**EFFECT OF VALUE ADDED TAX ON A PROFITABILITY OF MANUFACTURING FIRM**

**A STUDY OF SOME MANUFACTURING COMPANIES IN ENUGU STATE**

**BY**

**ONAGA MAC PAUL, I.**

**U14/MSS/ACC/045**

**A PROJECT PRESENTED TO THE**

**DEPARTMENT OF ACCOUNTING AND FINANCE,**

**FACULTY OF MANAGEMENT AND SOCIAL SCIENCES**

**GODFREY OKOYE UNIVERSITY ENUGU STATE**

**JULY, 2018**

**TITLE PAGE**

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GODFREY OKOYE UNIVERSITY ENUGU STATE

IN PARITAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc) DEGREE IN ACCOUNTING/FINANCE

JUNE, 2018**DECLARATION**

I, Onaga Mac Paul. I hereby declare that this research work was written by me and has not been subitted or received anywhere for the purpose of acquiring degree in Accounting or any other programme.

**---------------------------------- -----------------------**

**ONAGA MAC PAUL, I. DATE**

**APPROVAL PAGE**

In partial fulfillment of the requirement for the award of Bachelor of Science Degree in Accounting/Finance, this research Project titled “Effect of Value Added Tax on a Profitability of Manufacturing Firm. A Study of Some Manufacturing Companies in Enugu State” has been prepared and submitted by Onaga Mac Paul, I., Reg. No. U14/MSS/ACC/045 who is hereby recommended for oral examination/defence

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**External Examiner Date**

**DEDICATION**

This project is dedicated to God Almighty for His infinite love and protection, throughout this research work.

**ACKNOWLEDGEMENTS**

**­** I must acknowledge and express my gratitude to all those who contributed in one way or the other to bring about the fulfillment of this research work.

First and foremost my unfailing gratitude goes to God Almighty, the sole owner of my life who never failed me and will never fail me, to Him alone will all glory be forever.

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**TABLE OF CONTENTS**

Title Page i

Declaration page ii

Dedication iii

Acknowledgements iv

Abstract v

**CHAPTER ONE: INTRODUCTION**

* 1. Background to the study 1
  2. Statement of study 4
  3. Objectives of the study 6
  4. Research Questions 6
  5. Research hypotheses 7
  6. Significance of the study 8
  7. Scope of the study 9
  8. Limitations of the study 9
  9. Definition of Terms 10

**CHAPTER TWO: REVIEW OF RELATED LITERATURE**

* 1. Conceptual framework 12
     1. Definition of Taxation 12
     2. Overview of Value Added Tax (VAT) 14
     3. VAT Administration in Nigeria 16
     4. Objectives of Taxation 20
     5. Canons of Taxation 23
     6. Impact of Value Added Tax in Nigerian Economy 26

2.2 Theoretical Framework 29

2.3 Empirical Review 32

**CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY**

* 1. Research design 39
  2. Sources of data 39

3.2.1 Primary Sources of Data 39

3.2.2 Secondary Sources of Data 39

* 1. Population of the study 40
  2. Determination of Sample size 40
  3. Instrument of Data Collection 41
  4. Sampling techniques 42
  5. Validity of the instrument 42
  6. Reliability of the instrument 43
  7. Method of data analysis 43

**CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS**

* 1. Data presentation 46

4.2 Testing of hypotheses 55

**CHAPTER FIVE:**

**SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSIONS**

* 1. Summary of findings 61
  2. Conclusion 61
  3. Recommendations 62

References 65

Appendix 67

**CHAPTER ONE**

**INTRODUCTION**

**1.1 Background to the Study**

There are quite a number of definitions of tax or taxation depending on the qualities it poses. In that vein, taxation is the process or machinery by which communities or group of persons are made to contribute in some agreed quantum and method for the purpose of the administration and development of the society (Adedeji, 2010).

Taxation is the system of imposing levy by the government against the income, profit or wealth of the individual, partnership and corporate organization (Aluko, 2009).

In the present dispensation of Nigerian economy, taxation has always been a means by which communities are provided with common facilities such as access roads, security, amongst others from time immemorial.

In Nigeria, sales tax came into being in 1986. VAT introduction in 1993 heralded the abolition of sales tax.

According to Anyafor, (2006), the rationale behind replacing sales tax with VAT is informed by the following reasons;

1. The base of the sales tax in Nigeria is narrow. It covers only nine categories of goods plus sales and services in registered hotels, motels and similar establishments,

2. The sales tax act targeted only locally manufactured goods,

VAT is a consumption tax and is based on the general consumption behavior of the people, thus the base is large.

Igbonyi, (2008) citing the Act (then decree) section 7 (2) which states that VAT shall be administered and managed by the Federal Board of Inland Revenue Service (FIRS) but shared by the three tiers of government in Nigeria from 1999 to date as follows;

Federal Government: 15%

State Government: 50%

Local Government: 35%

Value added tax (VAT) according to Isah (2011) is a consumption tax, levied at each stage of the consumption chain and borne by the final consumer of the product or service. The administration of VAT is relatively easy, unselective and difficult to evade. Countries all over the world, look for ways to boost their revenue, this facilitated many nations to introduce value added tax on goods and services. For instance in Africa, VAT has been introduced in Benin Republic, Cote d’Ivore, Guinea, Kenya, Madagascar, Mauritius, Senegal, Togo, Nigeria. Evidence suggests that in these countries VAT has become an important contributor to government revenue (Oyebanji, 2010).

Value added tax (VAT) according to Tabansi (2005) is a tax introduced in Nigeria in 1993 and implemented in 1994. It is imposed on goods and services at the rate of 5%. The main aim of this tax is to raise revenue to government and its incidence is borne by the final consumer. VAT is collectible from both imported and locally manufactured goods and services.

Adedeji, (2010) defined VAT as a consumption tax, charged at 5% on all vatable goods and services.

He went further to state the attributes of VAT as:

1. VAT is a consumption tax;

2. VAT is a multi-stage tax, and

3. The incidence of VAT is on the final consumer.

Anyafor, (2006) asserted that VAT has tremendously increased the revenue earnings of government as opposed to the normal system before the advent of the (VAT), it has reduced the incidence of tax invasion as many people who hitherto used to avoid VAT has been paying as it is indirect form of tax system. Many goods that people purchase these days has tax tag sometimes unknowingly by them. VAT paid by a business on purchases is known as input tax, which is recovered from VAT charged on company's sales, known as output tax (Anyafor, 2006). 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 the excess from FBIR though in practice this is not always possible. A Taxpayer however has the option of recovering excess input from excess output of a subsequent period. Isah, (2011) stated that recoverable input is limited to 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.

**1.2 Statement of Problem**

The attitude of Nigerians towards Value Added Taxation is worrisome as many prefer not to pay tax if given the opportunity. This is due to the fact that most people consider tax as loss in profit. The economy continues to lose huge amount of revenue through the unwholesome practice of tax avoidance and tax evasion, these loss of revenue can change the fortune of many economy particularly, developing countries like Nigeria. This problem has been lingering for so long which urgent attention and solution is overdue.

The cost of collecting tax in Nigeria (both social and economic cost) is too high to the extent that, if left unchecked, the cost may soon outweigh the benefit or value derived from such operation and that will not be appropriate for the system. The government spends more to realize a miserable pittance.

The rate of corruption on the part of tax officials is alarming as most of them connive and collude with supposed-tax- payer to evade and avoid tax.

Sometimes, the tax officials are not properly trained on the modern ways of tax administration. The inadequate social infrastructures in Nigeria call for attention as to how tax revenue generated is to be expanded and accounted for, especially where those in authority continue to spend these hand-earned resources with reckless abandon.

**1.3 Objectives of the Study**

The broad objective of this study is to appraise the effect of Value Added Tax (VAT) on profitability of manufacturing firms in Nigeria focusing on a study of selected manufacturing industry.

The specific objectives include the following:

1. To determine the extent to which Value Added Tax (VAT) has contributed to the Gross Domestic Product of Nigeria.
2. To identify how money supply affect VAT payment in Nigeria.
3. To examine the relationship existing between the cost of collecting VAT and the benefits derived from it.

**1.4 Research Questions**

The following research questions are stated for this study:

1. To what extent has Value Added Tax (VAT) contributed to Gross Domestic Product of Nigeria?
2. How does money supply affect VAT payment in Nigeria?
3. Does a significant relationship exist between the cost of collecting VAT and the benefits derived from it?

**1.5 Research Hypotheses**

The following hypotheses are formulated for this study:

Hypothesis One

HO: Value Added Tax (VAT) has not contributed to economic growth of Gross Domestic Product of Nigeria.

HI: Value Added Tax (VAT) has contributed to Gross Domestic Product of Nigeria to a great extent.

Hypothesis Two

HO: Money supply does not have significant effect on VAT payment in Nigeria.

HI: Money supply has significant effect on VAT payment in Nigeria.

Hypothesis Three

HO: A significant relationship does not exist between the cost of collecting VAT and the benefits derived from it.

HI: A significant relationship exists between the cost of collecting VAT and the benefits derived from it.

**1.6 Significance of the Study**

This research work will be an invaluable source of literature for researchers, student, marketing practitioners, accountants, bankers, companies, government agencies and related field who might be interest in knowing much about the concept of VAT.

Its general contributions to economic development of Nigeria were mentioned. Its advantages and disadvantages, types of taxes, the origin of VAT, its application, impact and administration were thoroughly analyzed which will be an indispensable material to the above mentioned beneficiaries. It will also help the government in her policy formulation to suggest alternative strategies that can aid effective administration and monitoring of the VAT process and procedures. All these will contribute immensely to the knowledge previously had by some of the beneficiaries mentioned above.

**1.7 Scope of the Study**

This study covers selected manufacturing firms in Enugu State. The firms selected are; Innoson Nigeria Ltd, Emenite Nigeria Ltd and Coca Cola Bottling Company.

**1.8 Limitation of the Study**

The researcher encountered diverse constraints in the process of carrying out this research study.

**1. Difficulty in gathering Research Material:**

There was difficulty in gathering the necessary information or materials necessary for the successful completion of this research study. This is due to the fact that most of the respondents were either not on sit or were uncooperative in providing the necessary information as regards to their responses.

**2. Time Constraints**

Time also posed as a constraint to the successful completion of this research study. The researcher had to combine the time for lectures and work to carrying out this research study. Though it was not easy but she was still able to carry out the research work.

**3. Finance:**

There was not enough finance on the part of the researcher to complete this research study.

Irrespective of these constraints, the researcher was still able to successfully carry out this research study.

**1.9 Definition of Terms**

**Value Added Tax:** A value-added tax (VAT) is a type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale.

**Gross Domestic Product:** Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

**Total Consolidated Revenue:** Total consolidated revenue is the aggregate of all revenue generated by a parent company and its majority-owned subsidiaries, after intercompany eliminations. Intercompany eliminations refer to sales included by one company to another majority-owned subsidiary or its parent.

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.1 Conceptual Framework**

**2.1.1 Definition of Taxation**

Tax has been defined in many ways by different authors. Anyanwu (2007) defined tax as “compulsory transfer or payment of money (or occasionally of goods and services) from private individuals, institutions or and services) from private individuals, institutions or groups to the government. It may be levied upon wealth or income or in the form of surcharge on price.

According to Okpe (2008) “tax is the transfer of resources and income from the private sector to the public sector in order to achieve some of the nation’s economic and social goals, maybe in the form of provision of additional government basic services particularly in education, public health, transportation, capital formation and in the provision of facilities.

Anyanwaokoro (2004) defined tax as “a compulsory payment imposed by the government on individuals and corporate bodies in the governed area for which no direct goods or services are given in exchange of the payment made”.

Adebao (2009) also defined tax as “a compulsory levy imposed by the government on individuals and business organizations. It is a payment in return for which no direct and specific “quid pro quo” is offered by the government and indirect benefit to different individual taxpayers cannot be determined. From the above definitions Okwo (2011) summarized tax as a compulsory payment made by individuals and corporate bodies to the government for financing government expenditure or for general purpose of government aimed at improving the taxpayers welfare and in which both the taxpayer and the public at large benefit. There are three elements of taxation. These are;

* The tax base
* The tax rate
* The tax yield

The tax base is the object being taxed. Examples of tax based are income, profit and property.

The tax rate is the proportion of the value of the tax based that is paid as tax.

The tax yield is the actual amount accrued to the government in tax.

**2.1.2 Overview of Value Added Tax (VAT)**

VAT is a tax on consumption; the more you buy the more tax you pay. It is also a neutral tax on businesses in that it does not represent a real cost to anyone but the end consumer. Everybody pays tax to the Government whenever they purchase goods or services. This tax is collected for the government by the supplier of those goods and services. VAT revenue has become a significant source of government revenue in Nigeria. Therefore, the primary objective of fiscal policy is to raise more revenue through value added tax (Ademola, 2009). The tax authorities have been guided by the need to design equitable and efficient VAT system capable of complementing government expenditure and, thus, reduce recourse to public borrowing. VAT rate in Nigeria has been determined in a way that minimizes disincentive effects on economic activities. The effects of low tax effort in Nigerian have been strengthened by the value added tax system.

The concept of value added as given by Ajibola (2005) refers to the additional value of a commodity over the cost of commodities used to produce it from the previous stage of production. In national accounts used in macroeconomics, it refers to the contribution of the factors of production, i.e., land, labour, and capital goods, to raising the value of a product and corresponds to the incomes received by the owners of these factors. It is this value added that VAT is levied upon. Consequently, value added tax, or goods and services tax is tax on exchanges at different points. It differs from sales because a sales tax is levied on total value of the exchange. Personal end consumers of products and services cannot recover VAT on purchases, but businesses are able to recover VAT on the materials and services that they buy to make further supplies or services directly or indirectly sold to end-users. In this way, the total tax levied at each stage in the economic chain of supply is a constant proportion of the value added by a business to its products, and most of the cost of collecting the tax is borne by business, rather than by the state.

According to Anyafo, (2007) a value-added tax (VAT) is a form of [consumption tax](http://en.wikipedia.org/wiki/Consumption_tax). From the perspective of the buyer, it is a tax on the purchase price. From that of the seller, it is a tax only on the [value added](http://en.wikipedia.org/wiki/Value_added) to a product, material, or service, from an accounting point of view, by this stage of its manufacture or distribution. The manufacturer remits to the government the difference between these two amounts, and retains the rest for themselves to offset the taxes they had previously paid on the inputs.

The purpose of VAT is to generate tax revenues to the government similar to the corporate income tax or the personal income tax (Anyanwaokoro, 2004).

The value added to a product by or with a business is the sale price charged to its customer, minus the cost of materials and other taxable inputs. A VAT is like a [sales tax](http://en.wikipedia.org/wiki/Sales_tax) in that ultimately only the end consumer is taxed. It differs from the sales tax in that, with the latter, the tax is collected and remitted to the government only once, at the point of purchase by the end consumer. With the VAT, collections, remittances to the government, and credits for taxes already paid occur each time a business in the supply chain purchases products.

**2.1.3 VAT Administration in Nigeria**

There is a growing recognition among developing countries of the crucial role of value added tax revenue as an instrument of economic development. Value added tax (VAT) revenues are increasingly accounting for significant proportion of government revenue to finance the required level of public expenditure both at federal, state and local government levels. Value added tax as a consumption tax has been embraced by many countries worldwide. Because it is a consumption tax, it is relatively easy to administer and difficult to evade. Value Added Tax (VAT) was invented by a French economist in 1954 as “taxesur la valeur” (TVA in French). He envisioned a sales tax on goods that did not affect the cost of manufacture or distribution but was collected on the final price charged to the consumer. In France, it is the most source of state finance, accounting for approximately 45% of state revenues.

It did not matter how many transactions the goods went through; the tax was always a fixed percentage of the final price. The tax was finally adopted by France in 1954. Upon the formation of the Common Market in Europe (now the European Union) it was decided that one requirement of joining was the imposition of a form of VAT. In 1973 the UK joined the European Union and replaced the existing Sales Tax with VAT (Ugwuanyi, 2009).

The value added tax system in Nigeria was created as replacement or substitution for the sales tax that was in operation before. It was 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 (Ugwu, 2008). As per the VAT Decree No. 102 1993, certain goods and services have been exempted from the purview of value added taxation. Such goods include all exported goods, medical and pharmaceutical products, products meant for kids, basic food items, commercial vehicles and their spare parts, books and other educational materials, fertilizer, farming machines, agricultural products, farming transportation equipments and veterinary medicines and magazines and newspapers. The Nigeria Federal Government enacted the VAT Amendment Act in 2007.

The yield from VAT is fairly accurate measurement of the growth of an economy since purchasing power (which determines yield) increase with economic growth. According to Pandey, (2011) VAT is a self-assessment tax that is paid when returns are being rendered. In-built in the new tax is the refund or credit mechanism which eliminates the cascading effect that is a feature of the retail sales tax. The input output tax mechanism in VAT also makes it self-policing. In essence, it is the output tax less input tax that constitutes the VAT payable (Owler and Brown, 2007). It is the equivalent of the VAT paid by the final consumer of the product that will be collected by the government. Value added tax, also known as goods and services tax (GST) proves to be beneficial for the government. Through implementation of this tax system, government can raise revenues invisibly, where the tax is not shown on the bill paid by the buyer. VAT differs from sales tax in various aspects. While sales tax is to be paid on the total value of the goods and services, VAT is levied on every exchange of the product, so that consumers do not have to carry the total cost of tax. However, VAT is generally not applied on export goods to avoid double taxation on the final product. However, if VAT is charged on export goods, the tax amount is usually refunded to the tax payer (Fregman, 2009). The individual consumers cannot recover VAT on purchases made by them. However, businesses can recover VAT on the services and materials, which are bought by them in order to continue the supply of the products and services.

Presently, the VAT rate in Nigeria is 5%. Although VAT is a multistage tax, it has a single effect and does not add more than the specific rate to the consumer price no matter the number of stage at which the tax is paid.

Value Added Tax is administered in Nigeria by the Federal Inland Revenue Service (FIRS) through the VAT Directorate located at its Head office Abuja. Thus, jurisdiction of VAT lies with the Federal Government of Nigeria. VAT proceeds are distributed to the three-tiers of government as follows:

15 percent to the Federal Government, 50 percent to the State Governments and the Federal Capital territory, Abuja, and 35 percent to the Local Governments. Thus, on the aggregate, the state governments actually enjoy a greater portion of VAT revenue. However, this is distributed equally among the 36 states of the Federation (Nweze, 2006).

**2.1.4 Objectives of Taxation**

The main objective of taxation according to Okwo (2001) is to raise revenue to meet the cost of general administration and social services. Apart from this main objective, taxation is also used to regulate the economy and economic activities income. She further summarized the core objectives of taxation thus;

1. To raise revenue: The main aim of taxation is to raise revenue to finance government expenditure. Government imposes taxes primarily to generate revenue for the financing of its expenditures such as building of schools, construction of roads, provision of pipe-born water and the establishment of industries. All these are geared towards raising the standard of living of the citizens.
2. To protect infant industries: Government does this by import duties on imported goods so as to discourage people from buying and using them, thereby encouraging the use of locally made goods. Often tax holiday is granted to these infant industries. The effect of this is to further reduce the cost of the locally made goods. This gives the locally made goods a cost advantage over the imported ones. When importation is discouraged, more job opportunities are created and this leads to increased employment and growth of the economy.
3. To Reduce Inequality of Income: Taxes help to reduce the gap between the incomes of the rich and the poor. A progressive tax system is used to carry tax rate increases as the size of income or stock of wealth which is being taxed increases i.e more money is taken from the rich than the poor. Highly progressive taxation of income tends to reduce the consumption and accumulation of wealth by the rich.
4. To Check the Consumption of certain Commodities: Taxes are used to check commodities that are harmful to human health such as tobacco. Government can also use taxes to discourage the consumption of non-essential goods either foreign or locally produced such as expensive clothing materials. This normally leads to a rise in the prices of the affected products, hence a fall in demand.
5. To Curb Inflation: During a period of inflation, government can increase taxes to reduce disposable income and aggregate demand. Higher taxation unaccompanied by increased government expenditure will decrease consumers’ purchasing power and lower prices. Conversely during deflation, government can reduce taxes to increase disposable income and aggregate demand.
6. To correct Balance of Payment Deficits: Taxes may be imposed to reduce imports and encourage exports so as to control balance of payment deficits.
7. To Allocate Resources: Government can use taxes to allocate resources between private and public goods, investment and consumption goods. It can also be used to correct deficiencies in pricing mechanism resulting from e.g. monopoly elements etc.
8. To Prevent Dumping of Cheap Commodities: Government can impose certain tariffs to serve as anti-dumping device so as to prevent dumping of cheap commodities by certain industrialized nations.

**2.1.5 Canons of Taxation**

Canon is a generally accepted rule, standard or principle by which something is judged. The canons of taxation are thereby the principles, qualities and conditions that lie behind a tax system. A good tax system should have certain attributes or characteristic. These are stated by Okwo (2011) as thus;

1. Equality: This principle holds that people should be taxed in proportion to their respective abilities i.e. in proportion to their income. This does not mean that each taxpayer must pay an equal amount but two people earning the same income should pay the same amount of tax. This principle is also known as ability to pay principle. The progressive tax system takes into account this principle i.e. the higher you earn the more tax you pay.
2. Convenience: This principle holds that the time and method of payment of taxes should be convenient to the taxpayer. A situation where a taxpayer travels some kilometers just to go and pay tax is not convenient. The pay-as-you-earn (PAYE) system where the employer from source deducts taxes is a very convenience principle does not mean that tax payers should decide when to pay taxes. The indirect tax e.g. value-added-tax (VAT) is another convenient way of paying taxes. This is because the tax is paid as one makes any purchase o veritable goods.
3. Certainty: This principle means that taxpayers should be fully informed about taxes and should be able to work out their tax dues certainly. The taxpayers should know in advance the exact amount to pay and when to pay. He or she should know the rate of tax and how to calculate his tax due.
4. Simplicity: The administration of a tax system should not be difficult to understand. The language of expression must be unambiguous and the procedure for its computation must not be complicated so as to avoid tax avoidance and tax evasion. Tax avoidance refers to a taxpayer’s efforts to avoid paying tax by finding legal loopholes in the tax system while tax evasion is an illegal attempt not to pay tax.
5. Flexibility: Government should be able to revise the tax structure with respect to its coverage and rates whenever necessary. Government should be able to abolish or introduce tax whenever necessary. For instance sales tax and capital transfer tax were abolished and value-added-tax introduced. Government can also change tax rates when there is there is inflation and reduce tax when there is deflation. Also when government urgently requires additional money, it can increase tax rate.
6. Economy: The cost of collecting taxes should not be more than the amount of taxes collected. The primary objective of collecting taxes is to raise revenue. A situation where the tax collected is not enough to offset the cost of collection such as salaries of tax workers, and administrative expenses is not desirable. A good tax is one, which is economical to collect.
7. Neutrality: A good tax system should have a neutral effect on the demand and supply of goods and services. The distortion of economic activities should be minimal. It should not affect people’s willingness to work, save, invest, or produce. It should encourage productivity, create employment and facilitate growth in the economy.

**2.1.6 Impact of Value added Tax in Nigerian Economy**

An appraisal of the operation of VAT in Nigeria is expected to unravel the extent to which it has assisted the state in its objective of wealth creation and development. From the classical perspective, the

Nigeria VAT system might be examined on three touchstones, namely; efficiency, administrative convenience and equity.

The efficiency criterion as Adedeji (2006) put it, embraces administrative and equity as well as fiscal autonomy especially in the federal fiscal system like Nigeria. He further states the following ways of determining or measuring VAT effectiveness in Nigeria, which include;

**Budget Objective:** The validity of an exclusive tax appraisal is dependent on two factors; the extent of information government have about the macroeconomic variables including the potential of VAT and how much control they have over such externalities as political system, the rate of inflation and the overall tax system. The assumption that the degree of under or over estimation of the tax potential are not too disproportionate to the tax base. The more realistic a tax estimate is vis a viz the taxable capacity, the easier it is to assess tax effort.

The most reasonable index of the capacity of VAT to accelerate economic growth and wealth creation is its effectiveness in mobilizing privately held resources, which automatically should boost public revenue, enhance consumption patterns, generate savings and as well create wealth for the economy (Jayeola, 2009). In the first year of administration of VAT, Nigeria government estimated that as much as N6 billion should be the target revenue.

This translated to the fact that the tax was projected to achieved in only six months about 150% of what the sales tax achieved in four and half years (Ijewere, 2010).

**Comparative Appraisal:** This simply means assessing the level of effectiveness of various forces within the system by juxtaposing them among each other. The incontestable financial productiveness of VAT

viz-a-viz other taxes in fiscal territory is however, the strongest comparative determinant in the Nigeria tax system (Isah, 2007).

**Cost Effectiveness:** The implementation of VAT in Nigeria was marked by apprehensions that going by the broadness of the base, the cost of monitoring would be too high. Not only that, there was presumption that administrative costs would consumed heavily, the estimated revenue leaving government with a low net yield. FIRS itself, is keen on keeping cost far below revenue from VAT to the fiscal market on the strength of only 36 local VAT official nationwide at the inception of the tax. It is internationally accepted that the capital for financing a tax project should neither be more than 10% of the yield nor less than 5% of the estimated revenue for an efficient tax administration (Aluko, 2009).

**Concentration and Dispersion Effect:** Anyafor, (2008) stated that the introduction of VAT in Nigeria did not only eliminate the sales tax levied at differential rate but also eliminated certain classes of tax which were no longer effective. He specified what he termed concentration and dispersion indices to effective tax system.

**Management by Objective:** Although government is to every conscious tax officer an economic institution. “To emphasis only profit misdirects managers to the point where they endanger the survival of the business”. Aluko (2009) concludes that VAT has far reaching effective on wealth creation and economic development of Nigeria as a whole. The success story of VAT so far is a triumph of economic expertise. It is the resolve of government determination to improve the fiscal policy of this county with VAT, it is clear that the revenue of this country does not come from one section to satisfy the other sections as the case with oil revenue. It is expected that in the near future, the tax regime will ever contribute more to the gross tax yield and increase the tax portfolio of Nigeria and enhanced meaningful industrial and infrastructural development as well as wealth creation in Nigeria.

**2.2 Theoretical Framework**

According to Bhartia, (2009), ataxation theory may be derived on the assumption thatthere need not be any relationship between tax paid andbenefits received from state activities. In this group, thereare two theories, namely,

* Socio-political theory
* The expediency theory

Also, a taxation theory may be based on a link between tax liability and state activities. This reasoning justifies the imposition of taxes for financing state activities and also providing a basis for apportioning the tax burden between members of the society. This reasoning yield the benefit received theory and cost of service theory. There is also the faculty theory of taxation.

**Socio Political Theory:**

This theory of taxation states that social and political objectives should be the major factors in selecting taxes. The theory advocated that a tax system should not be designed to serve individuals, but should be used to cure the ills of society as a whole.

**Expediency Theory:**

This theory asserts that every tax proposal must pass the test of practicality. It must be the only consideration weighing with the authorities in choosing a tax proposal. Economic and social objectives of the state as also the effects of a tax system should be treated irrelevant (Bhartia, 2009).

**Benefit Received Theory:**

This theory proceeds on the assumption that there is basically an exchange relationship between tax-payers and the state. The state provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received (Bhartia, 2009). Anyanafo, (2009) argues that taxes should be allocated on the basis of benefits received from government expenditure.

**Cost of Service Theory:** This theory is similar to the benefits received theory. It emphasizes the semi-commercial relationship between the state and the citizens to a greater extent. In this theory, the state is being asked to give up basic protective and welfare functions. It is to scrupulously recover the cost of the services and therefore this theory implies a balanced budget policy.

**Faculty Theory:** According to Asterious and Hall, (2010), this theory states that one should be taxed according to the ability to pay. It is simply an attempt to maximize an explicit value judgment about the distributive effects of taxes. Bhartia, (2010) argue that a citizen is to pay taxes just because he can, and his relative share in the total tax burden is to be determined by his relative paying capacity.

This study is anchored on the Benefit Received Theory. This is based on the premise the theory was able to explain the fact that the major aim of paying taxes is to enable the government to provide diverse basic and social amenities for its citizenry.

**2.3 Empirical Review**

Hino and Murphy (2001) argue that states differ significantly in their individual abilities to generate revenue. They further posit that states in the west and East (rivers state inclusive) have stronger ability to generate income more than states in the North reflecting disparities in agricultural endowment and level of industrialization. They also revealed that fiscal analysis in Nigeria is hampered

by the lack of reliable and comprehensive data on the financial operations of all tiers of government, particularly sub-national government.

Mbanefoh (2012) compared the proportion of the combined revenues of the federal and state governments collected by each and found that for the period 1970 to 1993 state governments independent revenue as a proportion of the federal and state government average about 6.6 percent. This explains why the state governments depend on federal government for over 70 percent of their recurrent revenue. On the average, state governments generated only 22.5 percent of their total current revenue from internal sources and only 18 percent of state government total expenditures are financed from their independent revenue sources in the period 1970 to 1993. Furthermore, there is an observed horizontal fiscal imbalance between, per capita distribution of income and wealth and volume of business transactions among the states.

These differences result in wide disparities in per capita revenue collection potentials of the states. These disparities reflect the possible differences in the fiscal capacity, fiscal need and fiscal comfort or stress of each state.

Omoh (2007) analyzed the revenue generating capacity of the nine oil producing states. He disposed that the nine states generated internally of total of N97.293bn between 1993 and 2003. He employed simple comparative and descriptive analysis for the study. He posits that the internally generated revenue when compared to the N886.57bn they collected from the federation account between June 1999 and July 2004 is just 10.97 percent of federation allocation to the nine states. He further disclosed that Rivers State generated the highest revenue of N33.217bn during the period which is about 22.78 percent of the net allocation to states from the federation account in the last five years.

In their study of the relationship between company income tax and Nigerian economic development, Festu and Samuel (2007) reported that in Nigeria, the role of tax revenue in promoting economic activities and growth is not felt primarily because of its poor administration, perception and often an undesirable imposition which bears no relation to the responsibilities of citizenship or t the service provided by the government. Their study further revealed that an efficient and effective tax administration results in increased revenue yield, but this is not possible because of the presence of evasion and avoidance due to loop holes in the tax laws. On the other hand, Adedeji and Oboh (2010) stated that people expect that by sacrificing their private resources to the state in the form of taxes, government is expected to reciprocate by spending public revenue in a way that will enhance their welfare. However, government and tax collectors have been dubiously mismanaging the public treasury. There is high level of manipulation and diversion of tax revenue by the collectors. The dwindling tax revenue as presently witnessed results from lack of encouragement to the taxpayer, due to the fact that there is very little evidence to show for taxes collected. For these reasons, there are increased cases of tax evasion. Therefore, this gap in existing literature on tax revenue and economic growth needs to be filled.

Tosun and Abizadeh (2005) in their study of economic growth of tax changes in OECD countries from 1980 to 1999 reveal that economic growth measured by GDP per capita has a significant effect on the tax mix of the OECD countries. The analysis reveals that different taxes respond to the growth of the GDP per capita. It is shown that while the shares of personal and property taxes have responded positively to economic growth, shares of the payroll and goods and services taxes have shown a relative decline.

Okafor (2012) investigated the impact of income tax revenue on the economic growth of Nigeria as proxied by the gross domestic product (GDP). The study adopted the ordinary least square (OLS) regression analysis technique to explore the relationship between the GDP (the dependent variable) and a set of federal government income tax revenue heads over the period 1981-2007. The regression result indicated a very positive and significant relationship between the components of tax revenue and the growth of the Nigeria economy.

Adereti, Sanni and Adesina (2011) studied value added tax and economic growth in Nigeria. Time series data on the Gross Domestic Product (GDP), VAT Revenue, Total Tax Revenue and Total (Federal Government) Revenue from 1994 to 2008 sourced from Central Bank of Nigeria (CBN) were analyzed, using both simple regression analysis and descriptive statistical method. Findings showed that the ratio of VAT Revenue to GDP averaged 1.3% compared to 4.5% in Indonesia, though VAT Revenue accounts for as much as 95% significant variations in GDP in Nigeria. A positive and significant correlation exists between VAT Revenue and GDP. Both economic variables fluctuated greatly over the period though VAT Revenue was more stable. No causality exists between the GDP and VAT Revenue, but a lag period of two years exists.

Akwe (2014) analysed the impact of Non-oil Tax Revenue on Economic Growth from 1993 to 2012 in Nigeria. To achieve this research objective, relevant secondary data were used from the 2012 Statistical Bulletin of the Central Bank of Nigeria (CBN). These data were analyzed using the Ordinary Least Squares Regression. The result from the test shows that there exists a positive impact of Non-oil Tax Revenue on economic Growth in Nigeria.

**CHAPTER THREE**

**RESEARCH DESIGN AND METHODOLOGY**

**3.1 Research Design**

This study is a descriptive type. According to Orji (2006:19) descriptive research is concerned with the collection, presentation, analysis and interpretation of data for the purpose of describing vividly existing conditions, prevailing practical beliefs, attitudes and on-going processes.

**3.2 Source of Data**

This data used for this study were obtained from two main sources as follows

**3.2.1 Primary Sources**: This is an original way of gathering information. It is made up questionnaire and oral interviews.

**3.2.2 Secondary Source**: Secondary source of information are those which contain accounts of events or phenomena by other people who did not participate or witness the events. They are Textbooks, Journals and Periodical, Newspapers, Magazines etc.

**3.3 Population of Study**

The population of study covers staff and management of Federal Inland Revenue Service, Enugu. The total population of the management and staff is 45.

**3.4 Determination of Sample Size**

In order to get a representation of the entire population, the Taro Yamani statistical formula was employed. According to Taro Yamene (1964) the formula is stated as follows

n = N

1+N(e)2

Where n = represents the sample size

N = represents the population

e = represents the margin of error

I = constant

For the purpose of this study, N will be equal to 45, e will be assumed to be 5%

Therefore the sample size for this research work will be

n = 45

1+45 (0.05)2

= 45

1+ 45 (0.0025)

= 45

1 + 0.1125

= 45

1.1125

n = 40

The sample size for this study is 40.

**3.5 Instruments for Data Collections**

The research instrument that was used by the researcher in collecting useful information on this topic is questionnaire.

A questionnaire by definition is a list of questions or statement to which individuals are asked to respond in writing. It is used when factual information is desired.

In this study, the questionnaire used by the researcher was highly structured and it contains close ended questions to elicit relevant reactions from their respondents.

It was also carefully designed to accommodate two sections. The first section is personnel data which will generate proper data regarding to the respondents characteristics like; sex, age, educational level while the other deals on relevant aspects of the topic under study.

**3.6 Sampling Techniques**

In order to get a good representation of the population, the researcher used the stratified random sampling techniques. To make a sample a true representation of the parent population, she first divided the entire population into homogenous groups called strata. By applying the systematic sampling, she selected items from each stratum into the sampling. Using this method, she selected items out of a population of staff.

**3.7 Validation of the Instrument**

To ensure validity of the research questionnaires the set of drafted questions was sent to the research supervisor, an expert in research supervision, who ensured that the questions were clearly appropriate and covered the research objective of the study.

After this a pilot study of two of the respondents was carried out. The combined effort led to modification of some questions, additions, and selection of some other leading to a set of questions that are clear, unambiguous with enough coverage of the research objectives.

**3.8 Reliability of the Instrument**

Reliability is the degree to which an assessment tool produces stable and consistent results.

This research project will adopt the test-retest reliability which is a measure of reliability obtained by administering the same test twice over a period of time to a group of individuals.  The scores from Time 1 and Time 2 can then be correlated in order to evaluate the test for stability over time

* 1. **Method of Data Analysis**

In treating and analyzing of data collected extensive use of tabular and percentage will be paramount. The data collected will be presented in table and analyzed with percentage. The hypotheses will be analyzed by the use of Chi – Square formular.

The formular is shown below:

X 2 = Σ (o – e) 2

e

Where: X 2 = Chi – Square

O = Observed frequency

E = Expected frequency

**CHAPTER FOUR**

**DATA PRESENTATION AND ANALYSIS**

* 1. **Data Presentation**

The presentation of data collected means the way of arranging the different forms of data obtained through various data collecting techniques to enable the researcher perform analysis and exact new meaning from it. The data collected will be presented in simple table. The data analyses were based on the answer to the key questions received from the various departments. The key questions in the questionnaires will be analyzed by the use of simple percentage.

**Presentation of Demographic Characteristics**

Table 4.1: Distribution Of Respondents According To Gender

|  |  |  |
| --- | --- | --- |
| Gender | Number of respondents | Percentage |
| Male | 28 | 70 |
| Female | 12 | 30 |
| Total | 40 | 100 |

**Source:** Field Survey, 2018

The above table shows that 70% of the respondents are male while 30% of them are females.

Table 4.2: Distribution Of Respondents According To Academic Qualification

|  |  |  |
| --- | --- | --- |
| Academic qualification | Number of respondents | Percentage |
| GCE/WAEC | - | - |
| OND/NCE | 7 | 18 |
| HND/BSC/BA | 25 | 63 |
| MSC/MBA | 5 | 13 |
| PHD and others | 3 | 6 |
| Total | 40 | 100 |

**Source:** Field Survey, 2018

The above table shows that none of the respondents have only GCE/WAEC, 18% of them have up to OND/NCE, 63% of them have up to HND/BSC/BA, 13% of them have up to MSC/MBA while 6% of them have up to PHD and other qualifications.

Table 4.3: Distribution of Respondents According To Working Experience

|  |  |  |
| --- | --- | --- |
| Working experience | Number of respondents | Percentage |
| 1 – 5 | 20 | 50 |
| 6 – 10 | 13 | 33 |
| 11 and above | 7 | 17 |
| Total | 40 | 100 |

**Source:** Field Survey, 2018

The above table shows that 50% of the respondents have worked in the organization between 1 – 5 years, 33% of them have in the organization between 6 – 10 years while 17% of them have worked there from 11 years and above.

Table 4.4: Distribution of Respondents According to Age

|  |  |  |
| --- | --- | --- |
| AGE | NUMBER OF RESPONDENTS | PERCENTAGE |
| 20 – 30 | 9 | 23 |
| 31 – 40 | 15 | 38 |
| 41 – 50 | 10 | 25 |
| 51 and above | 6 | 14 |
| Total | 40 | 100 |

**SOURCE:** FIELD SURVEY, 2018

The above table shows that 23% of the respondents are between the ages of 20 – 30 years, 38% of them are between the ages of 31 – 40 years, 25% of them are between the ages of 41 – 50 while 14% of them are from 51 years and above.

Table 4.5: Distribution of Respondents According to Marital Status

|  |  |  |
| --- | --- | --- |
| Marital status | Number of respondents | Percentage |
| Single | 9 | 23 |
| Married | 31 | 77 |
| Total | 40 | 100 |

**SOURCE:** FIELD SURVEY, 2018

The above table shows that 77% of the respondents are married while 23% of them are single.

**Analysis of Key Research Questions**

The analysis of data is based on the returned questions.

Table 4.6: To what extent has Value Added Tax (VAT) contributed to Gross Domestic Product of Nigeria?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| To a very great extent | 17 | 43 |
| To a great extent | 11 | 28 |
| To an extent | 7 | 18 |
| Not at all | 5 | 11 |
| Total | 40 | 100 |

**Source:** Field Survey, 2018

The above table shows that 43% of the respondents are of the opinion that Value Added Tax (VAT) has contributed to Gross Domestic Product of Nigeria to a very great extent, 28% said to a great extent, 8% said to an extent while 11% said not at all.

Table 4.7: Does money supply have significant effect on VAT payment in Nigeria?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Strongly agree | 21 | 53 |
| Agree | 11 | 28 |
| Disagree | 5 | 13 |
| Strongly disagree | 3 | 6 |
| Total | 40 | 100 |

**Source:** Field Survey, 2018.

The above table shows that 53% of the respondents strongly agree that money supply has significant effect on VAT payment in Nigeria, 28% agree, 13% disagree while 6% said strongly disagree.

Table 4.8: Does a significant relationship exist between the cost of collecting VAT and the benefits derived from it?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Strongly agree | 25 | 63 |
| Agree | 7 | 18 |
| Disagree | 6 | 15 |
| Strongly disagree | 2 | 4 |
| Total | 40 | 100 |

**Source:** Field Survey, 2018.

The above table shows that 63% of the respondents strongly agree that a significant relationship exists between the cost of collecting VAT and the benefits derived from it, 18% agree, 15% disagree while 4% of them strongly disagree.

Table 4.9: To what extent have corrupt tax officials affected the rate of VAT collection in Nigeria?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| To a very great extent | 16 | 40 |
| To a great extent | 14 | 35 |
| To an extent | 7 | 18 |
| Not at all | 3 | 7 |
| Total | 40 | 100 |

**Source:** Field Survey, 2018

The above table shows that 40% of the respondents are of the opinion that corrupt tax officials have affected the rate of VAT collection in Nigeria to a very great extent, 35% said to a great extent, 18% said to an extent while 7% said not at all.

* 1. **Testing of Hypotheses**

The hypotheses will be tested using the chi-square formula stated below:

X2 = Σ (0 - E) 2

E

Where:

X2 = calculated chi-square

0 = observed frequency

E = expected frequency

Σ = summation

The expected frequency (E) is calculated by adding all the observed frequency (0) and dividing by the number of observations.

**Decision Rule:** If the calculated chi-square value (X2) is greater than or equal to the table value at 0.05 level of significance, the alternate hypothesis (H1) is accepted, but if the calculated chi-square value is less than the table value, the null hypothesis (H0) is accepted.

**Test of Hypothesis One:**

HO: Value Added Tax (VAT) has not contributed to economic growth of Gross Domestic Product of Nigeria.

HI: Value Added Tax (VAT) has contributed to Gross Domestic Product of Nigeria to a great extent.

Data from table 4.1.6 was used to test the hypothesis

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Variables** | **O** | **E** | **0 – E** | **(O – E)2** | **(0 – E)2**  **E** |
| Strongly agree | 17 | 10 | 7 | 49 | 4.9 |
| Agree | 11 | 10 | 1 | 1 | 0.1 |
| Disagree | 7 | 10 | - 3 | 9 | 0.9 |
| Strongly disagree | 5 | 10 | - 5 | 25 | 2.5 |
| ***Total*** | ***40*** | ***40*** |  |  | ***8.4*** |

The calculated chi-square value = 8.4

Df = (C – 1) (R – 1) = (2 – 1) (4 – 1) = 3

Table value at 0.05 of significance and 3 degree of freedom (Df) = 7.3777

**Decision:** Since the calculated chi-square (X2) value (8.4) is greater than table value (7.3777), we reject the null hypothesis (Ho) and accept the altérnate hypothesis (HI). Therefore, Value Added Tax (VAT) has contributed to Gross Domestic Product of Nigeria to a great extent.

**Test of Hypothesis Two:**

HO: Money supply does not have significant effect on VAT payment in Nigeria.

HI: Money supply has significant effect on VAT payment in Nigeria.

Data from table 4.1.7 was used to test the hypothesis

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Variables** | **O** | **E** | **0 – E** | **(O – E)2** | **(0 – E)2**  **E** |
| Strongly agree | 21 | 10 | 11 | 121 | 12.1 |
| Agree | 11 | 10 | 1 | 1 | 0.1 |
| Disagree | 5 | 10 | - 5 | 25 | 2.5 |
| Strongly disagree | 3 | 10 | - 7 | 49 | 4.9 |
| ***Total*** | ***40*** | ***40*** |  |  | ***19.6*** |

The calculated chi-square value = 19.6

Df = (C – 1) (R – 1) = (2 – 1) (4 – 1) = 3

Table value at 0.05 of significance and 3 degree of freedom (Df) = 7.3777

**Decision:** Since the calculated chi-square (X2) value (19.6) is greater than table value (7.3777), we reject the null hypothesis (Ho). Therefore, money supply has significant effect on VAT payment in Nigeria.

**Test of Hypothesis Three:**

HO: A significant relationship does not exist between the cost of collecting VAT and the benefits derived from it.

HI: A significant relationship exists between the cost of collecting VAT and the benefits derived from it.

Data from table 4.1.8 was used to test the hypothesis

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Variables** | **O** | **E** | **0 – E** | **(O – E)2** | **(0 – E)2**  **E** |
| To a very great extent | 25 | 10 | 15 | 225 | 22.5 |
| To a great extent | 7 | 10 | - 3 | 9 | 0.9 |
| To an extent | 6 | 10 | - 4 | 16 | 1.6 |
| Not at all | 2 | 10 | - 8 | 64 | 6.4 |
| ***Total*** | ***40*** | ***40*** |  |  | ***31.4*** |

The calculated chi-square value = 31.4

Df = (C – 1) (R – 1) = (2 – 1) (4 – 1) = 3

Table value at 0.05 of significance and 3 degree of freedom (Df) = 7.3777

**Decision:** Since the calculated chi-square (X2) value (31.4) is greater than table value (7.3777), we reject the null hypothesis (Ho). Therefore, a significant relationship exists between the cost of collecting VAT and the benefits derived from it.

**CHAPTER FIVE**

**SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

**5.1 Summary of Findings**

The summary of findings made for this study includes the following:

1. Value Added Tax (VAT) has contributed to Gross Domestic Product of Nigeria to a great extent.
2. Money supply has significant effect on VAT payment in Nigeria.
3. A significant relationship exists between the cost of collecting VAT and the benefits derived from it.
4. Corrupt tax officials have affected the rate of VAT collection in Nigeria to a great extent.

**5.2 Conclusion**

From the findings of this study, it has been discovered that Valued Added Tax (VAT) is the bedrock of wealth creation in Nigeria as well as economic development as it contribute significantly to the nation’s Gross Domestic Product (GDP). Therefore, government must give adequate attention to taxation in general and VAT in particular under a stable and conducive sociopolitical and economic atmosphere. The effect of VAT on the Overall Tax Revenue in Nigeria is very significant, as the former contributes a very high portion in the latter.

If the administration of VAT is strengthened and the compliance rate is high, government will generate more revenue through VAT and the dividend of democracy can be effectively delivered in the light of good governance. Finally, effective VAT would off-set other challenges of the nation such as inadequate and dilapidated infrastructure, complicated and antiquated tax laws, bureaucratic complexities and week administration of the other forms of tax.

**5.3 Recommendations**

The following recommendations are made to achieve the objective of wealth creation through VAT;

1. There should be constant review of existing tax laws every four months as that of the United State of America and other advanced economics, so as to keep the act in pace with the economic reality.
2. There should be stringent penalty imposed on any individual or corporate body who indulge in any form of VAT malpractices irrespective of states, if the high correlation between VAT and Overall Tax Revenue in Nigeria should be maintained.
3. There should be constant training and re-training of VAT administrators through seminars, conference to keep them abreast with the modern trend in tax administration.
4. Government through Federal Inland Revenue Service should create an effective and reliable data base for every vatable persons to minimize (if not eliminate) the incidence of tax evasion. In the same vein, the entire tax system should be overhauled to discourage tax avoidance as VAT payers are ever willing to take advantage of loopholes in the tax system to reduce their tax liabilities.
5. Effective VAT offices should be established in every community in Nigeria so that the numerous petty traders, motor cycle operators, even the hairdressers can be made to pay VAT but with human face so as not to discourage the rural poor out of self employment.
6. The tax payers will be willing to pay tax when the evidence of the tax paid is visible in the form of infrastructural provision. Tax frauds have been reduced to a minimum level in the people republic of China because of the capital punishment on such offences, therefore any person found guilty of tax fraud should be penalized to ensure greater faithfulness in remitting VAT proceeds for the general good of the populace.

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**APPENDIX**

Department of Accounting/Finance

Godfrey Okoye University,

Enugu.

11th June, 2018.

Dear Respondents,

I am a final year student of the above named institution, currently conducting a research study on “Role of Internal Auditing in Organizational Effectiveness. A Study of Diamond Bank.”.

I implore your frank response and guarantee that the information supplied will be kept confidential.

Your personal identity is not needed as the study is for academic purpose.

Thank you for your anticipated cooperation

Yours Sincerely,

**Onaga Mac Paul**

**QUESTIONNAIRE**

*Please tick good (*🗸*) against the answer of your choice.*

***Personal Data***

1. What is your gender?

a) Male ( )

b) Female ( )

2. What is your academic Qualification?

a) GCE/WAEC

b) OND/NCE

c) HND/BSC/BA

d) MSC/MBA

e) PHD and others

3. What is your Working Experience?

a) 1 – 5 ( )

b) 6 – 10 ( )

c) 11 and above ( )

4. What is your age?

a) 20 – 30 ( )

b) 31 – 40 ( )

c) 41 – 50 ( )

d) 51 and above ( )

5. Marital status

a) Married ( )

b) Single ( )

6. To what extent has Value Added Tax (VAT) contributed to Gross Domestic Product of Nigeria?

a. To a very great extent ( )

b. To a great extent ( )

c. To an extent ( )

d. Not at all ( )

7. Does money supply have significant effect on VAT payment in Nigeria?

a. Strongly agree ( )

b. Agree ( )

c. Disagree ( )

d. Strongly disagree ( )

8. Does a significant relationship exist between the cost of collecting VAT and the benefits derived from it?

a. Strongly agree ( )

b. Agree ( )

c. Disagree ( )

d. Strongly disagree ( )

9. To what extent have corrupt tax officials affected the rate of VAT collection in Nigeria?

a. To a very great extent ( )

b. To a great extent ( )

c. To an extent ( )

d. Not at all ( )