on those goods or services at the rate specified in section (2) of the Decree, S.11(1). The tax collected by the taxable person under S.11(1) of the Decree called output tax, S.11(2).
- ii. A taxable person shall render to the board on or before the 14<sup>th</sup> day of the month following that in which the purpose or supply was made, a return of all taxable goods and services purchased or supply by him during the preceding month in such manner as the board, may from time to time determine. Also, a person who import goods shall render to the board returns on all taxable goods imported by him into the country, S.12(2).
- iii. A taxable person shall on rendering a return under S.12(1) of the Decree;
  - a. Remit the excess of tax output over input to the board,
  - b. Be entitled to a refund from the board if the input tax exceeds the output tax on the production of such documents as the board may, from time to time require.
- iv. Any tax, penalty or interest, which remains unpaid after the period specified for payment, may be recovered by the board through the preceding in the Federal High Court.

S/N	ITEM	OFFENCE	PENALTY/SANCTION
1.	Registration	Failure to Register; vatable person to within 6 months of commencement of business or of the Act whichever is earlier 5.8	Liable on conviction to a fine of N5000 and if after one month the person is not registered, the business premises will be scaled up S.32(S.29).
2.	Records and Accounts	Failure to keep proper records and accounts; registered person are to keep such records and books that are sufficient to determine the correct amount of tax due S.11	Penalty of N2000 is to be paid for every month in which the failure continues S.33(S.29).
3.	Collection of VAT by Vatable person	Faliure to collect VAT S.14 (S11)	Liable to penalty of 150% of the amount not collected plus 5% interest above CBN rediscount rate S.34(S.3)
4.	Rendering of monthly returns	Failure to render returns of the preceding month.	i. Liable to a fine of N5000 for every month in which the failure continues S.31 ii. Best of judgment assessment S.18 (S.14).
5.	Remittance of Tax	Failue to remit VAT within time specified	i. Penalty of 5% per annum plus interest at commercial rate S.19. (S.5) ii. Enforcement of payment through legal means S.19 (16)
6.	Furnishing of false document	S.26 (S.21)	Liable on conviction to fine twice the amount under reported S.25b (S.21b)
7.	Evasion VAT	S.26 (S.22)	Liable on conviction to fine of N30,000 or two times the amount of VAT being avoided or to imprisonment for at least three (3) years S.26 (S.22b).
8.	Notification of change of address	Failure to notify the board of change of address by a VAT able person	Liable to penalty of N5000 S28 (24).
9.	Issuance of VAT invoice	Failue to issue tax invoices of goods sold or services rendered S.29 (S.25)	Liable on conviction to a fine of 50% of goods or services S.29 (S.25)
10.	Issuing of VAT invoice by unauthorized person	Issuing of invoice by; i. Unregistered persons ii. Unauthorized persons S.31 (S27)	Liable on conviction 10 fine of N10,000 or imprisonment to a term of 6 months S.31 9S27).
11.	Aiding and abetting	Aiding and abetting of commission of an offence by an officer of the FIRS	A fine or every conviction of N50,000 or imprisonment for five (5) years
12.	Obstruction	Obstructing an FIRS authorized officer from carrying out his or	A fine on conviction N10,000 or imprisonment for 6 months or both fine and imprisonment her duties under the decree.

In addition to legal action defaulting corporate bodies every director, manager, secretary or other similar officer of the corporate body or every person concerned in the management of the affairs of the organization, is severally guilty of the offence and liable to be prosecuted against and punished for the offence in like manner as if he had himself committed the offence.

#### Formular for Sharing Proceeds of VAT

Section 36 of VAT decree stipulates the formular for sharing VAT proceeds. The fomular has been unstable, since the introduction of VAT. Below is the summary of the sharing formular, since inception of the Decree.

		1993	1995	1997	1998	1999 to date
		%	%	%	%	%
Federal Government	20	40	35	25		15
State Government	80	35	40	45		50
Local Government	0	25	25	30		35
		100	100	100	100	100

#### Calculation of Value Added Tax

The federal Inland Revenue service on its journal general guide for Tax Administration and practitioner (June 2002) highlighted three basic methods of calculating VAT;

There are three basic methods of calculating VAT. All the method however will lead to the same amount of VAT payable. These are:

- i. **The credit subtractive Method:** under this system a taxable firm would calculate the VAT to be remitted to the government in two stages. This method is also known as the Europeans model. This method has been adopted by many countries including Nigeria. Under this method, the firm does not have to determine its value added. It simply determines the output tax and input tax and then subtracts the input tax from the output tax to get VAT payable. This is the most popular method of calculating VAT.
- ii. **The Subtraction Method:** Under this method the taxable purchaser (cost is subtracted from the taxable sales to arrive at the value added. We then multiply the value added by the tax rate to arrive at the tax liability. The subtraction method is the Japanese's method.
- iii. **The Addition Method:** With this method the firm calculates the value added by adding all payment of untaxed inputs. The result is then multiplied by the VAT rate to get the VAT payable.

#### Vatable persons in Nigeria

A vatable person is one who trades in vatable goods and services for a consideration. Every vatable person has an obligation to register for VAT payment. The registration is to cover all the business activities of the Vatable person. The person can be a sole proprietor (eg a trader); a professional (eg Lawyer); a partnership (eg Ibrahim and Mike & Co); a Limited Liability Company (eg E. Afe Consultancy Ltd or T. Ade Plc); a club or Association or a charity.

All commercial importers of Vatable goods and services into Nigeria are also Vatable. A resident of Nigeria, who performs services outside Nigeria, needs to register with the Local VAT office. Also, a non resident who has a business, trade, profession or vocation in Nigeria, still needs to register.

#### Vatable Goods, Services and their Exemption

At the inception of VAT, there were only seventeen categories of goods and twenty-four categories of services that were taxable. Nonetheless, the VAT Decree gives the federal Inland Revenue service the power to determine from time to time other goods that are taxable. All goods and services that are not specifically exempted are taxable.

The information circular No 9701 FIRS Abuja (1997) gave a detailed list of goods and services exempted from VAT in Nigeria as "Goods and Services exempted from VAT when bought or sold".

The list of exempted goods and services are given below;

- i. Medical and pharmaceutical products
- ii. Basic food items: beans, yam tube, rice, cassava etc
- iii. Books and educational materials
- iv. Baby products
- v. Tractors, plough, agricultural equipment and implement purchased for agricultural purposes.
- vi. Fertilizer, local produced agricultural and veterinary medicine, farming machinery and farming transportation equipments.
- vii. Exported goods
- viii. Plant, machinery and equipment purchased for utilization of gas in downstream petroleum operations.
- ix. Plant and machinery imported for use in the export processing zone (EPZ)
- x. Commercial vehicles and commercial vehicles spare parts
- xi. Newspapers and magazines.

#### Exempted Services

- i. Medical services
- ii. Services rendered by community banks, former people’s bank an mortgage institutions
- iii. Plays and performance conducted by educational institution as part of learning.
- iv. Exported services
- v. Religious services

#### Presentation of Data

A total of 60 questionnaires were prepared and administered to the area Tax controller and zonal VAT officers of the federal Inland Revenue service, Delta State and major taxpayers in the state. 50 questionnaires were successfully completed and returned.

**Table 1: Report and Returns**

No. of Questionnaires distributed	No. completed and returned	Percentage (%) of completed questionnaires
60	50	83

The method adopted in the analysis is

1. Descriptive
2. Use of hi-square

Does the introduction of VAT have some prospect in Nigeria?

DECISION	NUMBER RESPNDENTS	PERCENTAGE OF RESPONDETS
Yes	50	100
No	0	0
Total	50	100

From the above, all the respondent affirm that the introduction of VAT has some prospects in Nigeria. This represents 100

**Table 3. Value Added Tax has some administrative problem in Nigeria?**

DECISION	NUMBER RESPNDENTS	PERCENTAGE OF RESPONDETS
Yes	50	100
No	0	0
Total	50	100

From the above, all the respondents affirms that the value added tax has some administrative problem in Nigeria.

The defects of value added tax decree will not serve as an administrative problem?

**Table 4 Reports and Returns**

DECISION	NUMBER RESPONDENTS	PERCENTAGE OF RESPONDENTS
Yes	18	36
No	32	64
Total	50	100

From the above table 18, the respondents affirm that the defects of value added tax decree will serve as an administrative representing 36% while 32 respondents disagreed that the defects of value added tax decree will not serve as an administrative problem representing 64%.

Does inadequate logistic constitute a problem of VAT?

**Table 5. Reports and returns**

DECISION	NUMBER RESPONDENTS	PERCENTAGE OF RESPONDENTS
Yes	50	100
No	0	0
Total	50	100

From the above table all the respondents affirmed that inadequate logistics constitute problem to VAT representing 100%.

Value added tax collection will improve our internally generated revenue?

DECISION	NUMBER RESPONDENTS	PERCENTAGE OF RESPONDENTS
Yes	46	93
No	4	7
Total	50	100

From the above table, 46 respondent affirmed that value added tax collection would improve our internally generated revenue representing 93% while 4 respondents disagreed that value added tax collection will improve our internally generated revenue representing 7%.

The legal relationship between VAT and the federal Inland Revenue service circulars does not serve as an administrative problem to VAT?

**Table 6. Reports and Returns**

DECISION	NUMBER RESPONDENTS	PERCENTAGE OF RESPONDENTS
Yes	21	43
No	29	57
Total	50	100

From the above table, 21 respondents affirmed that the legal relationship between VAT decree and Federal Inland Revenue circulars does not serve as an administrative problem of VGT, representing 43%. While 29 respondents disagreed that the legal relationship VAT decree and federal Inland Revenue services circulars does not serve as an administrative problem of VAT, representing 57%.

There is Tax payer's apathy in Nigeria?



**Tale 7. Reports and return**

DECISION	NUMBER RESPNDENTS	PERCENTAGE OF RESPONDETS
Yes	50	100
No	0	0
Total	50	100

From the above table, all the respondents affirmed that there is tax payers apathy in Nigeria, representing 100%.

**Question**

Nigeria does not need to generate fund through VAT for development

**Table 8. Reports and return**

DECISION	NUMBER RESPNDENTS	PERCENTAGE OF RESPONDETS
Yes	18	36
No	32	64
Total	50	100

From the above table, 18 respondents affirmed that Nigeria does not need to generate fund through VAT for development. This represents 36% while 32 respondents disagreed that Nigeria does not need to generate fund through VAT for development. This represents 64%

VAT is an equitable consumption tax that is evenly spread among consumers

**Table 9: report and returns**

DECISION	NUMBER RESPNDENTS	PERCENTAGE OF RESPONDETS
Yes	39	79
No	11	21
Total	50	100

From the above table, 39 respondents affirmed that VAT is an equitable consumption tax that is evenly spread among consumers, representing 79% while respondents disagreed that VAT is an equitable consumption tax but is evenly spread among consumers representing 21%

VAT cannot sustain the government in an attempt to discharge its responsibility?

**Table .10: Reports and returns**

DECISION	NUMBER RESPNDENTS	PERCENTAGE OF RESPONDETS
Yes	25	50
No	25	50
Total	50	100

From the above table, 25, of the respondents affirmed that VAT cannot sustain the government in an attempt to discharge it responsibilities, this representing 50% while 25 remaining disagreed that VAT cannot sustain the government in an attempt to discharge its responsibilities, this representing 50%

VAT will help the Nigerian government to provide adequate facilities?

DECISION	NUMBER RESPNDENTS	PERCENTAGE OF RESPONDETS
Yes	35	71
No	15	29
Total	50	100

From the above table, 35 of the respondents affirmed that VAT will help Nigerian government to provide adequate facility, this representing 71% while 15 disagreed that VAT will help the Nigerian government to provide adequate facility, this representing 29%.

Federal Inland Revenue service should not be charged with responsibility of administering VAT throughout the country?

**Table .12: Reports and Returns**

DECISION	NUMBER RESPNDENTS	PERCENTAGE OF RESPONDETS
Yes	29	57
No	21	43
Total	50	100

From the above table, 25 of the respondents affirmed that Federal Inland Revenue service should not be charged with the responsibility of administering VAT through the country, this represents 50% while the 25 remaining disagreed that Fedeal Inland Revenue service should not be charged with the responsibility of administering VAT through the country, this represents 50%

The introduction of VAT into Nigeria tax system was rushed without adequate machineries.

**Table .12: Reports and returns**

DECISION	NUMBER RESPNDENTS	PERCENTAGE OF RESPONDETS
Yes	29	57
No	21	43
Total	50	100

From the above table, 29 of the respondents affirmed that the introduction of VAT into Nigeria tax system was rushed without adequate machineries, this representing 57% while 21 disagreed that the introduction of VAT into Nigeria tax system was rushed without adequate machineries, this represents 43%.

The Federal Inland Revenue services should institute contractions against default.

**Table .13; Reports and Returns**

DECISION	NUMBER RESPNDENTS	PERCENTAGE OF RESPONDETS
Yes	50	100
No	0	0
Total	50	100

From the above table all the respondents affirmed that the Federal Inland Revenue service should institute contraction actions against defaults.

Companies and individuals should be denied tax clearance certificate if there's any VAT outstanding?

**Table .14: Reports and Returns**

DECISION	NUMBER RESPNDENTS	PERCENTAGE OF RESPONDETS
Yes	39	79
No	11	21
Total	50	100

From the above table 39 respondents affirmed that companies and individuals should be denied Tax Clearance Certificate if there's any VAT outstanding. This represents 79%. While 11 respondents disagreed that companies and individuals should be denied Tax Clearance Certificate if there's any VAT outstanding. This represents 21%

The Federal Inland Revenue service should have power to recover directly from the VATable persons. VAT due without reference to court?

**Table .14: Report and Returns**

DECISION	NUMBER RESPONDENTS	PERCENTAGE OF RESPONDENTS
Yes	29	57
No	21	43
Total	50	100

From the above table 29 respondents affirmed that the Federal Inland Revenue service should have power to recover directly from the VATable persons, VAT due without reference to the court. This represents 57%. While 21 of the respondents disagreed that the Federal Inland Revenue service should have power to recover directly from the VATable person, VAT due without reference to the court. This represents 43%

**Analysis of research Question/test of hypothesis**

The hypothesis would be tested by using the chi-square method. The formula for the chi-square method is denoted as :

$$X^2 = \frac{\sum E(O-E)^2}{E}$$

Where;

- X<sup>2</sup> = calculated value of chi-square
- O = Observed frequency
- E = Expected frequency
- ∑ = Summation

The degree of freedom is given as

Df = (r-1) (c-1)

Where:

- R = number of row
- C = number of column

**Test of Hypothesis**

Ho: Value added tax have not helped in the growth of the Nigerian economy

H1: Value added tax has helped in the growth of the Nigerian economy.

This hypothesis is related to items 8, 12, 15, 17, 18 of the questionnaire.

Category	Item 8	Item 12	Item 15	Item 17	Item 18	Total
Yes	50	46	18	29	35	178
No	0	4	32	21	15	72
Total	50	50	50	50	50	250

Expected chi-square

Total column x Total row

Grand Total

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Cell	O <sub>1</sub>	E <sub>1</sub>	O-E <sub>1</sub>	(O-E) <sup>2</sup>	$\frac{(O-E)^2}{E}$
1.1	50	35.6	14.4	207.36	5.8247
1.2	46	35.6	10.4	207.36	3.0382
1.3	18	35.5	(17.6)	108.16	8.7011
1.4	29	35.6	(6.6)	309.76	1.2236
1.5	35	35.6	(0.6)	0.36	0.0101

2.1	0	14.4	(14.4)	207.36	14.4
2.2	4	14.4	(10.4)	108.16	7.5111
2.3	32	14.4	17.6	309.76	21.511
2.4	21	14.4	6.6	43.56	3.025
2.5	15	14.4	0.6	0.36	0.025
					65.2698

$$\text{Therefore } \sum_i \frac{(O-E)^2}{E} = 65.2698$$

Degree of freedom  
 DF = (1-1) (c-1)  
 (5-1) (2-1)  
 (4) (1) = 4  
 Level of significance = 5% ie. 0.05  
 = 9.488

Key:

- 1.1 means first row and first column
- 1.2 means first row and second column
- O<sub>1</sub> means observed frequency in a cell
- E<sub>1</sub> means expected frequency in a cell
- X<sup>2</sup> means calculated = 65.2698
- X<sup>2</sup> Observed = 9.488.

Therefore X<sup>2</sup> observed < X<sup>2</sup> calculated ie. 9.488 < 65.2698

### Conclusion

From the study of Value Added Tax growth and the Nigerian economy, these conclusions were able to be drawn. The operation of VAT cannot be like the life of a human being which has a life cycle that has its terminal at death. There will have to be financial ups and downs in the economy which will show how VAT is fairing. Value added tax (VAT) has a major role to play in the business than sanction, behavior of consumers allocation, mobilization and redistribution of economy resources. VAT is inflationary and may increase an existing inflation caused at its introduction may disappear.

The value added tax (VAT) is being increasingly popular on account of its administrative convenience. It is also more difficult to evade and if properly administered and accounted for has a big growth potential that can make a positive contribution to overall government revenue.

The performance of VAT has been very impressive since its inception in 1994. The yield for the past years has been on increase and this is attributable to administrative effectiveness of the Federal Inland Revenue service.

VAT was introduced to replace sales tax and many indirect taxes administered by state and local government, but unfortunately these various taxes are still being administered, thereby creating a threat to the effectiveness of VAT.

### Recommendation

From this research work, the study recommends that:

1. Government should provide adequate infrastructural facilities such as telephones, motor vehicle etc to enable federal Inland Revenue Service (FIRS) to intensify efforts in carrying out its collection drive.
2. The high level of corruption among the staff of FIRS and other VAT operators can be checked by provision of adequate incentives such as pay rise, promotions, training, prompt payment of salaries, rewarding of hardworking and honest workers etc.

3. VAT being a relatively new tax system in Nigeria requires enlightenment campaign to create awareness and educate the public on its modus operandi and importance in the economy.
4. VATable persons should be taught through seminars and workshops on how to keep proper records and books of all transactions sufficient enough to calculate the correct amount of VAT payable.

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