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STATEMENT OF THE PROBLEM
OBJECTIVES
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RESULTS & DISCUSSION
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INDIAN VALUE ADDED TAX (VAT) SYSTEM: A PROTOTYPE FOR NIGERIA

AHMED JINJIRI BALA
STUDENT
DEPARTMENT OF CS AND ACCOUNTING FINANCE
SRM UNIVERSITY
CHENNAI

DR. A. THILAGARAJ
ASST. PROFESSOR (Sr. G)
DEPARTMENT OF CS & ACCOUNTING FINANCE
SRM UNIVERSITY
CHENNAI

ABSTRACT

Nigerian economy has largely depended on the oil sector for decades. In recent time, the economy is bedeviled with the serious challenge of dwindling oil price, coupled with the global move for alternative sources of energy, hence triggering the need for the country to diversify its revenue sources. This study examines the impact of Value Added Tax (VAT) on Nigerian economy and similarly, the same case was examined in the Indian context, with a view to proposing a better strategy for VAT administration and collection in Nigeria, taking Indian VAT system as a model. The study employed time series data from 1994-2013, obtained from relevant government agencies in Nigeria and India. Multiple Ordinary Lease Square (MOLS) Model was employed as a tool of data analysis. Result of the study reveals a positive and significant relationship between VAT and Gross Domestic Product (GDP) in Nigeria; whereas in India, the result showed that there is a positive and significant relationship between State Value Added Tax (SVAT) and GDP. However, Central Value Added Tax (CENVAT) was found to have a negative but insignificant relationship with GDP. The study found out that there is serious existence of black economy, shallow base and inefficiencies of tax personnel. In the same vein, VATable businesses view VAT as a cost which hinder their remittance. The study recommended among others that government should establish a two tier VAT system at both States and Federal level, with same rate but clearly stating subsumed taxes attributable to each. Also, a recommendation for the general name of the two taxes made by the study are; Federal Goods and Service Tax (FGST) and State Goods and Services Tax (SGST). While the study proposes maintaining the 5% rate of VAT, it charge the government to expand its base and also automate the entire VAT system in Nigeria.

KEYWORDS

Central Value Added Tax (CENVAT), Gross Domestic Product, India, Nigeria, Value Added Tax.

INTRODUCTION

The economic, social and political development of any country depends on the amount of revenue generated for the provision and sustenance of infrastructures in that country. However, a well-structured tax system is one among the major sources of generating revenue for the provision of such infrastructures. According to Azubike, (2009) tax is a major player on every society of the world. Value Added Tax (VAT), was first introduced less than 50 years ago in France although it was first theorised in Germany a century earlier, it remained confined to a handful of countries until the late 1960s. Today, however, most countries have VAT, which contribute, on average of about 25% to their tax revenue. VAT is a broad-based tax levied on commodity sales up to and including, at least, the manufacturing stage, with systematic offsetting of tax charged on commodities purchased as inputs - except perhaps on capital goods - against that due on outputs (Ebril, et al., 2001). According to Burgess, Howes, and Stern (1993), VAT is a tax on the domestic final consumption. It is normally levied at all the stages between productions to the point of final sales. VAT from the view of raising revenue, in the last three decades have proved to be successful.

Like other developing countries, Nigeria faces major challenges of raising resources to meet public expenditure requirements while minimising resource distortions. The Nigerian economy which largely depends on the oil and gas sector for several decades, bedeviled with fluctuations on the activities of the sector, coupled with the global move for alternative sources of energy trigger the need for the country to diversify its economy and hence the need for effective tax administration and collection. VAT, its system of administration and collection in a country might be a key determinant that influence tax evasion. Nevertheless, one of the main problem of many developing countries, is the limited ability to collect VAT revenues and their shallow bases. Thus, many countries are faced with the challenge of modernizing their VAT administration and collection. In the words of Keen and Stephen, (2007), key claim by advocates of VAT is centrally on the effective way of raising revenue. 'Purely from a revenue point of view, VAT is probably the best tax ever invented' (Cnossen, 1990).

LITERATURE REVIEW

According to Vijay, (2011), founds that the highest tax paid on expenditure was 7% and the lowest was 2% on the 7,110 and 5,021 expenditures respectively and concludes that there was reasonable Value Added Tax (VAT) payment by the sampled income group. Olatunji (2009), founds that government have to put more effort in business enumeration in all the states in order to have a comprehensive database of VAT collection agents, the need for establishment of VAT offices in all local councils and efforts in retrieving proceed of VAT deducted by business should be strived in Nigeria. Jayakumar, (2012), found that VAT is certainly more transparent and accurate system of taxation. The study uses 'dynamic cluster', 'meticulous cluster' and 'unambitious cluster' stages to ascertain VAT implementation in India and its consequences. Result shows that, there is need for VAT transparency in all Indian states and recommends that tax applicability and e-filing will play a major role in VAT system and need for introduction of uniform product classification across India to exhibit implementation with effective return. Komal, (2013), the study found that, VAT implementation is an indispensable phenomenon which it is believed has mutual benefit from both the respondents and government officials. It further suggests that the 12.5% and 4% of finished goods and raw material VAT rate shall be adjusted to reduce their margin and consumers shall collect invoice for every purchase for efficient VAT collection and remittance. Onaolapo, Aworemi, and Ajala (2013), found that VAT is beneficial to the economy and recommends that to achieve a greater advantage and effect the VAT bases should be widened in order to reduce/eliminate the issues of tax evasion by informal sector of the economy which almost constitute a higher proportion and even the so-called faithful complying once. Garg, (2014), argued that implementation of Goods and Service Tax (GST) will not only widened the dealership base by capturing value addition in the distributive trade and increase compliance but also reduces the transaction cost and unnecessary wastages, elimination of multiple taxation, reduces corruption, reduce average tax burdens and concluded that the threshold should not be too low to disturbed Small and Medium Enterprises (SMEs). Aamir et al., (2011), found that, Pakistan charged more revenue by levying indirect taxes whereas Indian has less, although that is not healthy for Pakistan as the act will widen the gap between the rich and poor. Santra and Hati (2014), in their study found out that, contrary to the views in the whitepaper by the State Finance Ministers Committee, majority of the states' records no significant positive impact on the introduction of VAT both in terms of decrease in the rate of taxation and also net increase in the overall tax base though it reaffirms the first result regarding the effectiveness of VAT despite the situation when compared even worsen. Ebeke and Ehrhart (2011), the study found a robust evidence and established that presence of VAT leads to enhancement and stability of tax revenue as against the countries that did not adopt VAT, hence this provide room for developing economies to explore VAT benefits to enhance their revenue and sustainable development. Indirect tax such as VAT are neglected in Nigeria in favour of petroleum and trades taxes, it further to states that the system lack potentiality of diversification on the revenue portfolio which in turn is expected to safeguard the country from volatility in oil prices to promote and sustain fiscal and economic viability (Odusola, 2006).

STATEMENT OF THE PROBLEM
With the global economy reeling from plunging oil prices occasioned by massive over production, Nigeria, a key member of the Organisation of the Petroleum Exporting Countries (OPEC), which depends largely on oil revenue is faced with the reality of the need for diversification of the economy in order to enhance the revenue base of the government, one of such sources is Valued Added Tax (VAT). According to Olashore (1999), the Nigerian economy has remained in a deep slumber, all macroeconomic indicators show an economy in dire need of rejuvenation, reflation and indeed radical reform. The gap here is that, although it is admitted that implementation of VAT in Nigeria has recorded a significant improvement in tax revenue which by far outweigh the Company Income Tax (CIT). It is believed that the incomplete and ineffective administration and collection procedures of VAT is the bottleneck for its successful implementation. Nigeria with its population and increased economic activities is likely to witness increase of VAT revenue since it is a consumption tax levied on "vatable" goods and services as experienced by many highly populated countries.

OBJECTIVES OF THE STUDY
The objective of this study is to identify the nature of administration and collection of Valued Added Tax (VAT) in Nigeria and suggest a new model based on Indian VAT system. There it is breakdown as follows:
1. To investigate the VAT administration and collection and its impact on Nigerian economy.
2. To investigate the VAT administration and collection and its impact on Indian economy.
3. To examine the problems in the Nigerian VAT system.
4. To suggest a new model for VAT administrations and collections in Nigeria.

RESEARCH METHODOLOGY
The study involves a secondary data which will be collected mainly from the Central Bank of Nigeria Statistical Bulletin (2014), Federal Inland Revenue Service (FIRS), Department of Statistics and Information Management, Reserve Bank of India and Department of Revenue, Ministry of Finance Government of India.
It is often difficult to study a whole population. In that event, a true sample of the population needs to be captured by estimating the sample statistic. Hence, the most efficient estimator is the Ordinary Least Square (OLS). Although, the method of OLS is attributed to the Gauss-Markov Theorem which made it one of the most powerful and popular method of estimation. This is in consideration of the BLUE (Best Linear Unbiased Estimator) properties. As cited by Gujarati (2009), an estimator is said to be BLUE if it satisfies the following:

i) Linearity: depicts a linear function of a random variable such as; $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + U$.

ii) Unbiasedness: expected value say, $E(\widehat{\beta_2})$, is equal to the actual β_2 (i.e. $E(\widehat{\beta_2}) = \beta_2$)

iii) Efficiency/Minimum Variance: an unbiased estimator with the least variance is known as an efficient estimator. Suppose g is an unbiased estimator and it has the minimum variance in the class of linear unbiased estimators, g is said to be an efficient estimator. That is, $g = C_1 y_1 + C_2 y_2 + \ldots\ldots + C_n y_n$ where C is constant.

iv) Consistency: A consistent estimator is one which approaches the real values of the parameter in the population as the size of the sample (n) increases.

Econometric method of analysis will be employed as earlier stated, i.e. Multiple Ordinary Least Square Regression Model (MOLS) using the E-Views 8. Other robustness test will be carried out like Breusch Pagan Godfrey (BPG) Heteroskedasticity test.

MODEL SPECIFICATION

In order to examine the impact of tax revenue on the economic growth of Nigeria and that of India, multiple linear model are built. The model is thus:

GDP = f(PPT, CIT, VAT, CED) ________________ (1)

GDP = f(CENVAT, CED, PIT, CIT, SVAT) _______ (2)

From the above function, the following model is derived:

$GDP = \propto + \beta_1 PPT_t + \beta_2 CIT_t + \beta_3 VAT_t + \beta_4 CED + \varepsilon$

$GDP = \propto + \beta_1 CENVAT_t + \beta_2 CED_t + \beta_3 PIT_t + \beta_4 CIT_t + \beta_5 SVAT + \varepsilon$

Where: GDP: Gross Domestic Product
PPT : Petroleum Profit Tax
CIT : Company Income Tax
VAT : Value Added Tax
CED : Custom and Excise Duties
CENVAT : Central Value Added Tax
PIT : Personal Income Tax
SVAT : State Value Added Tax

$\propto$ is constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$, are the coefficient of the parameter estimate.

ε is the error term.

The R-squared is used to test the measure of goodness of fit of the model. Moreover, F-statistics is used to test the joint statistical significance of the explanatory variable and the dependent variable. When f-calculated is greater than f-critical, it shows that there is a joint significant relationship and vice versa. Finally, an econometric criterion is needed to test the presence or absence of positive serial correlation. The measurement use for this is Durbin Watson statistics. The econometric analysis will cover the period of 1994-2013.

RESULT AND DISCUSSION
REGRESSION AND SPECIFICATION TESTS RESULTS

TABLE 1.1: INDIA'S OLS REGRESSION RESULTS

Variables	*Coefficient*	*t-statistics*	*Probability*
LNSVAT	0.3725	9.5158	0.0000
LNPIT	0.0173	1.0184	0.3257
LNCIT	0.0961	3.7586	0.0021
LNCENVAT	-0.0301	-0.8019	0.4360
LNCED	-0.0233	-0.8826	0.3924
C	7.414	46.3792	0.0000
R-Square (R^2)		0.9988	
Adjusted R-Square (R^2)		0.9988	
F-statistics		2357.601	
Prob(F-stat)		0.0000	
Durbin-Watson stat		2.0317	

Source: E-view 8.0 output file

From the Ordinary Lease Square (OLS) regression result presented in Table 1.1 above, State Value Added Tax (SVAT) was found to have a significant positive relationship with Gross Domestic Product (GDP) of India. A percentage increase in SVAT leads to a 0.3725 percentage increase in GDP of India. It could be inferred from the above that State Value Added Tax (SVAT) impacts economic growth of India positively. This finding is in tandem to the works of Bird and Gendron (2006) and also in disagreed with Das-Gupta (2011) and Santra and Hati (2014). Also, from the same table 1.1, the Personal Income Tax (PIT) result was found to have a positive relationship with GDP but statistically insignificant as the p-value is 0.3257 at 0.05 level of significance. We conclude that PIT has insignificant in fact on economic growth. However, result of Corporate Income Tax (CIT) was found to have significant and positive relationship with India's GDP. As such a percentage increase in CIT would leads to 0.0961 percent increase in India's GDP. Hence, we conclude that CIT has positive impact on the economic growth of India. The econometric result calculated reveals that Central Value Added Tax (CENVAT) has negative and insignificant relationship with GDP of India. The CENVAT p-value of 0.4360 at 0.05 level of significance clearly shows that CENVAT has insignificant impact on India's economic growth. The calculated result of Custom and Excise Duties (CED) which show that there is negative and insignificant relationship between CED and GDP of India, p-value 0.3924 percent at 0.05 level of significance. Hence, it has no impact on the India's economic growth.

Summary of the overall results of the tax components as shown in table 1.1, shows that the f-statistics value is 2357.601 and the p-value is 0.0000, thus we can affirm that the model is statistically significant at 0.05 level of significance. The coefficient of determination (R^2) reveals a value of 0.9988, this implies that tax revenue components have explained up to 99% of variations in GDP, this is confirmed by the value of adjusted R^2which even after adjustment is still strong and positive at 0.9984 percent.

Durbin-Watson statistics tests auto correlation in a model. Result from the study shows DW-statistics to be 2.0317, hence we conclude that there is no auto correlation in the model, as such OLS assumption of accepting the model if the residuals are not correlated overtime is hereby accepted.

TABLE 1.2: INDIA'S OTHER ROBUSTNESS TEST RESULTS

Variables	*Coefficient*	*t-statistics*	*Probability*
LNVAT	0.1585	2.6166	0.0240
LNPPT	-0.0003	-0.0488	0.9620
LNCIT	-0.0871	-2.0629	0.0636
LNCED	-0.0334	-1.3005	0.2200
C	0.3913	1.2730	0.2293
R-Square (R^2)		0.9991	
Adjusted R-Square (R^2)		0.9986	
F-statistics		2060.347	
Prob(F-stat)		0.0000	
Durbin-Watson stat		2.2252	

Source: Extracted from E-view 8.0 Results

Hereteroskedasticity test was carried out to test whether constant variance exists. This was done using Breush-pagan-Godfrey (BPG) heteroskedasticity test. This test the null hypothesis that constant variance exists. From the result at 0.05 level of significance, the *Observed R^2 is 3.4381 while probability of chi-square is 0.6328 indicating there is no presence of heteroscedasticity. We hence uphold that our residuals are indeed homoskedastic.

TABLE 2.1: NIGERIA'S OLS REGRESSION RESULTS

Name of test	*Obs*R-Squared*	*Probability of Chi-Square*	*Comment*
Breusch-Pagan-Godfrey: Heteroskedasticity test	3.4381	0.6328	Significant at 5% level shows absence of heteroskedasticity

Source: E-view 8.0 output file

The OLS regression results shown in table 4.3.2.1 it reveals that, Value Added Tax (VAT) was found to have a positive and significant relationship with GDP of Nigeria. Hence, a percentage increase in VAT would leads to 0.1585 percent increase in GDP. So, it could be inferred that from the result that VAT has significant impact on the economic growth of Nigeria economy. This finding is in agreement with the works of Onaolapo, Aworemi & Ajala (2013) and that of Onwuchekwa and Aruwa (2014).

From the same regression results, petroleum profit tax (PPT) was found to have negative and insignificant relationship with the GDP of Nigeria. The PPT p-value of 0.9620 percent at 0.05 level of significance clearly reveals that there exists insignificant impact of PPT to the Nigeria's economic growth. Result of the analysis also shows company income tax (CIT) to have significant and positive relationship with Nigeria's GDP. The p-value of 0.0636 percent at 0.10 level of significance for CIT openly reveals that CIT has significant impact on Nigeria's economic growth. This is in agreement with the works of Garba (2014).

The econometric result above shows that, Custom and Excise Duties (CED) was found to have negative and insignificant relationship with Nigeria's GDP. The CED p-value of 0.2200 no doubt reveals that CED has insignificant impact on the economic growth of Nigeria. Measures of overall significance of the model, i.e. significant of all the variables in explaining the dependent variable in this case GDP, thus if p-value is <0.05, as in this case 0.0000, then we inferred that the model is statistically significant. Also the coefficient of determination (R^2) value shows 0.9991 percent hence implies that tax revenue component has explained 99% of variation in GDP. This result was reaffirmed by adjusted R^2 value of 0.9986 percent.

The Durbin-Watson statistics is a test of auto correlation in the model. Auto correlation is said to exist in a model if the residuals of the model are related overtime. Here the OLS assumption is that the residual should not be correlated overtime. The calculated D-Watson test is 2.225, hence we inferred there is no auto correlation in this model.

TABLE 2.2: NIGERIA'S OTHER ROBUSTNESS TEST RESULTS

Name of test	*Obs*R-Squared*	*Probability of Chi-Square*	*Comment*
Breusch-Pagan-Godfrey: Heteroskedasticity test	5.8978	0.4347	Significant at 5% level shows absence of heteroskedasticity

Source: Extracted from E-view 8.0 Results

Here, heteroscedasticity test was carried out, and the OLS assumption here is that, the variables must have constant variance. If the variables do not have constant variance, then heteroscedasticity is said to exist. In this regards, BPG test was conducted to determine whether or not the model suffers from heteroscedasticity. The result shows that *Observed R^2 p-value is 0.4347, which we conclude that the model does not suffer heteroscedasticity. We could thus, say that the residuals are homoskedastic.

FINDINGS

Based on the relevant studies reviewed, Valued Added Tax (VAT) in Nigeria is saddled with many challenges such as; majority of the Federal Inland Revenue Services (FIRS) staff perceived they are not adequately equipped technically and administratively to handle VAT operations, organisations that are liable to remit VAT after appropriate deductions lack the relevant knowledge on how VAT operates they perceived VAT as a cost contrary to the expectations, another fundamental issue is that despite the three ties of government in Nigeria benefit immensely from VAT, use of unqualified FIRS personnel, poor record keeping by business enterprises and relevant technical expertise causes high rate of VAT remittance evasion (Aruwa, 2008). The above findings clearly showed that there is a gap in the Nigerian VAT system. The current VAT system that operates in Nigeria which has a single rate of 5%, administered and collected by the FIRS on behalf of the three tiers of government, it's seriously exposed to shallow tax base and several inefficiencies in terms of administration and collection. While in India, it's a two-way fold VAT is administered and collected by both the States Value Added Tax (SVAT) and the Central Value Added Tax (CENVAT) governments, both the two VATs are administered and collected separately and with different rates depending on states for SVAT and the rate of 4% to 12.5% for CENVAT as such this differences in the two countries' VAT system is believe to impact the Gross Domestic Product (GDP). To this, it can be conveniently said that there is fundamental differences between India's and Nigeria's VAT system. For a Mono-economy like Nigeria with heavy dependence on oil revenue, one can rightly say that taxes generated from oil revenue if captured with other taxes as shown in this study will have a significant impact to the national income. The findings of Adereti, (2011) and Olaoye (2009) on VAT also supports the fact that because of its indirect form it is difficult to evade or avoid the payment of VAT a practice most tax payers are found of doing in Nigeria.

CONCLUSION

The findings of this study contribute towards a better understanding of Valued Added Tax (VAT) in Nigeria and India. The Nigerian VAT has shown a positive and significant relationship with GDP. However, several problems and loopholes such as black economy, improper knowledge of both the VATable organisations and Federal Inland Revenue Services (FIRS) officials posed a serious threat to the administration and collection of VAT in Nigeria. To this end, Indian VAT system have been analysed and many advantages in terms of administration and collection are believe to be derivable. Findings of the study is a pointer to the policy makers on the strategies to adopt for improving the VAT system in Nigeria. To the researchers, the study will re-introduce them to different direction of ways in which VAT can contribute to the economy. To existing literatures on the subject, it will add to the body of knowledge.

RECOMMENDATIONS

Based on the conclusion above, the appropriate recommendation for the modification of the existing Value Added Tax (VAT) system and make it more suitable system of VAT administration and collection in Nigeria should be to ensure; the VAT or GST (as referred in India) should be in two-folds chargeable by the Federal Goods and Service Tax (FGST) and State Good and Service Tax (SGST) Governments but at a uniform rate and to clearly spelt out the items of taxes to be subsumed in each category. Automation of the VAT system to meet the global standard of VAT administration should be made, such will eliminate evasion of VAT remittance and reduced black economy. The VAT deductible should be clearly shown in the invoice, separately plus the cost to arrive at the total item cost, VAT input-output set-off should be allowed which will enable the organisations abreast the fact that VAT is not a cost to them. Though the 5% VAT currently charged in Nigeria is the world lowest rate, can be maintained but effort must be geared towards capturing all the VATable business and enlighten them about the implication of non-remittance and consequences, hence the provision of VAT tribunal as recommended by the VAT Act 1993 is overdue. A massive campaign should be embarked by the government to enlighten the citizens of the need for them to be patriotic, while the government should be transparent, accountable and dedicated to serve with honesty to earn people confidence, so that both the government and governed will keep to their obligation for overall growth and development in the economy.

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