THE ANALYSIS OF VALUE ADDED TAX AND ITS IMPACT IN THE NIGERIAN ECONOMY

(A CASE STUDY OF FEDERAL INLAND REVENUE SERVICES ENUGU STATE)

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TITLE PAGE

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RESEARCH PROJECT PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF MASTER BACHELOR OF ART CERTIFICATE IN ACCOUNTING

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SUPERVISOR: MR. UGWOKE

MAY, 2012.

APPROVAL PAGE

This is to certify that this study: The analysis of value added tax and its impact in the Nigeria economy (A Case Study of Federal Inland Revenue Services Enugu State) was carried out to the satisfaction of the supervisor and external examiner(s).

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TITLE: THE ANALYSIS OF VALUE ADDED TAX AND ITS IMPACT IN THE NIGERIAN ECONOMY (A case study of federal inland revenue services Enugu state).

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DATE APPROVED ---------------------------

DECLARATION

The board of Examination declares that this research work on Analysis of VALUE ADDED TAX and its impact in the Nigerian Economy(A case study of F.I.R.S Enugu State) was independently and solely carried out by Okwu Tobechukwu Tobias without previously written by another person or group and hereby accepted for the award of Master Bachelor of Art (MBA) Certificate in Accountancy, Faculty Business Administration University of Nigeria, Enugu Campus.

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HOD	**SIGN**	**DATE**

DEDICATION

This project is dedicated to God Almighty for his infinite love and mercy towards me.

ACKNOWLEDGMENT

I acknowledge the power of Almighty God who has and shall continue to provide for all my needs according to his riches in glory through Christ Jesus.

My sincere appreciation is humbly directed to my supervisor and Head of Department Accountancy Mr. Ugwoke for all his useful criticisms, suggestions, advice and effort to get this work done.

My special thanks goes to my dear lovely wife Mrs. Ngozi Chinyere Okwu, whose encouragement, understanding and support made my dreams a reality.

Special thanks also to my dear friend and Brother Mr. Ikechukwu Amuloha and also my Sister Chika Okwu whose assistance and contributions cannot be quantified. Also to mention are staff of Federal Inland Revenue Services State, all my lecturers, colleagues and friends whose contributions and encouragements earned me success.

Finally, may the Almighty God bless you all Amen.

OKWU TOBECHUKWU .T.

ABSTRACT

This study was carried out to analyze the value added tax (VAT) and its effect in the economy and to identify areas of shortcomings and to make recommendations for corrective measures. The scope of the study was limited to Enugu State. Data were collected based on these objectives:

i. To asses the response of vatable person (taxpayer).
ii. To increase the awareness of vatable public.
iii. To assess the impact of value added tax on final consumers.
iv. To find out if significant correlation exist between VAT Revenue and GDP

Literature reviewed from relevant texts and journals revealed that VAT has been exceeding its target revenue since commencement and that state government expenses have been cleared to some extent with VAT revenue. The study further revealed that VAT revenue is not tied to a specific capital project and that there is loophole in the VAT Decree under registration of taxable person. The study also showed that VAT has only added to the multiple tax system operational in Nigeria. And further revealed that VAT has the propensity to increase prices, deplete people's finances and reduce their purchasing power; contribute to inflation and produce multiplier effects on all sectors of the economy including health. Furthermore, the study also revealed that VAT is a better option to other taxes and that tax-payer render returns promptly to the taxes authority. These finding were examined using descriptive survey, questionnaire and chi-square to test the hypothesis formed. A sample size of 40 was selected by simple random sampling. Data was analyzed and presented using percentages and chi-square, which gave rise to the findings. Based on the finding, recommendations and suggestions were made.

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CHAPTER ONE
INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Value Added Tax (VAT) has become a major source of revenue in many developing countries. In Sub-Saharan Africa for example, VAT has been introduced in Benin Republic, Cote d'Ivore, Guineu, Kenya, Madargascar Mauritius, Niger Republic, Senegal, Togo and lately, Nigeria. Evidence suggests that in these countries VAT has become an important contributor to total government tax revenues (Ajakaiye, 2000). Shalizi and Squire (1988) found out that VAT accounted for about 30% of total tax revenue in Cote

d'Ivoire, Kenya and Senegal in 1962, the oil producing countries are not excluded from the list of countries introducing this tax hurdle. Tait (1989) showed that VAT had been in effect in Ecuador and Mexico since at least 1973 by 1983 accounted for 12.35% and 19.71% of total government revenue in these countries respectively, Indonesia introduced VAT in 1983 and by 1988; the ratio of VAT revenue to GDP had risen to 4.5% (Bogetic and Hassan, 1993).

This impressive performance of VAT in virtually all countries where it has been introduced, according to Ajakaiye (2000), clearly influenced the decision to introduce VAT in Nigerian in January 1994. VAT is a consumption tax that is relatively easy to administer and difficult to evade and it has been embraced by many countries world-wide (federal Inland Revenue Services, 1993). Evidence so far supports the view that VAT revenue is already or significant source of revenue in Nigerian. For example actual VAT revenue for 1994 was N8.189 billion, which is 36.5% higher than the projected N6 billion for the year. Similarly, actual VAT revenue for 1995 was N21billion compared with the projected N12 billion. In terms of contributions to total federally collected revenue VAT accounted for about 4.06% in 1994 and 5.93% in 1995. Total of N404.5billion was collected as VAT (5.1% of total revenue) in 2008.

While the performance of VAT as a source of revenue in Nigeria is encouraging, it remains difficult to find attempts to systematically assess the impact of VAT on the economy. Recent research works on the impact of taxation on the Nigerian economy lumped up all the various taxes together without isolating VAT, how and in what direction has VAT been affecting the Nigerian economy proxy by Gross Domestic product (GDP)? Is there any relationship between the two economic variables?

In the attempt to answer the question posed above we shall in the interim see what is VAT, who is a vatable person, the law establishing VAT in Nigeria, the goods and services that are vatable (taxable), the goods and services exempted from VAT, the economic benefit of VAT, the impact of VAT on the final consumer etc.

1.1. STATEMENT OF PROBLEM

Nigeria tax system has been characterized by problems of tax evasion and tax avoidance, which is non compliance with tax law. Difficulty in the implementation of the tax law is another problem facing Nigeria tax system where one endeavours to reduce one's tax liability through the use of illegal means. An example is failure to declare part of one's income in spite of legal provision to the effect that one is under duty to make full and complete declaration of ones income or either by claiming fictitious expenses, etc. Tax avoidance on the other hand can be said to be doing one's utmost within the legal postulate to avoid paying tax.

However tax avoidance though blatant (are perfectly lawful), tax evasion constitute and still a criminal offence punishable by law.

It is against this background that we talk of one's moral duty in a country where the tax laws are by and large just and separated in a manner that is roughly fair and equitable in compliance with goodwill and according to their
manifest intention without trying to take advantage of every possible loophole to lessen the burden of the expense of the fellow citizens.

Nevertheless (on the other hand) if either the tax law itself or the way in which it is administered is inimical, the citizen will normally be justified not only in using tax avoidance technique but also evading it if, he can get away with it. Well of course, if caught, may be liable to legal penalties. Also a problem is the administrative cost, which is the cost of collecting VAT revenue.

1.2 OBJECTIVE OF THE STUDY

It is the intention of the writer to find out how responsive the public (the taxpayer) is to VAT operation in the country. Special reference is made in area of non-petroleum tax since government is committed to diversify attention to those areas for more revenue and minimum reliance on oil revenue. It is worthy of note that every tax system has an objective, which includes:

a. To raise revenue;

b. To provide incentives and economic efficiency;

c. To stabilize the economy through deflationary and reflationary measure. Any tax system may aim at achieving one or more of these objectives. The objective of the study also is to increase awareness of the public on VAT. To find out if there is any relationship between VAT and GDP. It is also in the writer's objective to look at the impact of VAT on the final consumers.

1.3 SCOPE OF THE STUDY

It would have interested the researcher to visit all the tax offices/authorities throughout the federation where it is located to witness things as they happened and perhaps have interview with the public- the tax-payers in each case, but for obvious reason that will be highlighted later, the researcher decided to concentrate more on the tax authority in Enugu state area office of the Federal Inland Revenue service (FIRS).

The authority is headed by an area tax controller and the local VAT officer on the other hand. Also situated in the area office is the office of the zonal coordinator for eastern zone, which has its base at Enugu. The researcher made use of ministries and parastatals/agencies in Enugu metropolis to ascertain the public response as it affects the final consumers.

1.4 LIMITATION OF THE STUDY

The researcher was constrained to limit his scope of study to the tax authority in Enugu state area office of the Federal Inland Revenue service (FIRS), ministries and parastatals/agencies also in Enugu due to the following reasons:

i). Low awareness of value added tax (VAT) in the country.

ii). Possibility of getting the people concerned available at the time of visit for interview.

iii). Financial constraint and

iv). Time constraint is another factor militating against the scope of the researcher. This is because the researcher is faced with the preparation of his MBA examination at the time of the research.

1.5 PROBLEM ENCOUNTERED

The researcher encountered a lot of problems while carrying out this work. Some of the problems include:

a) **Finance:** Lack of finance limited the scope of the research, it would have been the intention of the researcher to travel far and wide to reach other local VAT offices other than that of Enugu VAT office, and this would have helped for better compliance and more data collection.

b) **Time:-** Time constraint is another obstacle. Time is really not on my side, since I have to combine the project work with preparation of my examination, hence the time for the project is usually after work and lectures when the researcher must have been exhausted.

c) **Source of information:** It was not possible for the researcher to always get the local VAT officer in Enugu and members of staff in the state ministry of finance and board of internal revenue who were of great assistance in this research work. The VAT officer was either so busy with his duties and asked me to repeat or I did not turn up at a scheduled time due to my lectures. However, on brief discussion he was able to supply some useful material.

1.6 RESEARCH QUESTION

The purpose of this study is to analyze Value Added Tax (VAT) and its impact on the Nigerian economy, in this regard, we are going to make use of the following research questions to investigate whether VAT is really a better option to other tax system.

i). The purpose of the study is to find out whether value added tax (VAT) has contributed in revamping the nation's economy;

ii). The purpose of the study is also to find out whether value added tax has impact on the final consumers.

iii). The study will also want to know whether value added tax is a better option to other tax system.

iv). It is in the researcher's interest to find out how easy or difficult it is to administer VAT in Nigeria.

v). The researcher also want to find out if any significant correlation exist between VAT revenue and GDP.

1.7 STATEMENT OF HYPOTHESIS

HYPOTHESIS I

H_O: Value added tax has contributed in revamping the Nigeria economy.

H_i: Value added tax has not contributed in revamping the Nigeria economy.

HYPOTHESIS II

H_O: Value added tax is a better option to other tax.

Hi: Value added tax is not a better option to other tax.

HYPOTHESIS III

H_O: Value added tax has made impact on the final consumers. **H_i:**

Value added tax has not made any impact on the final consumers.

HYPOTHES1S IV

H_O: Value added tax is easy to administer.

H_i: Value added tax is not easy to administer.

HYPOTHES1S V

H_O: Value added tax has significant correlation to GDP.

H_i: Value added tax has no significant correlation to GDP.

1.7 SIGNIFICANCE OF THE STUDY

The value of the study cannot be overstressed in that it came at the time when it is evident that tax-payers are not happy at paying their taxes, like some say they are not getting required response from the government.

Therefore, the study will help to investigate these feelings of desperate taxpayers. This is borne out from the fact that, if their feeling about taxation is positive, their response to tax will be on the increase whereas if their feelings are negative, the expectation is low response to the tax, which will give rise to low revenue.

The importance of the study can also be viewed in the area of final consumers. This is because they are the people who actually bear the burden of the tax. And since government's interest is to better the lives of the citizenry, the need to investigate such area cannot be overemphasized.

The importance of the study can also be appreciated in the area of tax modification. That is to say, if the existing taxation should be amended to suit the socio-economic condition in the country or should more avenues be created to increase revenue through taxation.

Whichever way, the important thing however, is that every good tax system should possess the following characteristics;

i). **Simplicity:-** It has to be simple both in application and implementation.

ii). **Cost of administration:-** It is expected that the cost of any good tax system should be less than its benefits otherwise the aim of the system becomes void.

iii). **Compliance:-** This is of utmost importance in every taxation, since non compliance may mean negation and thereby defeating the objective in totality. So in the course of the study, it will be seen if the tax being talked about has these attributes.

1.8 DEFINITION OF TERMS

It is the researchers intention that this project work will be read and understood by all that may be interested in it either officially or ordinarily, hence the need for highlighting the important terminologies used cannot be overemphasized.

The Decree 102, which established the value added tax came into being in the year 1993. The decree spelt out the following terms unless the context otherwise requires. But as far as this project is concerned the meaning is just as they are in the decree.

Vatable person (*REGISTERED PERSON):* This referred to a manufacturer, wholesaler, an importer and a supplier of taxable goods and services as a (taxable person).

("AUTHORISED OFFICER"):- This means an officer who has been authorized by the Board of Inland Revenue to perform any function under or in pursuance of this decree.

("BOARD") Means the Federal Board of Inland Revenue.

CHAIRMAN - Means the chairman of the Federal Board of Inland Revenue.

"COMPANY":- Means company as defined under the companies and allied matters decree 1990 and a corporate body that may be formed under any other written law and include any association, whether incorporated in or outside Nigeria.

"IMP0RT:- This means bringing in of goods and services from another country or from an export processing zone.

"IMPORTER":- Means person who import taxable goods.

"1NVOICE" Means any document issued as an evidence of demand for payment.

"MANUFACTURER":- Means any person who engages in the manufacturing of goods and includes a person who has manufactured for him or on his behalf by others, goods made to his specification or "Manufacturing" Means the process by which a commodity is finally produced, including assembling, packaging, bottling, repackaging, mixing, blending, grinding, cutting, bending, twisting and including any other similar activity.

"OWNER":- Means in respect of any goods, Aircraft, vessel, vehicle, plant or any other goods, a person other than an officer acting officially, who hold out himself to be the owner, manufacturer, agent or person in possession of or beneficially interested in, or having control of or power of disposition over goods, aircraft, vessel, vehicle plant or other goods.

"REGISTERED PERSON":- Means any person registered under section 8 of the decree.

"SUPPLY OF SERVICES":- Means any services provided for consideration.

"TAX":- Means Value Added Tax and charged under section (1) of this decree.

"TAX PERIOD":- Means one calendar month commencing from beginning of the month to the end of that month etc.

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CHAPTER TWO

LITERATURE REVIEW

In this chapter of the project, related works written by some elite scholars were reviewed in order to elucidate more on the issue being researched on. Some of these scholars include Alhaji Ibrahim Gana, Prof Sam Aluko, Alhaji Umar Aliyu Mohamed, Mr. Amadi Awa, Mr. A. Adetola, Mrs. Gwam Odugwu and a host of others that shall be mentioned in due course.

Prof. Sam Aluko wrote on "analysis of the classical VAT" as operated in selected countries.

Alhaji Ibrahim Gana in his paper presented on VAT:- "Training the Trainers course held at Obafemi Awolowo University Ife wrote on the "origin and merits of value added tax (VAT).

"An overview of modified value added tax" was presented by Alhaji Umar Aliyu Mohamed, while Mr. A Adetola presented a paper on "fiscal relevance of VAT in Nigeria.
There are papers on "imposition of VAT, taxable goods and services, rate of tax and on registration of VAT" presented by Mr. Amadi Awa and Mrs. Gwam Odugwu respectively.

All these presentations were made at Obafemi Awolowo University Ife. Another contribution is the one made in National Concord by Ikwewumi titled "VAT between Merit and Demerit" and one titled "General Concept and Financial Implication of Taxation". All these elite scho1ars and others to be mentioned in due course contributed to the success of this work. But before we proceed to the main business, it is important to know what tax is.

Tax according to (Ezeanyagu J.E. Public Finance in developing countries 1993) is defined as a compulsory payment imposed on inhabitants of a government area by the governing authority. (Okafor F.O. in his Paper Presentation at National Enlightenment Workshop of 8 Dec. 1993 held in Enugu) gives a more encompassing definition of tax. From the generic point of view, he defined tax as "Any forced contribution extracted from a person, companies or property by or on authority of government for meeting the cost of governance. Okafor F.O went on to add that for any contribution to qualify as a tax, it must meet the following features that are:

i). It must be compulsory

ii). It must be imposed by government or its agent and

iii). It must be meant to meet the cost of government and not for personal use of those who exercise the authority of government.

2.1 ORIGIN OF VAT

We cannot talk of VAT without tracing its origin. Value added tax was first introduced by France in 1954. Since then, it has been embraced by well over 70 countries all over the globe. These include all the OEC countries, Japan, Canada, the state of Michigan in the USA and many African countries including many members of ECOWAS.

In Nigeria, the idea of VAT came into being with the acceptance of the recommendation of the Dr. Sylvester Ugoh led study group on indirect taxation in November, 1991. The decision to accept the recommendation was made public in 1992 budget speech. To this effect, a committee was later set up on 1st June 1992 to examine the feasibility of the early recommendation; the committee recommendation among other things, that VAT should be administered by independent commission was rejected by government. The administration of VAT was however given to the Federal Inland Revenue Service (FIRS) which was already charged with the responsibility of administering most other taxes In Nigeria.

The Nigerian VAT came into being by virtue of decree No 102 of 1993. The decree took effect from 1 December 1993, but by administrative arrangement, invoicing for tax purpose did not commence until 1st January 1994.

2.2 DEFINITION OF VAT

(Mba 1993: 31) quoted Professor Sam Aluko as a saying that VAT is consumption tax in which the more you consume, the more you pay.

A standard definition of VAT is given in the statement of Standard Accounting Practice (SSAP) No 5 issued in United Kingdom in April, 1974 as a tax on supply of goods and services which is eventually borne by the final consumers but collected at each stage of production and distribution (Mba 1993: 31).

(Bannock et al 1972 Dictionary of Economics) defined VAT as a general tax applied at each stage of exchange of goods and services from primary production to final consumption.

Ogundele Okayed the statement of Standard Accounting Practice (SSAP) definition in his book titled "Value added tax theory and practice" which according to him the definition embodied the three characteristics of value added tax namely:

i) VAT is consumption tax.

ii) VAT incidence is on the final consumer.

iii) VAT is a multi-stage tax.

2.3 NATURE OF VAT

Value added tax is a consumption tax, which is relatively easy to administer and difficult to evade. VAT is self-assessment tax that is paid when returns are being rendered. In built in VAT is the refund or credit mechanism whereby vatable person who paid tax on supplies to him (input tax) is entitled to offset the input tax against the tax (output tax) he has charged on his supplies to other persons. In essence, it is the output tax less input tax that constitutes the VAT payable, (Federal Inland Revenue Services 1993 information circular No 9304).

(Bannock Dictionary of Economics: 1972) explained that the cost of these inputs is taken to include all charges, including all taxes except VAT itself. The method of payment and collection is as follows: - Each trader sells his output at a price increased by the appropriate percentage of VAT.

He is then liable for payment of the tax so obtained from his customers, but can claim a refund of any VAT included in the invoices for input which he himself purchased from his suppliers, his customers do likewise and so on down to the final consumers. At each point of exchange the tax is passed on in form of higher prices. Being at the last point in the chain of exchange, the consumer bears the whole tax. The traders within the chain do not bear any tax but act as a collecting agent.

From the above definition and explanation, VAT is a single multi-stage tax imposed on goods and services as they pass through the various stages in the business chain from the manufacturing, importation, wholesale, retailing and finally to the consumer. Although VAT is a multi-stage tax it has a single effect and does not add more than the specified rate to the consumer price no matter the number of stages of which the tax is paid.

It is important to note that the more stages the greater the actual tax paid by the consumers, as we shall see in the illustration below.

2.4 ILLUSTRATION

If a product moves from raw material producer (A) to manufacturer (B) at ₦l000 then to the wholesaler (C) at N1500 them to the retailer (D) at ₦2000 and finally to the consumer who pay N2500 to the retailer, VAT payable to government at 5 percent rate on the product is as follows:

VATABLE PERSON	SALE PRICE BEFORE VAT	VAT COLLECTED (OUTPUT TAX) N	VAT (ON INPUT TAX)N	VAT PAID TO GOVERNMENT N
A	1000	50	-	50
B	1500	75	50	25
C	2000	100	75	25
D	2500	125	100	25
		350	***225***	***125***

Source: **FIRS information circular No 2304.**

The VAT paid to government in the four transactions is ₦125, which is 5% of the final consumer price of 2500. Thus VAT is borne by the final consumer because it is included in the selling price of goods and services.

VAT was introduced as a result of Federal Government decision to revamp the Nigeria tax system and start a deliberate low tax administration to make it more efficient (Mba 1993:32).

Bearing in mind that VAT is a multi-stage tax covering manufacturing, producer, wholesale and retail, it carries a single rate of 5% on all goods and services, it is equally worthy of note that some export is zero-rated and that some goods and services are exempted from the tax. The Nigeria VAT is a replacement of existing sales tax which has been in operation under federal government Decree No 7 of 1986 but is operated on the basis of residence.

2.5 RATIONALE FOR INTRODUCING VAT IN NIGERIA

The question that has been asked repeatedly is "why VAT in Nigeria". (Mba 1993:32) quoted Aminu Saleh, the then Secretary for Finance as saying that one area of major concern to government was the low level of voluntary compliance with our tax law practitioners, especially the elite. There is need then to make a remarkable shift from direct to indirect taxation in order to minimize government dependence on oil revenue.

FIRS 1993 stated that the rationale behind replacing sales tax with VAT is informed by a number of factors and considerations notably:-.

i). The base of sales tax in Nigeria as operated under Decree No 7 of 1986 is narrow. It covers only nine categories of goods plus sales in registered hotels, motels and similar establishments. The narrow base of the sales tax negates the fundamental principles of consumption tax, which by nature is expected to cut across all consumable goods and services. VAT base is broader and includes most professional services and banking, which are high profit generating sectors.

ii). Only locally manufactured goods were targeted by the sales tax Decree 1986. Vat is neutral in this regard. Under VAT, a considerable part of the tax to be realized is on imported goods. This means that under the new VAT locally manufactured goods will not be placed at a disadvantage relative to import.

iii). Since VAT is based on general consumption behavior of the people, the exported high yield from it will boost the fortunes of state governments with minimum resistance from the payer of the tax.

2.6 THE LAW ESTABLISHING VAT IN NIGERIA

The Nigeria VAT came into being by virtue of Decree No 102 of 1993. Nigeria VAT under the Decree has among others the following features:

i) It is to replace the existing sales tax.

ii) It is to have single rate of 5% with no rate for exports.

iii) It covers both manufactured and imported goods.

iv) It is to be administered and managed by the Federal Board of Inland Revenue (FIRS) referred in the Decree as "the Board".

v) All manufacturers, producers, wholesalers, importers and suppliers of taxable goods and services are registered with the board for the purpose of tax.

vi). It covers manufacturing, wholesale, import and supply of taxable goods and services.

2.7 OPERATION OF VAT IN NIGERIA

The implementation of VAT requires that all persons subject to VAT be registered. The procedure for registration is simple and straightforward. VAT registration is a process that identifies those persons who are required under the VAT Decree to be registered or liable to be registered (Otherwise called interested persons) and consequently registered under the same Decree to charge and account for VAT.

All domestic manufacturers, wholesalers, distributors, importers and suppliers of goods and services in Nigeria are expected to register for VAT. Others required to register are the professionals, like Lawyers, Accountants, Architects and Engineers etc, who provide professional services to their clients. All these should register for VAT at the nearest Local VAT offices. VAT form 001 is obtained from the local VAT offices applicable and after completion should he returned to same office.

Registration number is given to each registered taxpayer. It should be noted at this juncture that all vatable person or registered tax-payer, irrespective of level of sale at any time are required to comply with all the provision of VAT law including making returns, paying tax and keeping VAT records. The VAT Decree enjoins all those who are required to register for VAT to do so within a minimum period of six months from the date of commencement of business. Therefore, all existing vatable persons were given up to 31st December 1993 to complete their registration.

A partnership firms, trust estate, Joint venture or incorporated body is required to complete the registration forms in so far as it engages in a taxable activity.

Moreover, retailers and petty traders who are not obliged to register for VAT at least within the introductory periods of three years, with effect from 1st September, 1993 may register voluntarily in order to enjoy the benefits of registration since they conduct taxable activities.

Some of the benefits accruable to voluntary registration are:

i). Issue a tax invoice, which a registered customer can credit as an input tax.

ii). The registered person may claim credit for any input (VAT included in business purchased).

After due registration formalities and processes, a registration certificate with a permanent VAT registration number is issued. This is a form of acknowledgement that the person has been duly registered. The certificate is to be conspicuously displayed at the place of business and may be inspected from time to time by the VAT inspector. Nevertheless, In case of any change in status of registered persons, the local VAT office concerned should be advised accordingly. This is change in principal taxable activity, or change in principal place of business or principal officer.

2.8 COLLECTION/APPLICATION OF VAT REVENUE

As provided in VAT Decree, a taxable person shall on supplying taxable goods and services to his accredited distributors, agent, client or consumers as the case maybe collect the tax on those goods or services at the rate specified in section 2 of the Decree.

The tax so collected by a taxable person is known as input tax. The tax so collected should be rendered to the board on or before 14th day of the month following that which the purchase or supply was made. However, a return of all the taxable goods and services purchased or supplied by him during the proceeding month in such manner as may be determined by the board. Likewise a person who imports taxable goods into Nigeria shall render to the board return on all taxable goods imported by him into Nigeria. Tax due on goods should be paid to the board before importer clears the goods and Nigeria customs service(NCS) shall demand the value added tax compliance certificate issued by the board, before releasing the taxable goods.

Where a taxable person fails to render return or renders an incomplete or inaccurate return, the board shall assess to best of judgment (BOJ) the amount of tax due on taxable goods and services purchased or supplied by the taxable person. The assessed tax should be paid within specified time limit, otherwise, a sum equal to five percent per annum (plus interest at the commercial rate) of the amount of tax remittable shall be added to the tax together with penalty and interest. The person is notified by the board and is expected to pay all outstanding liabilities within a statutory period of thirty days from that date of such notification. If again the person defaults, legal proceedings in the Federal high court will be used to recover the tax.

But where the payment is made, a receipt is issued by the revenue collector of the board in local VAT office and such money paid into the VAT account with the Central Bank of Nigeria (CBN). Payment of tax is made with bank draft and not cash. After lodgment of these cheques into CBN, a statement should be sent to local VAT office concerned, showing that VAT collection lodged into the bank have been transferred to the VAT pool account. This should be done on weekly basis. The local VAT office will now render return to the VAT headquarters confirming such transfer through the zonal office.

Finally, Federal Inland Revenue collects these individual returns from the zonal office and render collective one to the federation pool account on form 005.

VAT revenue is applicable to all and sundry. It is just like every other tax collected in the country. They increase the revenue of the economic well being of the citizenry. VAT revenue is shared among the local, state and federal government. In the onset, local government were not given the opportunity of participation in the VAT revenue, it was not until August 1994 that the local government began to test the financial juice of VAT directly. It was 20% federal and 80% to the states. This was criticized and a sharing formula was adopted which gave the local government a sense of belonging. So in April 1994 a total of ₦ 1.25 billion VAT revenue was shared among the federal government, the state and the federal capital territory.

In September 1994, federal government received the sum of ₦197,312,594.65,State₦703,221,087.34,FCT ₦7,982,503.79 and local government ₦78,135,786.48. The sharing formula now is local governments 25%, state and federal capital territory 40% and 10% respectively, and 25% to federal government.

2.9 PROSPECT OF VAT IN NIGERIA

In 1994, VAT revenue shared among the three tiers of government boosted the state and local government revenue by 20% and 2% respectively. The most significant index to the effectiveness of tax effort is the financial returns. In January 1994, the first month of administration of VAT tax, the import base of the tax yielded ₦109, 214,656 while the non-import base realized a total of ₦12,453,437. As a result of massive enlightenment and mobilization effort, the revenue aggregated over 400% to ₦567,927,924 in February 1994. By the end of the first quarter, the tax yield surpassed a billion naira marked by realizing ₦1, 414,476,500 instead of the target.

Moreover, the quarterly yield hit a ₦2 billion naira mark by the end of June 1994, it realized over N500 million in excess of the projected ₦5billion for the period. Though, VAT yield shrank from ₦800,035,763 to N546,891,940 in July and further in August. VAT diminished to ₦492.3m. This low performance of the tax in the period was attributable to the political crisis that crippled the economy from June to late August 1994. This crisis was characterized by work stoppage, riots, and closure of business and non-availability of foreign exchange to importers. Later the yield jumped in September and December by realizing as much as ₦1billion on monthly basis. In summary VAT did not only meet the 1994 budget objective of ₦1.7 billion, it overshot the target by over 30% or ₦2.15 billion total yield.

According to General Sani Abacha in the 1995 budget speech, “VAT has proved a remarkable success”. Of course the short-term effect of taxation is not just to influence the working of the economy by mobilizing funds from private to public treasury; instead it is to provide resources for financing
public expenditure to improve quality of life. The N6 billion in 1994 VAT revenue was therefore shared among the government of the federation on quarterly basis in accordance with fiscal objectives.

However, it is noteworthy that by provisions of S,152, each state shall in respect of each financial year pay to the federation an amount equal to such part of the expenditure incurred by the federation, during financial year for the purpose of collection of taxes or duties which are wholly or partly payable to the state. Therefore, where the federal government collects or administers essentially state taxes such as value added tax, it is entitled to re-imbursement of the cost of collection. This is the rationale for the federal government retaining 20% of proceeds of VAT, which it administers on behalf of the state. This figure was introduced on the inception of VAT and subject to variation. Generally, the tax administrators see the base of Nigerian VAT on two levels, import and non-import. With the exemption of essential commodities/services and export as is the case in most VAT countries, the concentration of tax effort has been on other internally generated or traded activities and goods as well as on imported finished or produced goods. The operation of VAT in 1994 brought about three silent points. One, that the tax administrators are capable of administering the new tax. Two, that VAT has high potential of becoming a major contributor to pool of federally collected tax. Three, that government could boost VAT yield through significant policy changes in the area of fiscal target, incentives to tax collectors/tax-payers and tax infrastructural development.

TABLE 2.1 VAT COLLECTION FIGURE JANUARY TO JUNE 1995

MONTH	IMPORTS	NON IMPORT	TOTAL
January	291,296,431.00	766,957,412.00	1,058,233,843.00
February	321,759,049.00	685,910,563.00	1,007,667.612.00
March	309,058,759.00	847,156,140.00	1,156,194,929.00
April	325,969,855.00	831,473,608.00	1,157,443,463.00
May	854,493,674.65	865,506,911.00	1,720,000,585.65
June	962,391 ,631.00	870,452,247.44	1,832,843,878.44

Source: ***VAT Directorate, FIRS Abuja.***

With regard to the third point the success of VAT had induced the government to further cut down the tax rate of both individuals and companies from 10% and 35% to 5% and 30% in 1995. Incentives were also given to tax collectors. The dramatic increase of non-import VAT from 50% to 71% of gross VAT yield early in 1995, attests to effectiveness of tax effort by the administrators.

Moreover, the experiences of Nigeria in administration of VAT in 1994 through the instrumentality of Federal Inland Revenue Service (FIRS) have shown conclusively that (FIRS) is the logical choice.

2.10. ADMINISTRATION AND POLICY

The VAT system in Nigeria is administered by the Federal Inland Revenue Services (FIRS) centrally located at the head office in Abuja with the network of zonal and local VAT office throughout the federation. The VAT is administered centrally by the federal government using the existing tax machinery of FIRS working in close cooperation with the Nigeria custom services (NCS) and state internal revenue services (SIRS).

The Decree provides for 80% of revenue accruing from VAT to be shared by the state government and federal capital territory (FCT) Abuja in such a proportion as: federal government may from time to time determine 20% revenue is to be retained by the federal government to cover the cost of administration.

This distribution formula had been reviewed twice. The 1995 federal budget revealed a new sharing formula in which the federal government retains 50% of the proceeds while the state and local government would receive 25% each. Barely three months later, News Agency of Nigeria (NAN) 1995 reported a fresh formula for sharing of VAT proceed among the three tiers of government in the country. It stated under the new formula, 40% of the proceed goes to federal government 35% to the 30 states of the federation and federal capital territory(FCT) Abuja and 25% to the local governments.

2.11 VAT INSPECTION

To ensure that the objective of Nigeria VAT is not frustrated by VAT officers and VAT payers, a number of measures are provided in the Decree.

FIRS (1993) highlighted three inspection measures, which are VAT visit, VAT drive, VAT audit and VAT investigation.

Under VAT visits, the premises of vatable persons will be visited by authorized VAT inspectors from local VAT offices from time to time to ensure among other things, the compliance with VAT legislation and regulation in all ramifications, that full amount of VAT deducted are promptly accounted for etc.

VAT tax drives are to take place periodically to stimulate the collection of VAT from defaulters and to enforce prompt remittance of VAT payable.

VAT audit and investigation involves checking both the VAT officers and VAT payer's record to ensure strict compliance with the law and accountability with the VAT collected.

2.12. ADVANTAGES/ECONOMIC BENEFIT AND OBJECTIVE OF VAT

(Okafor F. O. Paper presentation, 8 Dec. 1993) commented on general assessment of VAT, advised that in analyzing the implication of VAT or any form of tax for that matter, it is best to take the perspective of government.

In analysis of 1994 budget, Dr. Kalu Idika Kalu, the then Minister for Finance pointed out a number of advantages, which could accrue from VAT. First is that it would broaden the tax base and do so with an equal burden on import and domestically produced goods and services.

Further, it would diminish the distortion of private saving and investment by shifting the incidence of taxation expenditure rather than income. Moreover it would promote greater flexibility in public sector revenue to allow for maintenance of development expenditure in the tight of fluctuation in oil revenue.

In assessing the benefit of VAT (Okafor F.O. Paper presentation, 8 Dec. 1993) focused on two areas, that is the net revenue effects and the fiscal policy effects. On the revenue effect he admitted that the administrative cost of collection could be very high, but pointed out that VAT has in-built (self imposed) mechanism which substantially increase compliance and reduce tax evasion and avoidance. To get tax rebate, at each stage, the collection agent must not only report tax collection from sale but also tax paid on purchases. This encourages voluntary and prompt compliance.

Moreover, the multi-stage collection procedure, adopted under VAT, has the effect of minimizing tax losses arising from none reporting or non-remittance of deduction.

On fiscal policy implications, (Okafor Paper presentation, 8 Dec. 1993) pointed out that VAT is normally a very broad based tax in the sense that a wide range of item could be subjected to tax as is the case with Nigerian VAT. Because of this wide range of item covered, the tax rate could be kept low without jeopardizing the revenue expectation of government.

Again, because it is broad based and has uniform tax rate, VAT is less likely to cause distortion in the consumption and production pattern because there is less opportunity to switch to other product for tax advantages.

Another fiscal efficiency benefit of VAT is that it avoids the double tax element that could occur under other form of sales tax. For instance, under ordinary purchase tax, tax could be paid on input purchased and the final product sold.

Furthermore, under the fiscal policy benefit, VAT provides a strong incentive for capital investment. Full tax credits are received for all tax payments on purchase of capital goods.

Still on the benefits (Mba. 1993:31) quoted Professor Sam Aluko, a renowned economist, as saying that VAT is a way of getting money from the rich to develop Nigeria. He added that it will yield a large amount of money which can be used to provide social, services such as Ikuewumi further pointed out that VAT has also proved effective where tax basis in an economy are eroded exemptions, smuggling zero rating etc. It enables public finance planner arrest the problem of tax lag (the payment of tax long after it has been due).

(Osunwa J.T.O. Interview on VAT 28 March 1995) and (Yokat D. Interview 30 March 1995) a renown health economist and public policy analyst respectively agreed with Aluko that VAT has the benefit of generating revenue for government with which to provide social services for the people. Osunwa added that VAT can provide opportunity for manufacturer and producers to survey new avenues for survival since increase in price occasioned by VAT is likely to cause

"Registered person" to price themselves out of market. Thus, he concluded that VAT is a big challenge to the productive sector.

IN SUMMARY, VAT OBJECTIVES ARE AS FOLLOWS

1. To create an economic society free distortion to investment decision.

2. To create a fair and equitable society.

3. To encourage a fair allocation of savings amongst investment opportunities.

4. To create an incentive to hard work for risk taking in business incase of companies.

5. To attract foreign investment or at least avoid capital flight to countries with lower taxes.

6. To reduce evasion and avoidance, and the growth of underground economy and encourage voluntary compliance.

7. To reduce the complexity of the system both for the tax administrators and for the tax payers.

2.13 DISADVANTAGES OF VAT

According to Federal Inland Revenue Services (FIRS), "Training Lecture Note for inspectors of tax". The following disadvantages were highlighted.

i). its burden is distributed regressively where there is a single rate. The degree of regressiveness can be reduced by government policy exemption, multiple rates earning VAT revenue for certain social issues etc.

ii). One time increase in price-inflation.

iii). High administrative cost because of expanded base of tax, its administration.

iv). The burden of record keeping can be high on VAT agents in terms of material time spent.

v). There is the tendency for the tax official to rely on self-policing nature of the tax to do his work for him.

214. VAT IMPACT ON FINAL CONSUMER

The impact of VAT can be viewed on the part of final consumer, to ascertain whether VAT is fault free.

So much is argued in favour of VAT that one maybe tempted to think that it is faultless or it has no weakness. But the truth is that VAT or any tax for that matter has far reaching effect on health of the people. As an indirect tax on consumption, VAT has an indirect effect on the health of individual as well as the health of the family and community.

It may be just enough to state the legal principle of iosa Io quito, that is the matter speaks for itself or the matter is self evident in discussing the impact of VAT to health of final consumers. One understands until he goes to the market and discovers that prices of almost everything under the sun have risen. Yes, the tax has been passed on in the form the higher price, (Bannock et al 1972). The net effort is that his purchasing power has been impoverished further, He adjusts his need and those of his family, thus, eliminating the things he could no longer afford to consume. Some of the Item eliminated from the consumption list may be things which are essential for his health. In the long-run, he finds himself restricted to basic food items and other essentials such as drugs medical services etc which are exempted from VAT. But is he enjoying any immunity in these areas? The answer is no, he has been beaten hands down by the multiplier effects of VAT which has led to increase of prices of goods and services exempted. The result is that with the quality of the life below subsistence line the average Nigerian is barely trying to survive.

The picture painted above is capable of causing mental, psychological and emotional tensions, which in turn have deleterious physical and social consequences.

Again, if the body did not take essential food items needed for growth and maintenance, there would be stunted growth in children, a lowering of immunity and a greater chance of infection on those concerned, particularly the lower class.

Even the upper classes, which afford all it needs, to maintain health is not protected. The theory of dual economy has the view that poor class constitutes focal of infection from where infections are carried to the upper class (Osunwa J. T. O. Interview on VAT, 28 March 1995).

Commenting on VAT and health, (Osunwa J. T. O. Interview on VAT, 28 March 1995) agreed that VAT produce multiplier effect on the economy, thereby making nonsense of the goods and services exempted.

He remarked that pharmaceutical product and medical services are exempted from VAT but hospitals are not exempted from increasing their prices.

This he said will lead to increase in the cost of health care services, a reduction in their consumption and an increase in the patronage of quack health services provider.

Other experts have also commented on the deleterious effect of VAT.

Writing on social welfare effect of VAT, (Okafor F. O. Paper Presentation, 8 Dec, 1993) observed that one major problem with VAT is its propensity to be uniform and proportional rate. Consequently, VAT could produce a regressive effect. He added since rate payable for both luxurious and essential goods are basically the same the brunt of VAT could bear more heavily on the poor.

This point is brought about more clearly by (Ikuewimi l994:23) who highlighted the argument that VAT could contribute to inflation and in the process, worsen the quality of life of average Nigeria who is already driven to the walls by hyper-inflation. He further highlighted the argument that considering the present economic problems of average Nigeria, VAT would contribute to worsening the purchasing power of the people. Both inflation and a decrease in purchasing power take their tolls on the health of the people.

2.15 THE RELATIONSHIP AND EFFECT OF VAT TO GDP IN NIGERIAN ECONOMY 1994-2008

This study is an empirical investigation into the relationship between Value Added Tax (VAT) and Gross Domestic Product (GDP) in Nigeria. According to Basila (2010: 65), this research analysis is also significant for planning and policy formulation as regards revenue generation. A data based on VAT revenue figure and GDP figure from 1994 to 2008 obtained from Central Bank of Nigeria's statistical bulletin, 2008 was collected and analysed. GDP and VAT figures for the period of study were tested for correlation. The test revealed a strong Pearson's product moment correlation (PPMC) at about 96 percent strength. Further, a test of significance confirmed that VAT revenue is significantly different at 99 percent confidence level in relations to GDP. This implies that VAT is not an effective revenue earner, in the sense that significant parts of GDP which represent aggregate national income as well as aggregate national expenditure are not collected as tax.

It is important to look into how Value Added Tax (VAT) generates revenue for the Nigerian economy since after introduction (1994-2008) as Nigerian state is in dare need of revenue base diversification. Keen and Lockwood (2006) confirmed that VAT is a money machine particular in OECD member nations. Money machine suggests that VAT effectively generates revenue. Relationship that were considered in the study referred to included that were considered in the study referred to include VAT and GDP, so also was Lin (2004) on evaluating the VAT in China suggested a relationship between VAT and GDP exists. Economic expert (Fitch 2010) recently made an opinion on the state of Nigerian economy regarding sovereign credit rating of the country that suggests a downgrade on the economy from stable to negative one. To meet the persistent short fall in federation account, the report said, government had turned to the international market for borrowing. More than five billion US dollars of foreign debt were taken in the year 2010 doubling the current debt level; this, as reported, is apart from a US$500million international bond that was launched before the end of the year 2010. Atojoko (2010) confirmed that, within 18months, the country's debt portfolio has risen from US$18.45 billion at the beginning of 2009 to US$29.6 billion by June 2010; this is not a healthy economic situation.

The Central Bank of Nigeria (2008) states that Nigeria's GDP by expenditure is based on expenditure at purchase price including free on board values of exports of goods and services less the free on board value of import of goods and services. According to Anyanwuocha (2004), GDP refers to total value of all goods and services produced in a country within a period of one year, by all the residents of the country irrespective of their nationality. The Central Bank of Nigeria (2008), on its parts states that GDP as a concept is calculated without the deduction of the value of depreciation, and define GDP as the monetary value of goods and services produced in the country in a period of time regardless of nationality of the producers. VAT revenue is generated for distribution to the states and local government in Nigeria, unlike the oil revenue whose market government has no control over. This helps to reduce overdependence on oil revenue; this assures a sustainable economic growth and development.

GDP measured in expenditure could reveal a strong and significantly positive relationship with VAT, which is a tax on consumption expenditure. Mathematically, GDP expenditure method is expressed as the sum of private consumption expenditure (C) + gross domestic private investment (I) + net foreign investment (X-M) + government expenditure on goods and services (G). Thus, aggregate national expenditure (NE) = C+I + (X-M) + G. Frank and Bernanke(2006) further concurred that expenditure method on measuring GDP assumes that goods and services produced in an economy are all purchased by economic agents, who are householders, firms, government and foreign sector. Total spending by these economic agents, equals the market value of goods and services produced in the economy for

the given period. Some of these goods and services are VAT registered, which inform this study. The question is how much of the expenditures becomes VAT revenue? VAT is a form of taxation that can be described a polite, in that it is paid unnoticed by the consumer. That simply means, without expenditure by all forms of consumers, whether they are government establishments, institutions or individuals there would not be any VAT Revenue. A result from the table1 below reveals a positive strong correlation (96percent) between nation expenditure (measure in GDP) and VAT, which is tax on consumption.

TABLE 1. GDP AND VAT FIGURES (N'BILLIONS)

YEARS	GDP	VAT
1994	275.45	8.19
1995	281.41	20.76
1996	293.75	31.00
1997	302.02	34.00
1998	310.89	36.90
1999	312.18	47.10
2000	329.17	58.50
2001	356.99	91.80
2002	433.20	108.60
2003	477.53	136.40
2004	527.57	159.50
2005	561.93	178.10
2006	595.82	221.60
2007	634.25	289.60
2008	674.88	404.50

Source: GDP Values & VAT Figure were Determined from CBN Statistical Bulletin, 2008.

The conclusion therefore is that there is a strong positive correlation between VAT revenue and GDP. VAT is set as dependent variable while GDP is set as independent. However, Nigerian is one of the countries that have smallest (5 percent) VAT rate charged in various economics around the world. Nigerians case might have been complicated by poor economy. GDP gives information about income distribution in a country, salaries and wages, rent, interest on investments and profits of various groups in the economy which can have direct bearing on VAT revenue and planning.

2.16 TAXABLE GOODS AND SERVICES

The taxable goods and services, and the rate of tax are listed in schedules one and two of the Decree respectively.

SCHEDULE I

TAXABLE GOODS AND RATE OF TAX

COLUMN A **COLUMN B**

TAXABLE GOODS		RATES %
1.	All goods manufactured or assembled in Nigeria	5
2.	All goods imported into Nigeria	5
3.	All second hand goods	5
4.	House-hold furniture and equipment	5
5.	Petrol and petroleum product (including oil, greases and gas)	5
6.	Jewels and Jewelries	5
7.	Textiles, clothing, carpets and rugs	5
8.	Beer, wine liquor, spirit soft drink and bottled water including mineral water	5
9.	Cigarettes and tobacco	5
10.	All vehicles and their spare parts	5
11.	All aircraft, aircraft bodies and their spare parts	5
12.	Perfumes and cosmetic (including toiletries)	5

13.	Soap and detergents	
14.	Mining minerals	5
15.	Office furniture and equipment (including toiletries)	5
16.	Electric material of any description	5
17.	Such other goods that may be determined by the board from time to time as taxable goods	5

SCHEDULE 2

TAXABLE SERVICES AND THE RATE OF TAX

COLUMN A **COLUNM B**

TAXABLE SERVICE	RATE %

1. All services rendered by financial institutions to their customers (excluding people's bank, community banks and mortgage institutions). 5

2. Accountancy services, including any type of Auditing, book-keeping or related services. 5

3. The provision of report, advice, information or similar technical services in the following areas:

a. Management, financial, taxation and related Consultants services 5

b. Recruitment, staffing and training 5

c. Market research 5

d. Public relations 5

e. Advertising 5

4. Legal services, including services supplied in connection to that. 5

5. Computer services, including the provision of Bureau facilities, system analysis, design software, site development and training. 5

6. Services supplied by Architects (including landscape Architects) and draftsman. 5

7. Services supplied by land and building surveyors, quantity surveyors, insurance companies and assessors, and insurance, loss adjusters or similar services. 5

8. Services supplied by consulting engineers.

9. Services supplied by auctioneers, estate agents and valuers. 5

10. Services supplied by agents including insurance agent and any person who acts for or represents someone else in carrying or conducting a transaction or other activities. 5

11. Services supplied by brokers. 5

12. Services supplied by secretarial agencies including typing, photography, and telex, facsimile and type setting facilities and related services. 5

13. Services supplied by secretary's companies and enterprises. 5

14. Courier services.

15. Repairs, alternation processing or any other services provided in connection with designated goods by designated dealers. 5

16. Services supplied in the course of altering processing, assembling, packing, bottling or manufacturing of goods owned by another person

17. Telecommunication services, including rental of telecommunication equipment, installation, maintenance services. 5

18. Letting of video tapes or any other audio visual records or hiring, copying and rewriting of video tapes and similar services. 5

19. Entertainment services including tiding plays and performances, cinemas, show and music concert, excluding plays performance as part of learning. 5

20. Accommodation and all other services provided by hotel owners or operators including bars, telecommunications entertainment, laundry, dry cleaning, storage, safe deposits, conferences and business services. 5

21. Restaurants services supplies by restaurant owner or operator. 5

22. All goods and services for repairs and maintenance including accessories of vehicle plant and machineries and equipment, air-crafts and related services. 5

23. Air travels and company car hires. 5

24. Any other services as may be prescribed by the board from time to time as taxable services 5

2.17 GOOD AND SERVICES EXEMPT

The goods and services exempted from VAT are listed in schedule three (3) of the Decree.

GOOD AND SERVICES EXEMPT

PART ONE: GOOD EXEMPT

1. All medical and pharmaceutical products.

2. Basic food items.

3. Books and educational materials.

4. Commercial vehicle and their spare parts.

5. Baby products.

6. Newspaper and magazines.

7. Fertilizer, Agricultural veterinary medicine farming machinery and farming transportation equipment.

PART TWO:- SERVICE EXEMPT

1. Medical services.

2 Services rendered by community banks, peoples bank and mortgage institutions.

3. Play and performance conducted by educational institutions as part of learning.

2.18 OFFENCES AND PENALTIES

There are various offences with stiff penalties wider the Nigerian VAT system, some of these offences are:

i). Failure to register.

ii). Failure to furnish required information.

iii). Making false claim.

iv). Obstructing VAT inspectors and

v) Failure to submit returns.

These offences carry penalties ranging from fine up to ₦10,000 to various terms of imprisonment. In some cases the fine or penalties depend on the amount of evasion involved.

The law is very strict in dealing with officers of the board. For instance section 31(1) state:-

An officer of the board or any person who aids or abets the commission of any offence under the decree is guilty of an offence and is liable of conviction to a fine of ₦50,000 or imprisonment for a term of' 5 years.

In summary, therefore, there are (11) eleven key Facts, which will help one to understand the implementation of VAT in Nigeria. These are:

I. VAT is introduced in Nigeria by virtue of Decree No 102 of 1993.

2. VAT is tax on spending, the tax is borne by the final consumer of goods and services because it is included in the price paid.

3. The tax has a flat rate of 5%.

4. The tax is collected on behalf of government by business and organization, which register with the Federal Inland Revenue Services (FIRS) VAT directorate for VAT purposes.

5. A business or organization which has registered for VAT is classified as a "registered person". Such person will pay 5% VAT on goods and services purchased but can claim for this tax (called input tax) when sold.

6. 5% VAT (called input tax) is included in the price of all goods and services supplied by registered person.

7. The registered person has to make regular return and either pays to or receives from (FIRS) VAT Directorate, the difference of the input and output tax.

8. VAT return (payment) is normally made monthly to the local VAT offices; on or before 14th day of the next month following that in which the supply is made.

9. To claim a credit for input tax, a registered person must hold a "tax invoice"

10. Records and account has to be kept.

11. FIRS (VAT Directorate) provide free information and services to help contact your local VAT offices (see appendix II).

PROBLEM OF VAT IN NIGERIA

A lot has been said in favour of VAT that one thinks that it is fault free or it has no disadvantages. But albeit, anything that has advantages has its disadvantages. This disadvantage or problem of VAT cannot be discussed in isolation with reference to social welfare effect of VAT (Okafor Paper Presentation 8 Dee, 1993) observed, one major problem with VAT is its propensity to be uniform and proportional rate. Consequently, VAT could produce a regressive effect. He added that since the rate payable for both Luxuries and essentials are basically the same, the brunt of VAT could bear more heavily on the poor.

This point is brought out more clearly by (Ikuewumi 1994:16) who highlighted the argument that VAT could contribute to inflation and in the process worsen the quality of life of the average Nigerians who is already driven to the wall by hyper-inflation the further highlighted the argument that considering the present economic problems of the average Nigerians, VAT could contribute to worsening the purchasing power of the people.

Both inflation and a decrease in purchasing power take their tolls on the health of the people.

Afraid that VAT would lead to increase in prices, inflation and reduction in purchasing power of the people, (Yokat J.T.O. interview 30 March, 1995) held the view that VAT is not the best tax system for a fragile economy as Nigeria's economy. Not even in a stable economy such as America's economy could VAT enjoy complete support.

(Samuelson 10th Edition 1976) reported that the republican administration, Under Nixon supported the VAT but the democratic opposition rejected it as simply a disguised form of sales tax on consumption, collected in installment rather than simply at final stage.

Producers had contended that since VAT imposes extra cost on production, it would lead to higher price and reduction to potential consumer. This is a potential loss of revenue and can put a squeeze on profit margin a development which can force employers to cut down on production cost. A cut in production cost will indirectly lead to a tendency towards a cut in the staff strength, thereby compounding the unemployment problem of the nation.

In Nigeria, VAT has only increased the number of taxes payable by individual and corporate bodies. Apart from VAT, normal pay as you earn (PAYE) and deductions at sources, (Ezeanyaga 1992) noted that there is levies, duties, fees that affects earning seriously while there is not always a commensurate increase in salary for the rising price of goods. He added that tax situation sometimes seems to depict citizenry whose back is overburdened with various types of taxes.

Corroborating Ezeanyagu's claim, (Akhigbe 1994:9) quoted a memorandum of the manufacturers association of Nigeria (MAN) which listed seven different taxes payable to federal government alone by industries, including VAT. The state and local government were said to even charge more, for instance Lagos state government charge about nine different taxes and levies, Enugu State 34, Abia - 17, Onitsha and Ogbaru local government in Anambra state charge 16 and 9 different levies respectively while Imo state charge about 50 different levies, Obio/Akpo local government in Rivers state has 41 different levies and taxes. These levies continue to aggravate the high cost of production and ignite inflation.

One other area of serious concern is the centralization of collecting machinery. Until now, sales tax was collected and kept by state (Alabi 1994:14). Some states with predominance of companies such as Lagos has shown rare success over other state with few companies. But now they can only get their percentage allocation according to VAT Decree while other state that have shown dismal failure in collection of sales tax can smile.

States and local governments, which have concentration of companies bear the fall out of industrial, chemical and other waste and social responsibilities which some other states with no industrial concentration not have to bear. This is tantamount to sharing with no responsibility some and sharing over responsibility by others. The net effect is that some state and local government do not have enough revenue to provide for social services.

Aluko quoted (Mba 1994: 31-32) and Osunwa 1995) also expressed fear over the centralization of collecting instrument and revenue allocation.

This fear has already manifested in the federal governments inability to resist the temptation of tampering with the VAT revenue yield as shown in the frequent review of the distribution formula in favour of the federal government. This violates part of the rationale behind replacing sales tax with VAT. The high yield from VAT is expected to boost the future of the state governments. But alas, most state and local governments are now groaning under cash squeeze. Some state and local government no longer pay wages and salaries regularly, let alone implement improved condition of service for their staff.

The fundamental issues raised in this chapter include increase in price, worsening inflation, reduction in purchasing power of the people, multiplier effect of taxable goods and services on exempted goods and services etc.

These claims are confirmed by report on the monthly retail prices of selected commodities in Enugu State by the department of research and statistics, office of the budget and planning government House Enugu.

The commodities covered in this market survey includes local foodstuff, processed foods, drugs, transport fares and prices of some motor spare parts, house-hold goods, clothing, textiles, foot wear and building materials.

The report showed a marked increase in price in 1994 when VAT was introduced in Nigeria, when compared with prices in 1993 the pre VAT year. The increases in prices of these commodities is progressive, a characteristic of VAT. The quarterly Enugu retail price index for 4^{th} quarter 1993 and 1^{st}, 2^{nd}, and 3^{rd} quarter 1994 are shown in appendix 1.

All these went to explain that VAT is not fault free or without disadvantage.

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CHAPTER THREE

3.0 RESEARCH METHODOLOGY

Research work has become so important in our fast changing world that people in all works of life can no longer do without it. The concept research borders on principle of digging out certain facts about variables through careful investigation process.

A research problem has two outstanding parts, the question posed and its answer. This focal point needs to be bridged by the researcher through the adoption of good research method. According to Hawkun, "research strategy covers the selection of suitable method of data collection and method of data analysis". Abarray said that "the methodology of a research form the basic conceptual frame work on which the research is based"2.

This part of the study therefore deals with detailed plan by which activities of the research project is to be carried and shall be discussed as follows:

3.1. METHOD OF DATA COLLECTION

Data are not truth in themselves but an evidence of a given situation. Data collected forms an integral part of the project itself. Harper said that "for any research project to be carried out, data (information) must be collected"4. This aspect of the study deals with the procedure of gathering information, which is of relevance for the work. One of the procedures is primary method of data collection.

3.1.1. PRIMARY METHOD OF DATA COLLECTION

This refers to a situation where "raw" fact is gathered specifically for the purpose of the research undertaken, and which has not been used for any other study before. For this work some of the techniques to be used by the researcher for gathering data from the source include questionnaire and interviews.

3.1.2 SECONDARY METHOD OF DATA COLLECTION

One of the first data every researcher is interested in and should look out for is the secondary data. Secondary data are data which has been gathered by different researchers for their own specific use but which are relevant to the researcher in carrying out his research work. They consist of works of others in the past as contained in the textbooks, company's report journals, information from offices and so on. These secondary data may be gathered from both internal and external sources. Internal secondary data as the name implies are data gathered internally from records of company where research is being conducted. These data may he collected as a history of the company, organization activity and are treated as actual reports and compared with expected records. External data on the other hand implies already existing data, which were collected from places other than the area being investigated Most of the information of this kind were gathered from related textbooks journals of professional bodies and publish texts.

3.1.3. THE QUESTIONNAIRE METHOD OF DATA COLLECTION

Goode and Hatt defined questionnaire as "a device for securing answers to questions by using a form which the respondent fill himself"[4] Though the use of questionnaire, specific data about some identified problems are obtained and subjected to critical analysis and interpreted with views to gaining better understanding of the problem.

3.1.4. INTERVIEW METHOD OF DATA COLLECTION

This is one of the most popular methods of data collection among researchers and invariably the most widely used. The interview method is normally used when a researcher wanted to be re-assured of some fact with the aim of conforming or rejecting an already formulated hypothesis.

During interview, face to face contact is used or through telephone calls. In this project work, face to face contact is applied and it was the local VAT officer at Enugu that was interviewed.

3.1.5. RESEARCH DESIGN

These are plans that specify how data are to be collected, analyzed and interpreted. In the word of Kerliger, "research design are invented to enable the researcher answer questions as validly, objectively, accurately and economically conceived and executed to bring empirical evidence to bear on the research problem"[5].

The responses to the questionnaire are presented in a tabular form showing choice of options and the percentage each bear to the total population sampled the option with the highest percentage as invariably taken as the answer to the question posed.

The data collected will thereafter be analyzed through the use of statistical formula. The chi-square will be used to test the hypothesis formulated

The formula is $X^2 = \dfrac{(Oi-ei)^2}{Ei}$

3.1.6. AREA OF THE STUDY

In carrying out the study, a total of forty (40) choice questionnaires were distributed to the members of the staff of Enugu local VAT office and members of the staff of the state ministry of finance and the state board of internal revenue. The respondents in the Enugu local VAT office consisted of both senior and junior level while that of the state ministry of finance and the board of internal revenue consisted of senior staff. In the later, the questionnaire is limited to senior level of staff to ensure that, only those aware of VAT make their contribution. A total of twenty (20) multiple choice or close ended questions were contained in the questionnaire. A close ended question is one requiring the respondent to answer yes or no, while open ended though not used in this work is a question that gives the respondent the choice to make his or her own comment. A specimen of the questionnaire will be found in appendix iii. The researcher chooses this style of questionnaire to provide for easy tabulation and analysis of information supplied.

3.1.7. POPULATION OF THE STUDY

For the purpose of this research, the population size is sixty-six (66) being the members of staff of the local VAT office, the state ministry of finance and the state board of internal revenue Enugu.

Forty (40) questionnaires covering the sample size were distributed and twenty (20) responses were received while twenty (20) did not respond. The result got was used as a basis for decision as could be seen in chapter five.

3.1.8. DETERMINATION OF SAMPLE SIZE

In determination of the sample size, we employed the use of statistical Yaro Yamani statistical formula

$$X = \frac{N}{N(e\%)^2}$$

Where X = Sample size

N = Population

5% = Error region

Given N = 66 = Population

e =5% = Error region

Substituting the formula $\frac{N}{N\,(e\,\%)/2} = \frac{66}{66(5\%)/2}$

$$= \frac{66}{66(0.025)} = \frac{66}{1.65} = 40$$

$$X = 40 = \text{Sample size}$$

3.1.9. VALIDITY OF THE INSTRUMENT

The instrument of this research is validated through the use of interview and questionnaire approach during investigation. The questions asked during interview were compared with individual question in the questionnaire in the mailed survey to establish construct validity; the interview approach is employed in this research work in order to re-assure some of the fact with the aim of conforming or rejecting the already formulated hypothesis. The researcher also employed the use of questionnaire technique to ensure that specific data about some identified problem are obtained and subject to critical analysis and interpretation with the view to gaining better understanding of the problem.

3.1.10. METHOD OF DATA ANALYSIS

In analyzing the data collected, the researcher made use of statistical method - the chi-square. The chi-square is used to test the hypothesis formulated. The objective of the statistical analysis is to further the overall goal of understanding social phenomena achieved through the process of description, explanation and prediction of data collected.

The formula of the chi-square is $X^2 \quad \frac{(oi-ei)^2}{ei}$

Where X^2 = Chi-square

Oi = Observed frequency

ei = Expected frequency

The completed chi-square is compared with the agreed level of significance of 0.05.

3.1.11. COMPUTATION OF EXPECTED FREQUENCY

Computation of expected frequency is symbolically

$$Ei = \frac{CM \times RM}{N}$$

Where Ei = any given expected cell frequency

CM = the column margin of the same cell

RM = the row margin of the same cell

N = the total number in the column.

3.1.12. DETERMINATION OF THE RESPONDENT PROPORTION

In determination of the proportion of the respondent, we use Kumar formular Na = n/N

Given N = Population = 66

n = Sample size = 40

Then n/N 40/66 = 0.6060606 = 0.61

Substituting in formula 0.61 x 40 = 24.4

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CHAPTER FOUR

DATA PIUSENTATION AND ANALYSIS OF DATA

4.0. INTRODUCTION

For research work to serve its purpose, data collected has to be presented and analyzed to aid the process of decision making.

Analysis of data is a means by which research questions are answered, with the result tabulated, and the stated hypothesis tested thereafter with the use of chi-square (x^2). According to Osuala, analysis of data is, "the ordering and breaking down into constituent parts of the data collected". This he said involves statistical calculation performed with raw data to provide answers to questions initiating the research.

In this chapter, the data, which were collected through the questionnaire, shall be analyzed and conclusion shall be drawn based on their suit after interpretation. In a population of sixty six (66) comprising members of staff of federal Inland Revenue service Enugu Local VAT office and those from state ministry of finance and Board of Internal Revenue also of Enugu, forty (40) staff was chosen as sample size. Out of this forty (40) staff chosen as sample size, the same forty (40) questionnaires were administered. Some of the responses of the questionnaire administered were collected while some were not collected. The reason being that some of the respondents were not on seat at the time of collection or due to time constraint on the part of the researcher resulting from his preparation of the MBA examination.

4.1. DATA PRESENTATION

QUESTIONNAIRE ADMINISTRATION

Out of the forty (40) questionnaires administered forty (40) were received and their results shown on the table below.

QUESTION 1: Are all vatable persons aware of their responsibilities and VAT Decree?

TABLE 4.1. Determination of degree of awareness of vatable persons:

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	24	60
No	4	10
Not Sure	12	30
Total	***40***	***100***

From the table 4.1 - 60% said that vatable person are aware of their responsibilities while 30% were not sure and 10% disagreed.

QUESTION 2: Has Revenue Board any avenue for educating the vatable person's on the rights and obligations under VAT Decree?

TABLE 4.2. Educating Vatable Person on their Right and Responsibilities

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	36	90
No	-	-
Not Sure	4	10
Total	***40***	***100***

Table 4.2. Indicate that 90% of the staff said avenue for educating vatable persons exist, 10% are not quite sure while none disagreed with existence of the avenue.

QUESTION 3: Do all vatable persons render their return promptly?

TABLE 4.3. Ascertainment of Rendition of Return.

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	24	60
No	16	40
Not Sure	-	-
Total	***40***	***100***

TABLE 4:3 shows that 60% agree that prompt return were rendered by vatable persons while 40% said no to that.

QUESTION 4. Are revenue officers allowed to receive VAT payment directly from vatable person?

TABLE 4.4. Direct Payment of VAT to Revenue Officers

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	40	100
No	-	-
Not Sure	-	-
Total	***40***	***100***

From table 4.4 100% accepted that direct payment of VAT revenue is being made to revenue officers.

QUESTION 5: Are there some viable area where VAT exercise have not been extended to?

TABLE4.5.Viable areas where VAT have not extended to.

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	40	100
No	-	-
Not Sure	-	-
Total	***40***	***100***

TABLE 4.5 shows that 100% agree that there are areas where VAT has not covered.

QUESTION 6: Has value added tax in your own opinion has any effect in Nigerian economy?

TABLE 4.6: Effect of VAT in Nigerian Economy

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	36	90
No	-	-
Not Sure	4	10
Total	***40***	***100***

TABLE 4.6 Shows that 90% agree that VAT has had effect in Nigeria economy while 10% was not sure.

QUESTION 7: Has the effect of VAT recorded any boost in tax revenue of the country?

TABLE 4:7 Revenue Boost by VAT Effect

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	24	60
No	16	40
Not Sure	-	-
Total	***40***	***100***

TABLE 4.7 indicates that 60% favours revenue boost of VAT effect while 40% said no.

QUESTION 8: Do you think that government is achieving the aims for which VAT machinery was put in place?

TABLE 4.8 Government achievement from VAT

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	32	80
No	16	20
Not Sure	-	-
Total	***40***	***100***

From the table, 80% were of the view that government is really achieving the aim of VAT whereas, 20% said, government is not.

QUESTION 9: Do revenue officers go out frequently to sell the commodity VAT to prospective vatable person?

TABLE 4 9 Fieldwork by Revenue Officers

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	40	100
No	-	-
Not Sure	-	-
Total	***40***	***100***

From table 4.9, it shows that 100% agreed that revenue officers always sell the VAT product to the public.

QUESTION 10: Has VAT made any impact on the final consumers?

TABLE 4.10 Impact of VAT on the final consumers.

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	**32**	80
No	**4**	10
Not Sure	**4**	10
Total	***40***	***100***

From table 4.10, 80% accepted that VAT has impacted on the final consumers and 10% said no, whereas 10% were not sure.

QUESTION 11: Is the incident of VAT borne by the final consumers?

TABLE 4.11 Burden of VAT on the final consumers.

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	24	60
No	-	-
Not Sure	16	40
Total	***40***	***100***

From table 4.11 shows that 60% agreed that the incidence of VAT is borne by the final consumers whereas 40% were not sure.

QUESTION 12: Are there any loopholes in VAT Decree which vatable person's takes advantage of?

TABLE 4.12 Loopholes in VAT Decree

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	24	60
No	8	20
Not Sure	8	20
Total	***40***	***100***

Table 4.12 shows that 60% agreed that there are loopholes in the VAT Decree, while 20% said no and 20% were not sure.

QUESTION 13: Do you think that VAT collections are properly accounted for by VAT officer?

Table 4.13 Accountability of VAT Revenue by Revenue Officers

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	32	80
No	-	-
Not Sure	8	20
Total	***40***	***100***

Table 4.13 shows that 80% accepted that collection are properly accounted for while 20% are not sure.

QUESTION 14: Do you consider value added tax a better option to other taxes.

Table 4:14 VAT a Better Option to Other Tax

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	40	100
No	-	-
Not Sure	-	-
Total	***40***	***100***

From the table 100% indicate that VAT is a better option to other taxes.

QUESTION 15: Has the option contributed significantly in overhauling the tax system.

Table 4.15 Overhauling the Tax System

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	24	60
No	-	-
Not Sure	16	40
Total	***40***	***100***

From the table, 60% agreed that VAT option has overhauled the tax system while 40% were not sure.

QUESTION 16: Has VAT been able to meet its target revenue since commencement?

Table 4.16 VAT Revenue Target

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	32	80
No	-	-
Not Sure	8	20
Total	***40***	***100***

Table 4.16 shows that 80% are in favour of meeting revenue target, 20% were not sure.

QUESTION 17: Is value added tax easy to administer?

Table 4:17 Administration of VAT

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	32	80
No	-	-
Not Sure	8	20
Total	***40***	***100***

From the table 80% agree that VAT is easy to administer and 20% are not sure.

QUESTION 18: Is VAT administration cost saving?

Table 4:18 Cost Saving in VAT administration

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	24	60
No	12	30
Not Sure	4	10
Total	***40***	***100***

Table 4:18 shows that 60% agree with cost saving in VAT: administration, 30% said no while 10% were not sure.

QUESTION 19: Do you think there is a positive correlation between VAT and GDP in Nigerian Economy.

Table 4:19 Correlation between VAT and GDP

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	32	80
No	-	-
Not Sure	8	20
Total	***40***	***100***

Table 4:19 show that 80% agreed that there is a positive correlation between VAT and GDP, whereas 20% were not sure.

QUESTION 20: In view of the revenue generation performance of 1994, do you think that the figure made any significant impact in the total national income?

Table 4:20 Impact of 1994 Revenue Generation on National Income.

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	24	60
No	12	30
Not Sure	4	10
Total	***40***	***100***

From the table 4:20, 60% agreed that VAT would produce multiplying effect in the economy 30% said no and 10% were not sure.

4.2 TEST OF HYPOTHESIS

The aim at this juncture of the research work is to test the stated hypothesis in chapter one by employing the use of chi-square (X^2) test, with the view of interpreting the result obtained. To this end, the hypothesis of this study will be tested in line with the following procedures.

i). Re-statement of the hypothesis

ii). Comparing observed frequencies with the expected frequencies.

iii). Computation of chi-square statistics from the statistical table at some agreed level of significance (the level of significance used in this case is 0.05).

The chi-square (X^2)

The chi-square test is one of the techniques used in analyzing association of data, which are not ordered but are categorical. It enables one to determine whether the results obtained from a sample are likely ones on the basis of some theory or law. The sample results are referred to as observed frequencies (oi) while the results suggested by the theory are called expected frequencies (ei).

The formula is given thus - $X^2 \frac{(Oi - ei)^2}{ei}$

X^2 = Chi-square

oi = Observed frequency

ei = Expected frequency

D/F = Degree of freedom = (C- I)(R-1)

Where C = Number of column (in the response contingency table)

R = Number of row in the contingency table

Given C = 2, R = 3

Therefore D/F = (C-1) (R-l)

= (2-l) (3-1)

= 1 x 2 = 2

Looking this up in statistical table under 0.05 gives the value 5.99147 = 5.99.

DECISION RULE

Accept the Null Hypothesis (Ho) if computed value is greater than the table value. Otherwise reject the Null hypothesis.

HYPOTHESIS I

H_O: Value added tax has had effect in Nigerian economy.

H_i: Value added tax has had no effect in Nigerian economy.

Has value added tax in your opinion any effect in Nigerian economy?

If the answer is yes, has its effect recorded any boost in tax revenue of the country?

Computation of expected frequencies:

YES	NO	NOT SURE	TOTAL
36		4	40
(30)	(8)	(2)	
24	16	-	40
(30)	(8)	(2)	
60	16	4	80

$$Ei = \frac{CM \times RM}{N} = \frac{40 \times 60,}{80} \quad \frac{40 \times 16,}{80} \quad \frac{40 \times 4}{80}$$

$$X^2 = \frac{(oi - ei)^2}{ei} = \frac{(36\text{-}30)^2}{30} + \frac{(24\ \text{-}30)^2}{30} \quad \frac{(16 - 8)^2}{8} + \frac{(4 - 2)^2}{2}$$

$$1.2 + \quad 1.2 \quad + \quad 8 \quad + \quad 2 = 12.4$$

DECISION: - From the computation using chi-square, the completed value 12.4 is greater than the table value of 5.99. We therefore accept the null hypothesis, which says that value added tax has had effect in Nigeria economy.

HYPOTHESIS 2

H_O: Value added tax has made impact on the final consumers.

H_i: Value added tax has made no impact on the final consumers. To test this hypothesis, we shall apply the response to question 10 and 11.

	YES	NO	NOT SURE	TOTAL
Has value added tax made any impact on the final consumer?	32	4	4	40
	(28)	(4)	(8)	
Is the incidence of VAT borne by the final consumers?	24	-	16	40
	(28)	(4)	(8)	
	56	8	16	80

Computation of expected frequencies:-

$$Ei = \frac{CM \times RM}{N} = \frac{40 \times 56,}{80} + \frac{40 \times 8,}{80} + \frac{40 \times 16}{80}$$

28 4 8

$$X^2 = \frac{(oi - ei)^2}{ei} = \frac{(32-28)^2}{28} + \frac{(24-28)^2}{28} \quad \frac{(4-8)^2}{8} + \frac{(16-8)^2}{8}$$

$$=0.57 + 0.57 + 2+8 = 11.14.$$

DECISION:- From the computation it is observed that the computed figure of 11.14 is greater than the table value of 5.99. Therefore we accept the Null hypothesis that value added tax has impact on the final consumers.

HYPOTHESIS 3

H_O: Value added tax is a better option to other tax.

H_i: Value added tax is not a better option to other tax in testing this hypothesis, we shall employ the responses to question 14 and 15.

Do you consider value added tax a Better option to other tax?

Has the option contributed

YES	NO	NOT SURE	TOTAL
40		-	40
(32)		(8)	
24	-	16	40
(32)	-	(8)	

significantly in overhauling the tax
system?

Computation of Expected Frequencies:-

$$Ei = \frac{CM \times RM}{N} = \frac{40 \times 64,}{80} \quad \frac{40 \times 16,}{80}$$

$$X^2 = \frac{(oi - ei)^2}{ei} = \frac{(40-32)^2}{32} + \frac{(24-32)^2}{32} + \frac{(16-8)^2}{8}$$

$$2 + 2 + 8 = 12.0$$

DECISION:- From computation using chi-square, the complete figure 12.0 is greater than the table value of 5.99. We accept the null hypothesis that value added tax is a better option to other taxes.

HYPOTHESIS 4

H_O: Value added tax is easy to administer

H_i: Value added tax is not easy to administer. We shall employ the responses to question 17 and 18.

Question	YES	NO	NOT SURE	TOTAL
Is value added tax easy to administer?	32	-	8	40
	(28)	(6)	(6)	
If yes, Do you think the easiness in its Administration will give rise to cost saving?	24	12	4	40
	(28)	(6)	(6)	
	56	12	12	80

Computation of Expected Frequencies:-

$$Ei = \frac{CM \times RM}{N} = \frac{40 \times 56,}{80} \quad \frac{40 \times 12,}{80} \quad \frac{40 \times 12}{80}$$

$$= 28 \qquad 6 \qquad 6$$

$$X^2 = \frac{(oi - ei)^2}{ei} = \frac{(32-28)^2}{28} + \frac{(24-28)^2}{28} + \frac{(12-6)^2}{6} + \frac{(8-6)^2}{6} + \frac{(4-6)^2}{6}$$

= 0.57 +0.57 + 6 + 0.667 + 0.667

= 8.473.

DECISION:- From the computation x^2 it is obvious that the figure computed above, that is 8.473, is greater than the table figure of 5.99 therefore, we accept the null hypothesis which states that value added tax is easy to administer.

HYPOTHESIS 5:

H_O: VAT has significant correlation with GDP in Nigeria economy.

H_i: VAT has no significant correlation with GDP in Nigeria economy.

To test this hypothesis, we shall employee the response to question 19 and 20.

Do you think that VAT has significant correlation with GDP in Nigerian Economy?

If the answer is yes, in view of 1994 revenue Figure, do you think a significant impact has been made in the total national income?

YES	NO	NOT SURE	TOTAL
32	-	8	40
(28)	(6)	(6)	
24	12	4	40
(28)	(6)	(6)	
56	12	12	80

Computation of Expected Frequencies:-

$$Ei = \frac{CM \times RM}{N} = \frac{40 \times 56,}{80} \quad \frac{40 \times 12,}{80} \quad \frac{40 \times 12}{80}$$

$$= 28 \qquad 6 \qquad 6$$

$$X^2 = \frac{(oi - ei)^2}{ei} = \frac{(32-28)^2}{28} + \frac{(24-28)^2}{28} + \frac{(12-6)^2}{6} + \frac{(8-6)^2}{6} + \frac{(4-6)^2}{6}$$

$$0.57 + 0.57 + 6 + 0.667 + 0.667 = 8.473$$

DECISION:- From the computation using chi-square the completed value 8.473 is greater than the table hypothesis, which says that VAT has significant correlation with GDP in Nigeria economy.

CHAPTER FIVE

SUMARY OF FINDINGS, RECOM1ENDATION AND CONCLUSION

5.1 SUMMARY

This paper has attempted to analyze value added tax (VAT) and its impact on the economy. Efforts were made to explain VAT, the nature of VAT and its historical background. The paper also gave some detailed accounts of the Nigerian VAT, bring out the law establishing it, its administration and policy, goods and services taxable and those exempted. The economic benefits of VAT were highlighted as well as its adverse effect on the final consumers. Efforts were not spared in ascertaining the decree of awareness of vatable public to their rights and obligations. And from the data collected and analyzed the following findings were made:-

i). VAT has been exceeding its targeted revenue generation since commencement.

ii). VAT has greater impact on the final consumers.

iii). VAT is a better option to other forms of tax.

iv) Tax-payer renders returns promptly to tax authority.

v). VAT is easier to administer than other systems of tax.

vi). Vatable persons are aware of their rights and obligations.

vii). VAT revenue is not tied to specific capital project.

vii). State government expenses have been cleared to an extent with VAT revenue.

ix). There are loopholes in the VAT Decree under registration of taxable person.

x). There is a positive significant correlation between VAT and GDP.

Based on the above findings suggestions were made and conclusion drawn.

5.2 RECOMMENDATION

In view of the analysis made the following recommendations are suggested.

1. Government should critically examine the effect of VAT on the inflation, employment, allocation of resources, administrative efficiency and government revenue.

2. Government should find a way to alleviate the brunt of VAT on the poor by the process of more exemptions and zero rating for items that feature more prominently in the expenditures of the low income earners.

3. Government should adopt one-stage system of tax as is the case with other African countries that practice VAT system of tax.

4. More diligent staff should be employed. This will enhance wider field and ensure that every taxable person is reached.

VAT will continue to perform in light of efficient and effective staff, adequate facility and training courses for the VAT officers, hence the recommendation already made.

Implementation on VAT by the three tier of government is very necessary so as to get more out of the pocket of the tax-payers.

It is on this basis that the recommendations are made and if accepted will help alleviate the problem being encountered by both the tax payers and the tax authority. This will make VAT triumph over other sources of revenue generation in the economy.

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APPENDIX 1

ENUGU RETAIL **PRICE INDEX COMMODITY/GROUP**

	1993 4th Quarter	**1st Quarter**	**2nd Quarter Quarter**	3rd **Quarter**
Local food stuffs	4078.2	4936.9	5407.2	59623
Process food drink	*6569.3*	*7757.5*	82311	8738.0
And tobacco	3776.9	5674.1	6179.	6186.1
accommodation, fuel	2264.7	1745.7	2726.6	*3675.0*
And light, transport	5060.8	5261.0	5126.6	7800.0
And maintenance,	1789.3	1563.4	1553.6	2666.3
Clothing household	2551.6	3446.1	55243	4742.2
Goods purchases, other services	6327.3	7671.7	8725.7	9897.1
	431.0	418.1	538.4	477.8

SOURCE:- **Research and statistics department, Office of Budget and Planning Government House Enugu.**

APPENDIX II

LOCATION OF VAT OFFICES IN NIGERTA

SERIAL	STATES		LOCAL VAT OFFICES
1*	Abia	"	Umuahia and Aba
2.	Adamawa	"	Federal Inland Revenue Service Yola Area Office Local Vat Office, Galamadi Arninu Way, P.M.B. 211, Yola.
3*	Anambra	"	Awka and Onitsha
4.	Akwa Ibom	"	Federal Inland Revenue Service Uyo Area Office, Local VAT Office, 5, Asuquo Akpan Street, Uyo.
5.	Bauchi	"	Federal Inland Revenue Service Bauchi Area Office, Local VAT Office, P.M.B. 0265, Bauchi, Bauchi State,
6.	Benue	"	Federal Inland Revenue Service Makurcil Area Office, Local VAT Office,

			Pubcity Road, P.M.B. 2229, Makurdi, Benue State.
7.	Bomo	"	Federal Inland Revenue Service Maidugun Area Office, Local VAT Office, Burma Road, P.MB. 1175, Maiduguri.
8.	Cross Rivers	"	Federal Inland Revenue Service Calabar Area Office, Local VAT Office, P.M.B. 1112, Calabar.
9*	Delta	"	Asaba and Warri
10.	Edo	"	Federal Inland Revenue Service Benin Area Office, Local VAT Office, 37, Airport Road, P.M.B. 213, Benin City.
11.	Enugu	"	Federal Inland Revenue Service Enugu Area Office, VAT Office, Ridgeway, RMB. 1093. Enugu.
12.	Imo	"	Federal Inland Revenue Service Owerri Area Office, VAT Office, Km 3,

			Owerri-Onitsha Road P.M.B. 1473, Owerri.
13.	Jigawa	"	Dutse and Hadeja.
14.	Kaduna	"	Federal Inland Revenue Service Area Office, Local VAT Office, Broadcasting Road, PM.B. 20589,
15.	Kano	"	Federal Inland Revenue Service Kano Area Office, Local VAT Office, 55, Club Road, Kano, P.M.B. 3050, Kano.
16.	Katsina	'	Kastina
17*	Kebbi	"	Birnia
18*	Kogi	"	Lokoja
19	Kwara	"	Federal Inland Revenue Service Ilorin Area Office, Local VAT Office, 1, Revenue Road, P.M.B. 1408, Ilorin.
20.	Lagos	'	Federal Inland Revenue Service Petroleum & Pioneer Division, Local VAT Office, Plot 1228,

			Bishop Oluwole Street island P.M.B. 12672, Lagos. Federal Inland Revenue Service Broad Street Area Office, VAT Office, 14, Broad Street, P.M.B. 12531, Lagos. Federal Inland Revenue Service Mainland Area Office, Local VAT Office, 3, Olusoji Idowu Street, Ilupeju, P.M.B. 2002, Yaba. Federal Inland Revenue Service Apapa VAT Office 34, Creek Road, P.M.B. 1389, Apapa.
21.	Niger	‟	Federal Inland Revenue Service Area Office, Local VAT Office, Old Airport Road, Minna.
22.	Ogun	‟	Federal Inland Revenue Service Abeokuta Area Office, VAT Office, P.M.B.

			2237, Aheokuta. 21 Ondo Federal Inland Revenue Service Akure Area Office, Local VAT Office, 716, Oluwatuyi Quarters, Akure
24	Osun	"	Oshogbo
25.	Oyo	"	Federal Inland Revenue Service New Adeoyo Hospital Read, Off Ring Road, Local VAT Office, P.M.B. 5050, Ibadan.
26.	Plateau	"	Federal Inland Revenue Service Jos Area Office, Local VAT Office, Tundun Vada, P.M.B. 2143, Jos.
27.	Rivers	"	Federal Inland Revenue Service Port-Harcourt Area Office, Local VAT Office, 10, Moscow road, P.M.B 5029, Port Harcourt
28	Sokato	"	Inland Revenue Service Sokoto Area Office, .1 VAT Office Local Road, P.M.B. 2287, Sokoto
29	Taraba	"	Jaringo

30	Yobe	"	Damaturu
31.	Abuja	"	Federal Inland Revenue Service Local VAT Officer, P.M.B. 33, Garki.

The exact location will be supplied very soon.

Note: More Local VAT offices are to be opened in more locations induding State Capital and Local Government Headquarters.

Source: FIRS Information Circular No. 9304.

APPENDIX III

QUESTIONNAIRE ON THE ANALYSIS OF VAT AND ITS EFFECT IN THE ECONOMY

NAME: OKWU TOBECHUKWU TOBIAS

SCHOOL: UNIVERSITY OF NIGERIA ENUGU CAMPUS

NOTE: THIS QUESTIONNAIRE IS PURPOSELY FOR MY PROJECT WORK ON THE ABOVE TOPIC AND NOTHING ELSE.

QUESTIONS

1. Are all vatable person aware of their responsibilities under VAT Decree?

   Yes (   ) No (   ) Not sure (   )

2. Has revenue board any avenue for educating the vatable persons on their rights and obligations under VAT decree?

   Yes (   ) No (   ) Not sure (   )

3. Do all vatable person render their return promptly?

   Yes (   ) No (   ) Not sure (   )

4. Are revenue officers allowed to receive VAT payment directly from vatable person?

   Yes (   ) No (   )Not sure (   )

5. Are there some visible areas where VAT exercises have not been extended?

   Yes ( ) No ( ) Not sure ( )

6. Has value added tax in your opinion has any effect in Nigeria economy?

   Yes ( ) No ( ) Not sure ( )

7. Has effect of VAT recorded any boost in tax revenue of the country?

   Yes ( ) No ( ) Not sure ( )

8. Do you think that government is achieving the aims for which VAT machinery was put into place?

   Yes ( ) No ( ) Not sure ( )

9. Do revenue officers go out frequently to sell commodity VAT to prospective vatable person?

   Yes ( ) No ( ) Not sure ( )

10. Has valued added tax made any impact on the final consumer?

    Yes ( ) No ( ) Not sure ( )

11. Is incidence of VAT borne by the final consumer?

    Yes ( ) No ( ) Not sure ( )

12. Are there any loopholes in VAT Decree which vatable person takes advantage of? Yes ( ) No ( ) Not sure ( )

13. Do you think that VAT collections are properly accounted for by VAT officers?

    Yes ( ) No ( ) Not sure ( )

14. Do you consider value added tax a better option to tax?

    Yes ( ) No ( ) Not sure ( )

15. Has the option contributed significantly in overhauling the tax system?

    Yes ( ) No ( ) Not sure ( )

16. Has VAT been able to meet its target revenue since commencement?

    Yes ( ) No ( ) Not sure ( )

17. Is value added tax easy to administer?

    Yes ( ) No ( ) Not sure ( )

18. Do you think the easiness in its administering will give rise to cost saving?

    Yes ( ) No ( ) Not sure ( )

19. Do you think that VAT has significant correlation with GDP in Nigeria economy?

    Yes ( ) No ( ) Not sure ( )

20. In view of the revenue generation performance of 1994, do you think a significant impact has been made in total national income?

    Yes ( ) No ( ) Not sure ( )

APPENDIX IV

LIST OF THE FIVE INTERVIEW QUESTIONS ASKED

1. Has value added tax in your opinion any effect in Nigerian economy?
2. Has value added tax made any impact on the final consumer?
3. Do you consider value added tax a Better option to other tax?
4. Is value added tax easy to administer?
5. Do you think that VAT has significant correlation with GDP in Nigerian economy?