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TAX REVENUE EFFECTS ON GOVERNMENT REVENUE GENERATION IN NIGERIA

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Abstract
The study focussed on how Nigeria's value-added tax affected the country's ability to generate income spanning twenty years (1999-2019). The journal of the Chartered Institute of Taxation of Nigeria, Federal Inland Revenue Service Annual Reports, and the Central Bank of Nigeria Statistical Bulletin were sought out as secondary sources of data. A simple regression technique was used to accomplish the analysis. Results indicated that company income tax and Value Added Tax have a statistically significant impact on Nigeria's income generation. The report recommends the following actions: the government should make every effort to enhance the manner in which value-added tax is collected; all VAT agents should be committed and appear honest with regard to collection and payment Moreover, the country's tax base will grow as goods and services are taxed more which includes the activities of the informal sector.
Keywords: Value Added Tax (VAT), Government Revenue Generation, Company Income Tax, Nigeria

1. Introduction

One of the ongoing issues with Nigeria's three-tier system of government is declining revenue collection, which is demonstrated by annual budget deficits and a lack of resources for growth and development of the economy. This economic justification highlighted the government's need for revenue and shows that, in addition to bolstering its current spring of funding, it is crucial for the government to expand its revenue streams in order to fulfil its constitutional obligations. According to Ocheni, (2018) the financial capability of every government depends on a number of factors, including its income source, the fiscal resources at its disposal, and the approach in which these resources are produced and used. In order to avoid economic stagnation, it is responsibility of government to effectively mobilize possible revenue across the nation. This campaign calls for the acquiring of politically and economically agreeable taxes that would facilitate simple administration, accounting, verification, auditing, and investigation based on the equality, neutrality, and other qualities of a good tax.

Taxes on consumption encompass a larger range of goods and services because they can be effectively managed to reduce the causes of adverse variation (James et al. 2019). Any economy's financial foundation can be strengthened with the money collected from consumption taxes. But to do this, one must use the opportunity, establish a consumption tax that recognizes taxpaying citizens as utility-minimizing individuals, and support their evasive behaviour. The administrative feasibility of each tax, its revenue potentials, its level of voluntary compliance, its relative neutrality, its equity necessary for regressively, and the efficiency of these criteria are the key factors to take into account when selecting a consumption tax

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option among other tax options. One can easily view the underlying reasons why the government replaced the Retail Sales Tax with Value Added Tax by looking at these factors.

As a result, establishing value added tax (VAT) as one of the methods of taxation in the Nigerian economy has generated controversy and discuss among most authors. The goal of the introduction of the value added tax as one of the methods of taxation in the Nigerian economy has not yet been determined. Thus, the study aims to address every preventative gap identified by the most recent author, revealing the advantages of value added tax as a major base of income in the country. This will be accomplished by examining the impacts or roles that the Value Added Tax (VAT) has had on the Nigerian economy since its implementation in 1994 and how it has replaced the Sale Tax.

Value added tax was one of the tools the Nigerian government used to increase finances. However, the majority of notable citizens and several interest groups had opposed its introduction. It would seem that there are some issues with VAT. The objective of adopting value added tax as one major way of taxation in the Nigerian economy has not yet been established, and it has since been adopted into the country's tax system, sparking controversy among numerous authors including Oraka et al., (2017). In order to accomplish these goals, this paper will explore the impact of the value added tax collection in Nigeria and offer practical ideas and recommendations that are designed to highlight the positive effects of the VAT on the country's overall economy.

2. Literature Review

Some of the important papers reviewed over the years on value added tax (VAT), Company income tax and government revenue generation are that of; Eneche & Stephen (2021) whose Study uses secondary data to investigate the connection between taxes and economic growth and development in Nigeria. The study used multiple regression analysis to discover that as Value Added Tax and Companies Income Tax (non-oil Tax Revenue) have significant relationships with Nigeria's economic Growth, Petroleum Profit Tax (oil tax revenue) has a positive but insignificant relationship with the Growth of the economy.

Ewa et al., (2020) The study looked at how three different tax income streams- income tax from petroleum company profits, value added tax, and income tax from business profits, affected economic growth from 1994 to 2018. The study embraced Ordinary Least Square analysis to determine that there is a significant effect of taxes from companies' profits and Value Added Tax on Gross Domestic Product Growth, but that there is little to no significant impact of taxes on profits of petroleum companies on Gross Domestic Product growth in Nigeria.

The control of tax income on the expansion of the Nigerian economy were studied by James et al. in 2019. The goal of this investigation was achieved using simple regression. The results demonstrate that the dependent and independent variables had only a minor association. Moreover, it was found that Nigeria's tax income and gross

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domestic product did not significantly correlate with one another. Moreover, in 2018 Olufemi et al., studied the relationship connecting tax revenue and economic growth in Nigeria using secondary data for twenty-two years (1994 -2015). The study adopted Auto Regressive Distributed Lag (ARDL) regression to find the existence of connection between the variables and to show that VAT had a positive relationship with economic growth

Oraka et al., (2017) demonstrates that the value added tax did not have a substantial impact on Nigeria's GDP. A negative correlation between VAT and per capital income was also found. Finally, we discovered that the Federal Government of Nigeria's overall revenue generation and VAT had a positive association. In 2013, Onaolapo et al., research used secondary data to investigate how Nigeria's value added tax affected the country's capability to generate income. The study used regression analysis to discover that the value added tax had significant impact on Nigeria's ability to generate money. According to the study, all VAT collectors and payers should be devoted to their jobs and appear sincere in their dealings, and government should make every effort to streamline the process of collecting value added tax.

There is mixed (positive and negative) result based on the related review by different authors on the association between value added tax and revenue generation in Nigeria, but by apriori expectation value added tax (VAT) should show a positive connection with revenue generation.

3. Methodology

The primary sources of information for this article were secondary data. The necessary information was gathered from written sources including annual reports from reputable organizations like the Central Bank of Nigeria, statistical Bulleting for the years, Federal Inland Revenue, journals from the Nigerian Chartered Institute of Taxation, and online resources. The study examined value-added tax (VAT) revenue for the federation in the Nigerian economy. The analysis used VAT and company income tax data with a focus to examine its effect on Nigeria's revenue generation, the study covered the frame of 1999 to 2019.

The model for the analysis is specified as follow;

The model is stated as:

GRG = f (VAT, CIT) ……1

$GDP = \alpha_1 + \beta_1 VATx + \beta_2 CoIT + \mu_1$

Where

GRG = Government Revenue Generation

VAT = Value Added Tax

CIT = Company Income Tax

α_1 = Coefficient of Regression

β_1- β_2 = Estimation Parameters

μ = Error term

According to the aforementioned model, value added tax (VAT) and government revenue generation should positively interact from 1999 to 2019.

4. Results and Discussion

Table 1 below summarizes the regression analysis.

Dependent Variable: LOG(GRG)

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Method: Least Squares
Sample: 1999 2019
Included observations: 21

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.536045	2.350410	-0.863025	0.0000
LOG(VAT)	0.843670	0.567723	1.920456	0.0001
LOG(CIT)	0.513569	0.624310	-0.012567	0.0456
R-squared	0.971280	Mean dependent var		0.537901
Adj. R-squared	0.993145	S.D. dependent var		1.345083
S.E. of regression	1.950234	Akaike info criterion		2.870315
Sum squared resid	38.123701	Schwarz criterion		3.427405
Log likelihood	42.302725	Hannan-Quinn criter.		2.532976
F-statistic	24.153479	Durbin-Watson stat		2.909542
Prob(F-statistic)	0.000000			

Source: Computed by the authors using EViews 10

The summary of the regression result output demonstrated above indicates the estimation of the variables is consistent with the a priori prediction. This is due to the fact that the dependent variable, Government Revenue Generation (GRG), has a significant value of 1.536045, a significant relationship with Value Added Tax (VAT), so also with Company Income Tax (CIT), and both of these relationships are reliant on each other.

Given the size and sign of the coefficient, the dependent variable (GRG) and the explanatory variables (VAT and CIT) have a long-term association across the study period (1999–2019). A regression analysis of the value added tax (VAT) on government revenue generation in Nigeria is shown in the result above. The Ordinary Least Square (OLS) methods of estimating, which show the relationship between the study variables, were used to produce the results, as was previously mentioned. According to the empirical data, the regression coefficient, which represents the estimated coefficient, looks to be good, and the standard error and t-statistic values have also been shown.

The results further showed that adjusted R-square, the Durbin-Watson statistic, and the entire regression test is statistically significant including the F-test under 5% level of significance; the coefficient of determination (R-square) was used to measure the success of the regression in determining the value of the explained variable within the sample and tests the goodness of fit, which is considered high in this study over 97%.

The outcome suggests that while value added tax (VAT) had a large positive influence on government revenue generation in Nigeria, the level revenue generation has had a considerable favourable impact over time.

Looking closely at the equation's output, you will see that some of the results match what is expected based on the literature review. According to the findings, a positive value added tax (VAT) satisfies one criterion, whereas also a positive company income tax (CIT) satisfies a different one. In other words, the independent variables are consistent with the model's assumption for the opinions they represent.

The findings indicate that different variables contributed differently to the

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expansion of the Nigerian economy, as seen by the difference in beta coefficients of the variables Showing indicators of Nigeria's revenue generation. Using the beta coefficient, the outcome shows that GRG is positive with a constant value of 1.536045. This suggests that the Revenue generation will fluctuate positively up to a maximum of 1.536045 units when all other factors are held constant. Similar to previous example, when all other factors are constantly held, a unit change in the CIT will result in a 0.513569 unit rise in GRG. This is as a result of its positive effects on GRG.

5. Conclusion

According to the study's findings, value added tax helps the Nigerian economy. We can comprehend this better thanks to the way the study's variables behaved, which shows that value added tax (VAT) generates statistically significant amounts of income in Nigeria. The results show that for Nigeria to experience economic growth and development. It needs to be capable of producing enough income to satisfy the demands of her expenditures in terms of the supply of social infrastructures and the operating costs of the Government. According to the study's findings, the country's tax base will grow if more goods and services are taxed. To prevent potential evasion, even by those who are so obediently complying with the existing rate, we nonetheless advocate for expanding value added tax (VAT) bases to include the non-formal sector of the economy.

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