

Impact of Value Added Tax to Enugu's Economy

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ABSTRACT

Value-added tax is everywhere; it is in the most of goods and services we purchase. Take for instance; when we go to the salon to get our hair done, when we gas up our car, vat is also included in what we pay. In the Philippines, the value-added tax is a form of sales tax. It is a tax on the consumption levied on the sale, barter exchange, or lease of goods, properties, and services in the Philippines, and on importation of goods into the country, it is an indirect tax that may be shifted or passed into the buyer transferring lease of goods, properties or services. While in Nigeria, VAT is a Federal Government Tax that is administered using the existing machinery of the Federal Inland Revenue Services (FIRS). This study assessed the impact of value-added tax on Enugu Nigeria's Economy, specifically to Government, Business Organizations, and Consumers, the problems identified, significant relationships, and the solutions recommended. The findings revealed that VAT has a significant impact on business organizations and consumers but positively on the part of the government. Recommendation for the improvement is for the consumer with low average earnings should be exempted in paying the VAT provided however, criteria must be set to exempt them in VAT.

Keyword: Social Sciences, Impact, Value added Tax, Revenue, descriptive research design, Philippines

INTRODUCTION

Vat is everywhere; it is in the most of goods and services we purchase. Take for instance; when we go to the salon to get our hair done, when we gas up our car, vat is also included in what we pay.

VAT has constituted a veritable source of revenue to the government since its inception in 1994 following the enactment of Decree No. 102 of 1993, accounting for approximately 1.9% of Gross Domestic Product (GDP) in 2010 (FIRS, 2011). The decree was consolidated to VAT Act Cap V-I, Laws of the Federation of Nigeria (LFN) 2004. A further amendment was effected on 27th May 2007 as VAT (Amendment) Act, No.12 of 2007. This positive contribution of VAT to national income is also applicable to other countries. In France, it accounts for approximately 50% of State revenue (Thacker, 2009), 30% of total tax revenue in 1982 in Cote d'Ivoire, Kenya, and Senegal (Shalizi and Squire, 1988), and by 1988, occupied 4.5% of total Gross Domestic Product (GDP) in Indonesia (Bogetic and Hassan, 1993). Nations with a high population and increased economic activities are likely to experience an appreciable increase in VAT revenue since it is a

consumption tax levied on “vatable” goods and services imported and produced in a country. This fact provides evidence that the burden of VAT is on the citizens, with low-income earners at the highest receiving end. In the views of Nishiyama (2012: 683 – 704), VAT is regressive, especially for low-income earners. Though, Nigeria has the lowest VAT rate of 5%, India for example, charges as high as 12.5% (Tripathi, Sinha, and Agarwal, 2011: 32 – 39). VAT operates by adding 5% to the value of goods and services on a vatable invoice. The VAT element of the invoice becomes due for payment by a vat able person as soon as the invoice is acknowledged by the consumer regardless of whether it has been settled or not. The scenario presents compliance difficulties when all or part of the invoice is unsettled. Otherwise, the taxpayer will resort to borrowing to ensure compliance and avoid penalties and prosecutions.

Value Added Tax (VAT) in Nigeria is a Federal Government tax, which is administered using the existing machinery of the Federal Inland Revenue Services (FIRS). VAT has a directorate within the framework of the Federal Inland Revenue Services (FIRS) with the head office in Abuja. It has a network of zonal and local offices throughout the federation. The Directorate of the tax is headed by a director who is assisted by two deputy directors. The Zonal Coordinator of the Federal Inland Revenue Services (FIRS) at Lagos, Ibadan, Enugu, Kaduna, and Jos also coordinates the activities of local VAT offices within their areas and are responsible to the VAT Directors in Abuja for all Value Added Tax (VAT) related matters. VAT as a form of tax was introduced in Nigeria with effect from January 01, 1994 (Okafor, U. S. 1996) based on the report of the study group set up in 1991 by the government to review the system of indirect tax in Nigeria.

In the Philippines, the value-added tax is a form of sale tax. It is a tax on the consumption levied on the sale, barter exchange, or lease of goods, properties, and services in the Philippines and on importation of goods into the Philippines. It is an indirect tax that may be shifted or passed into the buyer transferring lease of goods, properties, or services.

All of the dissertations, lead the researcher to result in studying Value Added Tax: Its impact on Enugu Nigeria's Economy.

THE OBJECTIVE OF THE STUDY

Identify the impact of value-added tax in revenue generation of Enugu economy, along:

- a. Government,
- b. Business organization, and
- c. Consumers.

REVIEWS ON RELATED LITERATURE AND STUDIES

This portion includes the ideas, thesis, generalization or conclusion, methodologies, and others. Those that were included in this section helps in familiarizing information that is relevant and similar to the present study.

RELATED LITERATURE

According to Alugbo C. (2002), before the introduction of VAT in the Nigerian economy, the Federal Government has been working relentlessly on how to revamp the Nigerian economy. To this effect, a lot of economic measures have been introduced. Among the economic measures introduced included the Second-Tier Foreign Exchange Market (SFEM), Structural Adjustment

Program (SAP), and Foreign Exchange Market (FEM), etc. All these efforts at revamping the economy were to no avail as the economy seems to be an ailing child that has defied all economic therapy or fiscal measures. Prompted by its avowed position to revamp the Nigerian economy at whatever cost, the Federal Military Government under the leadership of General Sani Abacha introduced a fiscal policy, the Value Added Tax (VAT) in January 1994. VAT is a consumption tax at each stage of the consumption chain and is borne by the final consumer. It requires a taxable person upon registering with the Federal Board of Inland Revenue to charge and collect VAT at a flat rate of 5% on all vat able goods and services. Where the supply is not subject to VAT, the VAT liability will either be Zero-rated or exempted. Zero-rated goods and supplies are all export goods and supplies. Zero-rated supplies are still taxable but no actual tax is payable to the government. The important difference between Zero-rated and exempt items is that any input VAT relating to Zero-rated supplies is recoverable, whereas that relating to exempt supplies is not recoverable. The registration of Value Added Tax (VAT) is to cover all the business activities of the vat able persons. Therefore all domestic manufacturers, wholesalers, distributors, importers, and suppliers of goods and services in Nigeria are expected to register for VAT within six months after the commencement of the decree or six months from the commencement of business, whichever is earlier.

A vat able person trades in vat able goods and services for consideration. Every vat able person must register for Value Added Tax (VAT) payment. Professionals like lawyers, accountants, Engineers, and others, who provide professional services to their clients are required to register. There is therefore no thresh-hold for registration.

VAT paid by a business on purchases is known as input tax, which is recovered from VAT charges on company sales known as output tax. If output exceeds input in any particular month, the excess is remitted to the Federal Board of Inland Revenue (FBIR) but where input exceeds output, the taxpayer is entitled to a refund of excess from the Federal Board of Inland Revenue (FBIR) though in practice this is not always possible. A taxpayer however has the option of recovering excess input from the excess output of a subsequent period. It should be stated at this point that recoverable input is limited to Value Added Tax (VAT) on goods imported directly for resale and goods that form the stock-in-trade used for the direct production of any new product on which the output VAT is charged.

Vat in Nigeria was created as a replacement or substitution for the sales taxes that were in operation before. They were imposed on all goods that were manufactured in the country as well as goods that had been made outside the country and were selling there. The impressive performance of VAT within the first government fiscal policies such as Scraping of some form of excise duty; The reduction of the marginal rate of personal income tax to 25% and lowest tax bracket from 10 to 5; The reduction of company income tax rate to 30 and; The reduction of the rate of capital tax from 20% to 10%.

Following these, Value Added Tax (VAT) seems to be the best among other types of taxes. It is against this background that we are going to analyze VAT and see the impact it has on the nation's economy.

The following are the lists of the African countries of the world where VAT systems are in place, together with their dates of introduction and the VAT rates at introduction.

Table 1: African Countries within their VAT Ratio

COUNTRY	DATE INTRODUCED	STATE LEVIED	TAX RATE %
Algeria	1992	Retail	7,13,21,20
Benin Republic	1991	wholesale	18
Cote-d'ivore	1960	Wholesale	5,11,25,35
Guinea	1960	Retail	13,6
Kenya	1960	Retail	5,18,30,50,75
Madagascar	1960	Retail	15
Malawi	1989	Retail	10,17,55,85
Mali	1991	Wholesale	10,5
Mauritius	1983	retail	5
Morocco	1986	Retail	7,14,19
Niger	1986	Retail	10,17,24
Senegal	1961-1980	Retail	7,20,30,34
South Africa	1991	Retail	14
Togo	1984	Retail	-
Tanzania Mid	1994	Retail	-
Nigeria	1994	Wholesale	5
Tunisia	1988	manufacturing	1,17,29

Source: IMF reports.

From the above table, it shows that most of the African countries introduced VAT system of taxation earlier than others, while Nigeria and Tanzania were among the countries that adopted it lately.

The significant impact of VAT or the role played by Value added Tax in the development of the nation cannot be overemphasized. Revenue is raised by the government through taxation for the development of the nation's project. Vat was introduced as a revenue mobilization strategy to cover up the deficiencies experienced with the former sales tax because of its progressive nature. Government ability to adequately and effectively retrieve the proceeds from companies and other agents of collection remains a problem. It does not appear as if there is adequate machinery for effectively monitoring of the remittance of the tax withheld to the relevant tax authorities, this means that the federal inland revenue , the body charged with the administration and implementation of Vat lacks the logistic support , this invariably will give room for tax evasion and avoidance. Secondly, the dishonest practice by some tax officials also posed a serious threat to effective tax administration in Nigeria, especially when such practices are capable of having demoralizing effects on the honest tax payers.

Consumers will still want to know how much they are paying as Vat as most of these taxes are not duly reflected on their invoice. It is generally believed that vat is another way of reflecting economic hardship on the consumer to the advantages of the manufacturers and companies. It could be seen as an excuse to raise prices of goods and services arbitrary. For instance, landlords are now charging vat on house rents, some hotels are charging vat on their services without remitting same to the appropriate authorities. These are contrary to the regulation governing the vat system. The uncommon nature of this tax system, has resulted in unaware of its existence by majority with resultant effects of low credibility by the government, this has made people to scorn the payment. Lack of trained personnel and logistic support from the

government and FIRS has contributed immensely to poor vat administration and implementation which invariably has resulted in reduction in revenue generation from vat. It is against these backdrops, that this research seeks to ask certain question to determine if the introduction of VAT is a worthwhile venture or policy.

Enugu, usually referred to as Enugu State to distinguish it from the city of Enugu, is a state in southeastern Nigeria, created in 1991 from part of the old Anambra State. Its capital and largest city is Enugu, from which the state derives its name. The principal cities in the state are Enugu, Ngwo, Agbani and Awgu.

The State Government and the Local Governments are the two levels of government in Enugu State and all other states of Nigeria. Ifeanyi Ugwuanyi is the current executive governor of Enugu State. He was elected by the people in April 2015 and was sworn in on 29 May 2015. Sullivan Chime is the immediate governor succeeding Chimaroke Nnamani. He was elected by the people of Enugu State in April 2007[4] and was sworn into office on 29 May 2007. [5] The governor is above a group of commissioners who he has placed as heads of ministries that oversee various portfolios such as Health and Housing; both the governor and the commissioners form the Executive Council of Enugu State. Government House, Enugu is where the government of the state is based.

Taxation is not a new phenomenon as the major source of revenue to the Nigerian government before the coming of the British colonial masters. However, over the years concerned citizens have argued whether tax revenue has been effectively utilized for the economic development of Nigeria. This study, therefore, examined the implication of tax revenue on the economic development of Nigeria from 2000 to 2010.



Figure 1: Locale of the Study

Scope and delimitations

The study assessed the Impact on Enugu Nigeria's Economy to assess the impact of value-added tax in revenue generation of Enugu, along with Government, Business organizations, and consumers.

The population consisted of the summation of items or individuals where the sample was drawn. This study centered on the VAT Services Office in Enugu metropolis where the researcher used judgmental sampling to pick eighteen (18) persons, constituting of senior and management staff of the VAT office. The eight (8) manufacturers were selected for this research, of which twenty-six (26) persons were sampled; three (3) persons from each firm, with exception of Innoson Technical Industrial Company Limited, were sampled five (5) persons because of the big size of the company. Eleven (11) wholesalers in and around Enugu metropolis were sampled, picked three (3) persons each from each wholesaler precisely the manager, accountant, and cashier. This made the number of wholesalers to be thirty-three (33) in all. Eleven (11) service providers were selected for this work, of which three (3) each was picked from each service provider made up of the manager, the accountant, and the supervisor. Fifty-two (52) persons were randomly sampled from the consumers in and around the Enugu metropolis, while fifty-four (54) retailers were also sampled from both in the street and market in and around the Enugu metropolis.

Significance of the study

This study served beneficial to Enugu government, Taxpayer, Community, and the researchers themselves.

METHODOLOGY

This explains how the research was conducted. It is an explanation of the way and when the research is going to be carried out (Ban dam, D. M. 2001). It provides a detailed account of the methods, to be used in collecting the data.

This study used the descriptive research design which deals with the structuring of investigation aimed at identifying a variable, and their relationship to one another. The correlational study is a research method that describes and predicts how variables are naturally related in the real world without any attempt by the researcher to alter them or assign causation between them.

Table A: Respondents of the Study

Respondents	Frequency	Percentage
VAT Staff	18	9
Manufacturers	26	13
Wholesalers	33	17
Service Provider	11	6
Consumers	52	27
Retailers	54	28
TOTAL	194	100

The data collection techniques form the main part of the study. The data obtained for this study were obtained partly from the primary source, which was obtained through questionnaire issued to the respondents, information gotten from the oral interview administered, while the secondary sources were derived from published materials, such as textbooks, newspapers, scholarly journal and government documents and related materials on the topic.

Instrumentation

This study devised a questionnaire which was based on the objective of the study, dealing on the impact of value-added tax in revenue generation of Nigeria considering the government, business organizations, and consumers, utilizing the Likert scale of 5 – strongly agree, 4 – agree, 3 – moderately agree, 2 – disagree, and 1 - strongly disagree.

Data gathering procedure

The researcher used various tools in gathering data. The main tool was the survey questionnaire. Interview and observation were also conducted. After the formulation of the objectives of the study, the questionnaire was formulated to gather data for possible solutions to the problems under study.

In gathering the data, the researcher secured a letter of approval, to the different groups of respondents. The questionnaire contained a short letter addressed to the respondents. The researchers administered the distribution of the questionnaire through online communication with a point person to distribute the questionnaire to the respondents to clarify certain questions that might be unclear to the respondents. The respondents are requested to check opposite the indicators stated in the instrument. The researcher advised the key person to immediately retrieve the questionnaire as soon as the respondents were through with answering and immediately send to the researcher the retrieved questionnaire. One hundred percent (100%) of the distributed questionnaire was retrieved through the effort exerted by the key person based in Enugu. After the retrieval, the data have been analyzed and interpreted using statistical tools.

Data Analysis Plan

Statistical treatments are tools to be used to better analyze the computations in this study. These statistical measures were the basis in making interpretations, conclusions, and recommendations.

After the collection of data, the researcher tabulated the responses using the most appropriate statistical tool such as weighted mean.

RESULTS AND ANALYSIS

The focus of this section is on the analysis of the data collected from the field of study according to the responses given by the respondents. In all, two hundred and sixteen questionnaires were distributed among the VAT office staff, wholesalers, retailers, service providers, manufacturers, and consumers out of which one hundred and ninety-four were retrieved. The researchers also contacted other Revenue Agencies to have additional information on the impact of Value Added Tax on the Nigeria Economy, which was equally analyzed.

Impact of Value Added Tax

In Table 2, Government, Business Organizations, and Consumers were considered. From the data noted in the Government respondents, 2 among the 5 indicators were interpreted as strongly agree such as VAT contributed positively to the development of the nation with 4.92 and VAT is used as a tool for income redistribution and economic regulation having 4.50, while 3 indicators were considered to agree to Generate revenue in the impact of government Programs, had 4.46, VAT improves logistic support, 4.42, and VAT enables the government to reform the legitimate functions of the state having 4.25.

The data implies that the Government sectors strongly believe that this VAT generates income for the government that will help them accomplish their objectives to implement what projects were hampered due to lack of funds but the VAT implementation, the government projects will be supplemented. The study of Dombrovski in 2010, emphasized that potent taxation greatly affects the tourism sectors negatively. But, the point is, taxes derived by the government from the tourism industry must be spent towards tourism development.

For Business Organizations, noted strongly agree were indicators VAT is a cost that ultimately passed on to the end consumer when they buy products had 4.95, VAT affects the buying power of tourist as they will have to pay the duty tax in certain goods, 4.51 and VAT affect all transactions and also touches every aspect of the organization, 4.50. For indicators that respondents considered it agree were VAT helps business owners to have records of their consumers had 4.24 and Businessman can maintain tax neutrality and become tax collectors of the government had 3.66.

This connotes that the business organizations were very much aware of the impact of VAT on their establishment. This means that the small earner consumers would resort to the common market to buy their needs and wants that do not issue receipts, considering if the consumers will buy to the groceries and departments store VAT are reflected in the amount charge of what the consumers bought. And this specifically, decreases the number of customers for the business organizations. The study of Singh (2019) contested in his research that VAT has a partial impact on investors.

Table 2: Impact of Value Added Tax

INDICATORS	TWN	Adjectival Interpretation
A. GOVERNMENT		
1) Generate revenue in impact of government Programs.	4.46	Agree
2) VAT enables the government to reform the legitimate functions of the state.	4.25	Agree
3) VAT is used as a tool for income redistribution and economic regulation.	4.50	Strongly Agree
4) VAT improves logistic support.	4.42	Agree
5) VAT contributed positively to the development of the nation.	4.92	Strongly Agree
AVERAGE	4.51	Strongly Agree
B. BUSINESS ORGANIZATION		
1) VAT helps business owners to have records of their consumers.	4.24	Agree
2) VAT affects all transactions and also touches every aspects of organization.	4.50	Strongly Agree
3) VAT is a cost the ultimately passed on to the end consumer when they buy products.	4.95	Strongly Agree
4) Businessman can maintain tax neutrality and become tax collectors of the government.	3.66	Agree
5) VAT has an effect on the buying power of tourist as they will have to pay the duty tax in certain goods.	4.51	Strongly Agree
AVERAGE	4.37	Agree
C. CONSUMERS		
1) VAT affects the consumers' standard of living in response to the consumption of goods and services.	4.97	Strongly Agree
2) Consumers become wise buyers	4.45	Agree
3) VAT is a way of reflecting economic hardship on the consumers.	4.61	Strongly Agree
4) VAT is expected to raise consumer prices and increase industrial profit.	4.41	Agree
AVERAGE	4.61	Strongly Agree

While on the part of the Consumers, it connotes that VAT affects the standard of living in response to consumption of goods and services, 4.97 and VAT is a way of reflecting economic hardship on the consumers had 4.61 signifies that the consumers strongly agree. And Consumers become wise buyers resulting in 4.45 that VAT is expected to raise consumer prices and increase industrial profit had 4.41.

The data showed means that consumers are greatly affected by the implementation of the VAT. That for the low-income earners could hardly afford to buy goods from the groceries and department store because VAT was added from the consumer's purchases, and worst what the consumers can buy with their income were lessen since the prices of the commodities increased due to VAT. And therefore, consumers resort to buying their needs to the market for those with a limited budget.

The study of Onwuchekwa and Aruwa in 2014, on Value Added Tax and Economic Growth in Nigeria, emphasized the VAT contributed to an increased government collection that also impacted the country's economy. Consequently, the tax collection must be extensively implemented through an increase of 5% to close the VAT revenue leakage, but sensitize all business company managers to remit and to train the FIRS handling the VAT income collections.

CONCLUSION

The study revealed that VAT had an impact on the group of respondents considered as grouping, while the government denoted that it had a positive impact, but business organizations and consumers were somewhat reluctant.

Translational research

Enugu must be open to a benchmarking of the best practices of other countries on VAT implementation, so as to provide them an idea of how to address the country's issues on VAT. Likewise, revisit the policies implemented by Enugu on tax implementation, to lessen the challenges encountered by the less fortunate people or small businesses. It has to think of a flexible approach and constant communication to people regarding VAT. So that, consumers with low average earnings should be exempted in paying the VAT provided however, criteria must be set to exempt them from VAT. This study at the end must be translated into articles, journals, or newsletters, to serve as a guide and an eye-opening to the government that VAT could bring revenue and bring forth development to the country's economy, but an agony on the part of small business enterprises.

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